

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the financial period ended 30 September 2018

		3 months ended		Financial period ended	
	Note	30.09.2018	30.09.2017	30.09.2018	30.09.2017
		RM'000	RM'000	RM'000	RM'000
Revenue	1	735,528	734,610	2,052,323	2,231,297
Cost of sales		(461,981)	(481,168)	(1,380,440)	(1,488,378)
Gross profit		273,547	253,442	671,883	742,919
Other operating income		402	402	2,526	1,451
Operating expenses	1	(81,686)	(62,330)	(200,305)	(191,250)
Restructuring expenses		-	(2,026)	-	(7,868)
Profit from operations		192,263	189,488	474,104	545,252
Finance cost		(3,629)	(2,617)	(10,047)	(8,021)
Profit before tax		188,634	186,871	464,057	537,231
Tax expense	5	(42,828)	(41,377)	(111,892)	(125,634)
Profit for the financial period		145,806	145,494	352,165	411,597
Profit attributable to the owners of the Company		145,806	145,494	352,165	411,597
Effective tax rate		22.7%	22.1%	24.1%	23.4%
EPS	20	51.1	51.0	123.3	144.2
<u>Dividends</u>					
- Interim 1				33	40
- Interim 2				35	43
- Interim 3	21	40	43	40	43
		40	43	108	126

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2017.

Note (1) 2017 Revenue and operating expenses restated in adoption of MFRS15 starting 1st Jan 2018

	3 months ended		Financial period ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Profit for the financial period	145,806	145,494	352,165	411,597
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Change in fair value of cash flow hedges	607	(3,046)	4,882	(13,299)
- deferred tax on fair value changes of cash flow hedges	(146)	731	(1,172)	3,192
Total other comprehensive income for the financial period	461	(2,315)	3,710	(10,107)
Total comprehensive income for the financial period	146,267	143,179	355,875	401,490
Attributable to:				
Shareholders' equity	146,267	143,179	355,875	401,490

The Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2017.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial period ended 30 September 2018

	Issued and fully paid ordinary shares		Non- distributable Cash flow hedge reserve	Distributable Retained earnings	Attributable to Shareholders' Equity Total
	Number of shares	Nominal value			
	'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2018	285,530	142,765	(1,812)	241,170	382,123
Profit for the financial year	-	-	-	352,165	352,165
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	4,882	-	4,882
- deferred tax on fair value changes on cash flow hedges	-	-	(1,172)	-	(1,172)
	-	-	3,710	352,165	355,875
Transaction with owners:					
Dividend for financial year ended 31 December 2017					
- Interim 4	-	-	-	(122,778)	(122,778)
Dividend for financial year ended 31 December 2018					
- Interim 1	-	-	-	(94,225)	(94,225)
- Interim 2	-	-	-	(99,936)	(99,936)
At 30 September 2018	285,530	142,765	1,898	276,396	421,059
	-	-	-	-	-
At 1 January 2017	285,530	142,765	11,135	459,505	613,405
Profit for the financial year	-	-	-	411,597	411,597
Other comprehensive income for the financial period:					
- changes in fair value of cash flow hedges	-	-	(13,299)	-	(13,299)
- deferred tax on fair value changes on cash flow hedges	-	-	3,192	-	3,192
	-	-	(10,107)	411,597	401,490
Transactions with owners:					
Dividend for financial year ended 31 December 2016					
- Interim 4	-	-	-	(219,858)	(219,858)
- Special Dividend	-	-	-	(131,344)	(131,344)
Dividend for financial year ended 31 December 2017					
- Interim 1				(114,221)	(114,221)
- Interim 2				(122,778)	(122,778)
At 30 september 2017	285,530	142,765	1,028	282,901	426,694

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2017.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No : 4372-M)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2018

		As at 30.09.2018	As at 31.12.2017
	Note	RM'000	RM'000
Non-current assets			
Property, plant and equipment		38,570	34,836
Computer software		1,451	1,524
Goodwill		411,618	411,618
Deferred tax assets		34,888	37,666
		<u>486,527</u>	<u>485,644</u>
Current assets			
Asset held for sale		119	399
Inventories		246,897	236,636
Receivables		248,047	303,727
Derivative financial instruments		2,723	-
Tax Recoverable		8,384	6,595
Deposits, cash and bank balances		24,142	11,554
		<u>530,312</u>	<u>558,911</u>
Current liabilities			
Payables		240,576	276,757
Derivative financial instruments		8	2,408
Current tax liabilities		15,196	5,267
Borrowings	10	340,000	378,000
Bank Overdraft		-	-
		<u>595,780</u>	<u>662,432</u>
Net current (liabilities) / assets		(65,468)	(103,521)
		<u>421,059</u>	<u>382,123</u>
Capital and reserves			
Share capital		142,765	142,765
Cash flow hedge reserve		1,898	(1,812)
Retained earnings		276,396	241,170
Shareholders' funds		<u>421,059</u>	<u>382,123</u>
Non-current liabilities			
Deferred tax liabilities		-	-
		<u>421,059</u>	<u>382,123</u>
Net assets per share (RM)		1.47	1.34

The Condensed Consolidated Balance Sheet should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2017.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Company No : 4372-M)

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the financial year ended 30 September 2018

	Financial period ended 30.09.2018	Financial period ended 30.09.2017
	RM'000	RM'000
Operating activities		
Cash receipts from customers	2,184,771	2,473,389
Cash paid to suppliers and employees	(1,698,424)	(2,129,527)
Cash from operations	486,347	343,862
Income taxes paid	(102,149)	(93,540)
Net cash flow from operating activities	384,198	250,322
Investing activities		
Property, plant and equipment		
- additions	(10,609)	(15,355)
- disposals	1,059	1,847
Disposal of assets held for sale	2,000	111,726
Additions of computer software	-	-
Interest income received	926	1,157
Net cash flow from investing activities	(6,624)	99,375
Financing activities		
Dividends paid to shareholders	(316,939)	(588,201)
Interest expense paid	(10,047)	(8,021)
Drawdown of revolving credit	(38,000)	240,000
Net cash flow used in financing activities	(364,986)	(356,222)
Increase in cash and cash equivalents	12,588	(6,525)
Cash and cash equivalents as at 1 January	11,554	32,806
Cash and cash equivalents as at 30 June	24,142	26,281

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2017.

Notes:

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with the requirements of the Malaysian Financial Reporting Standard (“MFRS”) 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board and paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Berhad. It should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2017.

The audited financial statements of the Group for the year ended 31 December 2017 were prepared in accordance with MFRS.

MFRS 9 – Financial Instrument and *MFRS 15 – Revenue from Contracts with Customers* has been applied for the first time in this interim report. The adoption of MFRS 9 and MFRS 15 from 1 January 2018 does not have any significant impact to the financial report of the Group. Additionally, see note 4.

The accounting policies and methods of computation adopted by the Group in these quarterly financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 31 December 2017.

2. Audit Report of Preceding Annual Financial Statements

The audit report of the Group’s most recent annual audited financial statements for the year ended 31 December 2017 was unqualified.

3. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

4. Changes in Significant Accounting Policies

MFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. As a result, upon the adoption of MFRS 15 with effect from 1 January 2018, the Group will recognise the revenue from contracts with customers that requires customer-related costs that had previously been treated as distribution and marketing costs to be allocated as a deduction of revenue.

The following table presents the financial impact on initial adoption of MFRS 15 to the consolidated income statement for the corresponding comparative period ended 30 September 2017:

British American Tobacco (Malaysia) Berhad

	As previously stated 30 Sep 2017 RM'000	Changes RM'000	Restated 30 Sep 2017 RM'000
Revenue	2,302,096	(70,799)	2,231,297
Operating expenses	(262,049)	70,799	(191,250)
Profit for the financial period	411,597	-	411,597
<i>Earnings per share</i>	<u>144.2</u>	<u>-</u>	<u>144.2</u>

5. Taxation

Taxation comprises:

	3 months ended		Financial period ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	53,466	40,340	114,995	125,544
Deferred tax (credit)/charge	(5,932)	1,037	1,603	90
<u>In respect of prior years</u>				
Over provision in respect of prior year				
- Malaysian income tax	(4,706)	-	(4,706)	-
	<u>42,828</u>	<u>41,377</u>	<u>111,892</u>	<u>125,634</u>

The average effective tax rate of the Group for the third quarter 2018 and financial period ended 30 September 2018 is 22.7% and 24.1% respectively. In 2017, the average effective tax rate of the Group for the third quarter and financial period ended 30 September 2017 was 22.1% and 23.4% respectively. The average effective tax rates for financial period ended is in accordance to the statutory tax rate of 24.0%.

6. Notes to the Statements of Comprehensive Income

	3 months		Financial period ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
	RM'000	RM'000	RM'000	RM'000
Interest income	(403)	(255)	(926)	(1,157)
Interest expense	3,629	2,617	10,047	8,021
Depreciation and amortization	1,661	1,281	4,829	4,023
(Gain)/ loss on disposal of property, plant and equipments	-	(71)	18	(24)
Gain on disposal of asset held for sale	-	-	(1,601)	-
Provision for (write-back) / write- off of receivables	(3)	(128)	18	(272)

British American Tobacco (Malaysia) Berhad

Provision for write-off of inventory	1,171	1,654	4,647	4,578
Net foreign exchange (gain)/ loss	(334)	(1,381)	77	(3,087)
(Gain)/ loss on derivatives	(200)	385	170	(1,545)
Restructuring expenses:	-	2,026	-	7,868
Project related costs	-	2,026	-	7,868

7. Changes in Composition of the Group

There were no changes in the composition of the Group during the financial period under review.

8. Corporate Proposals

There were no new corporate proposals announced as at 12 October 2018 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

9. Changes in Share Capital and Debt

There were no issuances, cancellations, repurchases, resale of equity securities for the period under review.

10. Borrowings

The Group's borrowings as at 30 September 2018 are as follows:

Current	RM'000
4 weeks revolving credit maturing on 31 October 2018	<u>340,000</u>

All borrowings are denominated in Ringgit Malaysia.

11. Contingent Liabilities and Contingent Assets

There were no other contingent liabilities or contingent assets as at 12 October 2018 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

12. Capital Commitments

Capital commitments not provided for in the financial statements as at 30 September 2018 are as follows:

Property, plant and equipment:	RM'000
Authorised by the Directors and contracted for	7,535
Authorised by the Directors but not contracted for	<u>5,782</u>
	<u><u>13,317</u></u>

13. Material Litigation

There was no material litigation as at 12 October 2018 (the last practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

14. Segment Reporting

No segmental analysis is prepared as the Group is primarily engaged in the manufacture and sale of cigarettes and other tobacco products. The Group's management team review the financial information as a whole for decision making.

15. Material Changes in the Quarterly Results as Compared with the Preceding Quarter

Total legal market is on a slow but gradual recovery since early 2018, registering a 1% volume growth in the third quarter versus preceding quarter.

In the third quarter of 2018, illegal volume share remained stable versus previous quarter at 63% of total consumption (Source: Consumer Track by Kantar Research Agency/ Illicit Cigarettes Study). The high level of illegal cigarette trade continues to put pressure on the legal market.

The domestic volume for the Group, also remained stable during the third quarter versus preceding quarter, despite the price volatility in September caused by the different interpretations of the quantum of the Sales and Services Tax (SST) pass on required. The Group continues to show strong resilience in this challenging period, with volume recovery at 4.8% versus the first quarter of 2018.

Revenue registered growth versus previous quarter, mainly due to the one-off benefit from the removal of Goods & Services Tax (GST) from June to August 2018 and strong volume mix. This was partially offset by higher operating expenses in the third quarter of 2018, led by investment for strategic initiatives. As a consequence, profit from operations improved in the third quarter by 26.5% (RM40 million) compared to previous quarter or 19% (27 million) excluding GST one-off benefit.

As for retail share reporting, this will be resumed in the first quarter of 2019, after a thorough review with Nielsen to resolve anomalies in trends and market dynamics which impacted accuracy on market share reports during the third quarter of 2018.

Based on our shipment share and volume mix performance in the market, our brands have remained stable during this quarter when compared to previous quarter.

16. Review of Performance

Total industry legal volumes declined 3.8% as compared to same period of last year led primarily by high illegal cigarette trading.

The Group's volume performance was also impacted and registered a decline of 5.8% versus same period of last year. The Group's performance was impacted mainly by the reduction of the legal market, alongside with downtrading and the strain of cash outlay challenges in small volume outlets with limited working capital capacity.

Volume decline together with mix impact translated to a reduction of 8% (RM179 million) in revenue year on year and a profit impact of 13% (RM71 million) versus the same period of last year.

17. Events Subsequent to the End of the Period

There are no other material events subsequent to the end of the financial period under review that have not been reflected in the quarterly financial statements.

18. Seasonal or Cyclical Factors

The results of the Group are generally impacted by changes in excise typically announced annually during the National Budget.

19. Future Year's Prospects

The Group remains concerned with legal volumes continuing to be impacted by the current high incidence of illegal cigarette trade and the unresolved situation on pricing related to the reintroduction of the SST.

The outlook of the last quarter of 2018 will be very much dependent on the recovery of legal market and the final pricing to be implemented, pending adequate Government guidance to be provided of minimum tax pass on required as a result of the replacement of the GST with the SST in September 2018.

20. Earnings Per Share

	3 months ended		Financial year ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
Basic earnings per share				
Profit for the financial period (RM'000)	145,806	145,494	352,165	411,597
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	51.1	51.0	123.3	144.2

The Group does not have in issue any financial instrument or other contract that may entitle its holder to ordinary shares and therefore, dilutive to its basic earnings per share.

21. Dividends

The Board of Directors has declared a third interim dividend of 40.00 sen per share, tax exempt under the single-tier tax system, amounting to RM114,212,000 in respect of the financial year ended 31 December 2018 (Third Quarter 2017 : 43 sen per), payable on 16 November 2018, to all shareholders whose names appear on the Record of Depositors on 5 November 2018.

A Depositor shall qualify for entitlement only in respect of:

- (a) Securities transferred to the Depositor's Securities Account before 4.00 p.m. on 5 November 2018, in respect of ordinary transfers; and
- (b) Securities bought on Bursa Malaysia Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Berhad.

By Order of the Board

LEE MI RYOUNG (MAICSA 7058423)

Company Secretary

Kuala Lumpur

19 October 2018