



British American Tobacco (Malaysia) Berhad (4372-M)
Virginia Park, Jalan Universiti, 46200 Petaling Jaya, Selangor, Malaysia
Tel: +60 (3)7956 6899/7491 7100 Fax: +60 (3)7955 8416

www.batmalaysia.com

British American Tobacco (Malaysia) Berhad (4372-M)

Annual Report 2011

Momentum



ANNUAL REPORT 2011





Momentum is not merely motion but the power residing in a moving object. It not only possesses magnitude and force, but also a direction.

This year's annual report captures the essence of momentum within British American Tobacco Malaysia. To us, momentum is not simply moving in response to change. Momentum should be about progressing forward on an accelerated pace and towards a focused goal.

In British American Tobacco Malaysia, the force behind our momentum lies in the passion, commitment and dedication of our people. Our aim in 2011 was to further harness this force and to generate the momentum to propel our organisation forward in order to grow sustainably as a business.

51st

Annual General Meeting
(AGM) of British American
Tobacco (Malaysia)
Berhad will be held at

Kristal Ballroom,
Hilton Petaling Jaya,
No. 2, Jalan Barat,
46200 Petaling Jaya,
Selangor Darul Ehsan on

▶ Tuesday, 10 April 2012 at 11.00 a.m.

AGM Helpdesk: Ms. Lee Kar Ling
Tel: +60 (3)7491 7313 Fax: +60 (3)7491 3772
E-mail: Lee_Kar_Ling@bat.com



We share British American Tobacco p.l.c's vision to achieve leadership of the global tobacco industry in order to create long-term shareholder value. We believe that delivering growth is key to achieving this vision to lead in the tobacco industry. However, leadership is not an end in itself. A company that leads its industry and is seen to have a sustainable business will also be valued more highly.

We define leadership in both a quantitative and qualitative sense. Quantitatively, we seek volume leadership among our competitors and in the longer term, value leadership. However, quantitative measures do not in themselves address all the things we must do as a company. We take a long-term view, focusing on the quality of our business and how we work. As a result, qualitatively, we seek to be recognised as an industry leader and to be the partner of first choice for our valued stakeholders.

We will do this by continuing to demonstrate that we are a responsible tobacco company with a sustainable business and outstanding people. Our strategy is designed to deliver our vision and as a result, build shareholder value. It is based on **growth**, funded by **productivity** and delivered by a **winning organisation** that acts responsibly at all times.

our vision

Results at a glance

Group financial year ended
31 December 2011

▶ revenue

4,127

(RM million)

▶ profit before tax

956

(RM million)

▶ net profit

720

(RM million)

▶ shareholders' fund

432

(RM million)

▶ net returns on shareholders' fund

166.7

(%)

▶ net earnings per share

252

(Sen)

▶ net dividend per share

276

(Sen)

contents

	Our vision 1 Results at a glance 2 Chairman's review 4 Managing Director's review 6	Introduction
	Finance Director's review 10 Five-year financial highlights 16 Five-year group performance 17 Share performance and financial calendar 18 Quarterly performance 19 Corporate profile 20 British American Tobacco Malaysia in the news 21 Awards and achievements 22 2011 Corporate events highlights 24	Performance
	Corporate information 30 Corporate structure 31 Board of Directors 32 Profile of Directors 34 Profile of Top Team members 38	Leadership
	Standards of Business Conduct 43 Statement on Corporate Governance 44 Statement on Internal Control 67 Audit Committee Report 69 Report on Corporate Risk Management 73	Governance
	Boosting our momentum towards sustainable growth 78 Leading excellence in distribution with 82 strategic trade marketing execution	Growth
Productivity	86 Channelling momentum to operate faster, better and smarter	
Responsibility	92 Driving momentum of a responsible corporation towards a long-term business sustainability 109 Global Reporting Initiative (GRI) Indicators	
Winning Organisation	126 Harnessing the force of a winning organisation behind our momentum	
Reports and Financial Statements	132 Directors' Report 138 Statement by Directors 138 Statutory Declaration 139 Independent Auditors' Report 141 Income Statements 142 Statements of Comprehensive Income 143 Balance Sheets 145 Consolidated Statement of Changes in Equity 147 Company Statement of Changes in Equity 149 Cash Flow Statements 150 Summary of Significant Accounting Policies 164 Notes to the Financial Statements	
Other Information	205 Analysis of shareholdings 208 Particulars of properties 209 Corporate directory 210 Notice of Annual General Meeting 212 Statement accompanying the Notice of Annual General Meeting 214 Administrative details for British American Tobacco Malaysia's Fifty-first Annual General Meeting • Form of Proxy	

Chairman's review

Dear Shareholders,
On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of British American Tobacco Malaysia for the financial year ended 31 December 2011.

Tan Sri Abu Talib bin Othman

Chairman

Performance review

The Group recorded an increase in revenue by 4.1 percent to RM4,127 million for the financial year ended 31 December 2011 mainly due to higher pricing. Profit after tax declined by 1.6 percent to RM720 million due to higher taxes. Additionally, lower volumes, the loss of 14's pack size margins and the change to the Company's distribution model and merchandising policy were also key reasons for the decline in profit after tax for 2011. The Group will continue to drive for operating efficiencies in delivering robust performance.

Dividends

The Board of Directors has recommended a fourth interim dividend of 66 sen per share, making the total net dividend payout for the financial year to be 276 sen per share including a special dividend of 30 sen per share. This marks an increase of 15 percent over 2010.

Driving sustainability throughout our business operations

Judging by the results achieved over the years and the share price of the Company, British American Tobacco Malaysia is a very successful Company. Commitment, transparency over business policy and focus has brought the Company to where it is today and these are key to take the Company to the next level of growth.



highlights

+15 percent
higher total dividend
payout compared to
preceeding financial
year.

+4.1 percent
increase in Group
revenue for financial
year ended 31
December 2011.

While the journey towards sustainability is not an overnight process, the Group is committed to further strengthen its corporate governance, accountability and risk management in all its operations. In addition, the Group will undertake to put the necessary processes, right people and improve the distribution channels to ensure that growth is sustainable in the coming years.

Outlook for 2012

Given the dynamism and passion of the Group and its people, I am confident that the Company will hold firm against any challenges arising in 2012 and strengthen its position as the industry market leader.

The rampant growth of illegal cigarettes continues to be a concern for both the nation and the Group, and will require significant attention if it is to be addressed. The industry anticipates further challenges on the regulatory front in view of increasing international regulatory developments.

Nevertheless, I am confident that the Group, with its strategic initiative on Growth, supported by Productivity, Responsibility and a Winning Organisation, together with its strong and balanced portfolio of brands, will be able to continue its momentum towards further business growth.

Key leadership changes

Mr. Stephen James Rush, Finance Director, has taken on a new role in March 2011 within the British American Tobacco Group.

On behalf of the Group, I would like to thank Mr. Rush for his contributions and wish him the very best for the future.

I am pleased to welcome Mr. Andreas Thompson who has assumed the designation of Finance Director. Mr. Thompson brings with him significant experience and knowledge from his tenure in various British American Tobacco markets. I am certain that the Group will benefit from his expertise.

Appreciation

As I end my last British American Tobacco Malaysia Annual Report, I would like to thank many people. First of all, my sincere appreciation to the relevant governmental authorities for their understanding of, and efforts to address the challenges facing the industry.

To the employees of the Group, my sincere thanks for your dedication, commitment and contribution to the development and success of the Group. I have enjoyed working with you.


To our shareholders, distributors, valued customers and fellow Board members, my sincere appreciation for your support and contribution.

I wish you all the best in the coming years.



Tan Sri Abu Talib bin Othman
Chairman

Managing Director's review



British American Tobacco Malaysia entered 2011 with a renewed momentum to continue to deliver market share growth, motivated by the strong performance in the previous financial year.

William Toh Ah Wah
Managing Director

In 2010, the Company returned to corporate market share growth for the first time in 10 years under what was a very challenging business environment. With a rearticulated '*line of sight*' strategic leadership agenda in place and rolled out to the entire organisation, the stage was set to drive the organisation to deliver another year of strong business performance.

The Company's strategic leadership agenda was in line with the Company's ambition of delivering 61 percent market share in 2011 through its five strategic "must win" pillars, which are, *Win in Market, Addressing Illegal Cigarettes, Spend Where it Matters, Make Time to Win* and *Passion for People*.

The operating environment in 2011 was far tougher in terms of business challenges. Illicit cigarette trade remained high, and certain local brands were selling at below the minimum price set by the Government and total taxes per pack of cigarette, leading to further contraction in the size of the duty paid market. Illegal cigarette trade recorded an annual average of 36.1% of the country's total cigarettes consumption in 2011. These results are from the Illicit Cigarettes Survey commissioned by the Confederation of Malaysian Tobacco Manufacturers, which was endorsed by the related government enforcement agency. This means that more than one out of every three sticks of cigarette consumed in Malaysia are illegal, in blatant disregard of the country's regulations and denying the Government of its tax revenue. Annual loss in government revenue from illegal cigarettes is approximately RM2 billion.

highlights

+61.1 percent

Corporate market share achieved in 2011, marking a second year of consecutive growth.

We, however, are pleased with the increased enforcement efforts of the relevant government agencies, in particular, the Royal Malaysian Customs, in addressing this national issue and appreciative of the Government's decision not to increase excise tax in the Federal Budget 2012 announcement so as not to further fuel the growth of the illegal cigarette trade. Given these combined actions, illicit was down 0.2 percent in 2011 and a further 2.5 percent when comparing the year end number versus the beginning of the year. The Company looks forward to the continued efforts and support by the Government and its various law enforcement agencies in both suppressing the growth and eventually achieving a significant sustained reduction in illegal cigarette trade.

Growth momentum

On the backdrop of market share growth in 2010 and a rearticulated strategic leadership agenda to the entire organisation, the Group delivered a strong performance in 2011.

The Company ended the year by registering a market share growth of 1.3 percent versus 2010 with a full year share of 61.1 percent. This marked a two year consecutive corporate market share growth momentum with a very healthy positive growth trend and thereby strengthening the Company's leadership position in the Malaysian tobacco industry.

British American Tobacco Malaysia's volumes (excluding Brunei) registered a marginal decline of 1.3 percent in 2011 against the industry decline of 2.3 percent, indicating a resilient and strong momentum for growth supported by its portfolio of brands such as DUNHILL, KENT, PALL MALL and PETER STUYVESANT.

DUNHILL accelerated its leadership in the premium segment to record an all-time high market share of 44.7 percent, an increase of 1.8 percent when compared to 2010. This was accomplished through the strong performance of the DUNHILL Red variant, which grew 0.7 percent from 2010. DUNHILL Blue and Menthol variants also recorded an increase of 1.1 percent in market share in the Premium Lights and Menthol segments.

This commendable performance was also spurred by the successful launch of DUNHILL Boost and Switch, which features a capsule filter. Continued focus and resources will be invested by the Company to maintain DUNHILL's leadership position in the premium segment.

KENT registered a marginal decline of 0.4 percent, a result of anticipated internal volume cannibalisation. It continued to show strong resilience in the Premium Lights and Menthol segments, recording a stable market share of 2.3 percent.

In the Value for Money (VFM) segment, PALL MALL and PETER STUYVESANT combined registered a healthy corporate market share growth of 0.6 percent. This contributed to the Group's positive VFM segment share growth from 39.0 percent in 2010 to 42.8 percent in 2011, a strong 3.8 percent growth in the VFM segment. This has resulted in the Company narrowing the segment leadership gap with its key competitor from 2.2 percent in 2010 to only 0.9 percent in 2011. This was partly contributed by the introduction of PALL MALL Ice in March 2011 coupled with PETER STUYVESANT's limited edition launches.

Notable developments have also taken place in the pursuit of distribution excellence. This entailed a restructuring of the Company's Route-to-Market (RtM) distribution strategy in 2011 to drive a more effective and efficient RtM strategy. This important exercise involved outsourcing of the Company's own distribution business to appointed exclusive third-party distribution partners nationwide. This strategy has positively resulted in cost and management time optimisation of our distribution operations with no loss in field effectiveness and efficiency.

Profit from operations which registered a 0.3 percent decline was broadly flat versus 2010. This however was an excellent performance in light of the half year effect (RM37 million) on margins from the ban on pack sizes below twenty sticks implemented in July 2010, the one-time charges in respect of change in accounting policy for merchandising assets and the restructuring of the Group's distribution model taken in the year. Without these charges, we estimate the profit from operations would have been RM13 million higher.

20 homes

being built for the hardcore poor by the British American Tobacco Malaysia Foundation and the Kedah Regional Development Authority (KEDA).

Productivity momentum

KAIZEN is a term that resonates strongly within British American Tobacco Malaysia and every year we continue our quest for continuous improvement in the productivity zone. Driving further momentum in terms of speed of delivery and resource, and cost optimisation, forms an integral part of our business processes and the way we operate.

Following a decade of supply chain excellence initiatives under our Breakthrough Programme, the Company renewed its approach by embarking on an enhanced productivity strategy to deliver cost effectiveness, employee productivity and more importantly, a change in our mindset.

These campaigns were led by the *Spend Where it Matters* and *Make Time to Win* strategic pillars and were implemented companywide. Through a creative communications campaign, the teams not only kick-started a culture of spend effectiveness amongst employees, but also encouraged effective use of time in work-related matters.

This resulted in companywide cost savings of RM30.5 million and 3,750 man-days of workload reduction. We are confident that these continued initiatives will provide the momentum that the Company needs in achieving its vision to be recognised as one of the British American Tobacco p.l.c Group's strategic supply chain hubs for Asia Pacific. In 2011, 40 percent of our production volumes were exported to BAT p.l.c Group companies across Asia Pacific.

The year 2011 also saw British American Tobacco Malaysia begin work on piloting a globally standardised Enterprise Resource Planning (ERP) Solution using SAP application to further enhance the Company's process efficiency and effectiveness. In this regard, British American Tobacco Malaysia is piloting the new ERP system on behalf of the whole BAT p.l.c Group.

Responsibility momentum

It has always made business sense to us in ensuring high levels of corporate responsibility throughout our operations. We believe that this is a prerequisite for any successful organisation, and even more so for a company operating in a controversial industry.

Even now with British American Tobacco Malaysia's step-change approach towards increasing our sustainability momentum, we stand firm that our initiatives are not regarded as merely "tick in the box" exercises, but that they should address key business-related social, environmental and economic impacts, as a result

highlights

of the way we operate, in a way that builds stakeholders and shareholders value. It is only through this that the Company will improve and ascertain its commercial sustainability.

In 2011, the British American Tobacco Malaysia Foundation continued its aid towards the hardcore poor through the contribution of funds towards building 20 homes in Desa KEDA Nagalilit, Kedah. The Foundation also intensified its Employee Volunteer Programme, extending its reach to the less fortunate and also in contributing towards the preservation of mother nature. Through our afforestation programme, we will sequester more carbon dioxide compared to our Company's emissions, which will ensure a carbon positive business until 2024, depending on business needs. Higher education opportunities and financial aids continued to be provided through the Foundation's scholarship programme and the Higher Education Starter Kit programme.

A continued focus for the Company was also on its environmental initiatives to ensure adherence to international quality, environmental, occupational health and safety management systems and best practices. This is demonstrated through British American Tobacco Malaysia's continued international certification by external auditors Lloyds' Register Quality Assurance.

Winning organisation momentum

Having the right people in the right place with a winning mindset is key to success. This was the Company's strategy in 2011 in raising the momentum among employees to achieve our strategic business objectives and goals together as one winning organisation.

Through the *Passion for People* and *Make Time to Win* strategic drive teams, the Company sought to further energise the organisation by focusing on initiatives to address challenges that matter to the employees. This was done by seeking employees' feedback and taking action to address any relevant issues raised. This also took into consideration the results of the *Your Voice Survey 2010*, a biennial employee survey which provided insights into areas that we have done well, and areas that required improvement.

In developing a sustainable talent pipeline, the Company also continued to focus on attracting and recruiting the right talent at all levels in meeting our business needs. This included both local and international talent sourcing initiatives and the introduction of Open Resourcing, whereby relevant vacancies are announced internally for application by eligible employees in relevant functions.

The sustainable development of our employees is also key and in 2011, the Company continued to invest in external, in-house and international training programmes including overseas attachments and secondments. Underpinning these programmes was also the introduction of a global learning and development system to support employees' leadership development known as the *Global LearningZone*.

The Company currently has 18 of its talent on overseas secondment to British American Tobacco Group's companies, namely from our global headquarters in London to operating companies such as South Korea, Hong Kong and Australia for development and skills transfer.

Driving the momentum in 2012

In spite of a challenging operating landscape, the Company emerged from the year with renewed impetus, confidence and belief that its momentum of delivering solid growth will continue into 2012.

The success of the Company is only possible through the determination and leadership of all our employees, which we term "leadership at all levels" and their relentless pursuit and alignment of their own and the Company's goals. For this, I would like to extend my deepest gratitude and admiration to all our employees in delivering a year of many achievements under what was a very difficult and challenging business environment.

I would also like to express our sincere thanks to our Board of Directors for their stewardship and guidance throughout the years. As our Chairman, Tan Sri Abu Talib bin Othman will be retiring after a very successful Chairmanship career at British American Tobacco Malaysia this year, I, on behalf of the entire organisation would like to take this opportunity to convey our heartfelt appreciation to our Chairman for his leadership and contribution towards the success of the Company and we wish him a happy and healthy retirement.

Moving forward into 2012, whilst we anticipate further challenges in the operating landscape in the continued battle against illicit trade, with certain local brands selling at below minimum price and also total taxes per pack, I am confident that the Company, with the support of its Board of Directors, all its employees and relevant stakeholders, is well-positioned to address these challenges.



William Toh Ah Wah

Managing Director

Finance Director's review

"Another excellent year of performance for British American Tobacco Malaysia, the highlight of which, is a second consecutive year of market share growth."

Andreas Michael Thompson

Finance Director



Building on the 2010 performance, 2011 has been an excellent year for British American Tobacco Malaysia. The Group grew its market share for the second consecutive year, after nine years of share decline, to register a full year market share of 61.1 percent, a 1.3 percentage point increase from 2010. Despite the great market share performance, as a result of general decline in overall consumption, the Group experienced a 1.3 percent year-on-year drop in volume. The Group's volume did however outperform the industry, which declined by 2.3 percent. This achievement was a result of the strong performance of our portfolio of brands, especially DUNHILL, which reached its highest ever market share of 44.7 percent in 2011. A key contribution to this was the successful launches of new capsule products, DUNHILL Boost and DUNHILL Switch.

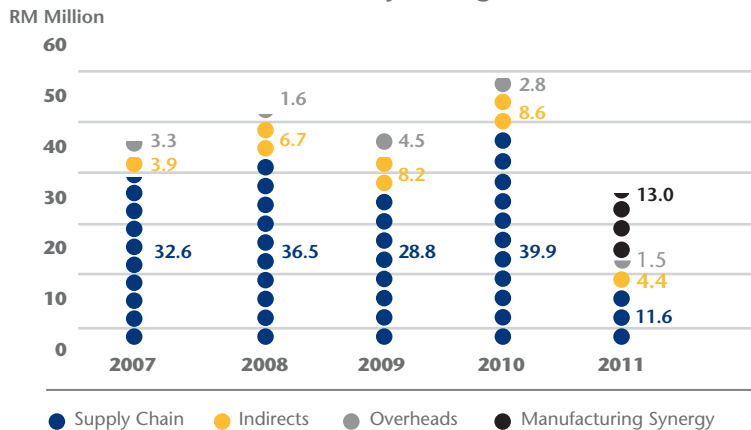
There has been no significant reduction in illegal cigarettes trade incidence during the year, and has remained at an inordinately high level for a third consecutive year. Illicit incidence in 2011, was at 36.1 percent as recorded in the survey of the Illegal Cigarettes Study commissioned by the Confederation of Malaysian Tobacco Manufacturers as compared with 36.3 percent in 2010. The Government took the pivotal decision not to increase cigarette excise in the Federal Budget 2012 so as not to further fuel excise rate differentials with neighbouring countries, this being the key driver of illicit inflow into Malaysia.

The Company experienced a 475 percent increase in its subcontract manufacturing volume in 2011, which delivered over RM20 million in cost sharing benefit to British American Tobacco Malaysia. However, some of these savings will not be sustained in the future. Therefore, we have chosen to only recognise RM13 million in our Productivity Savings dashboard as outlined in this review. The increase in subcontract manufacturing volume came with a significant increase in complexity, as British American Tobacco Malaysia's supply chain saw a dramatic increase in the number of brand variants from 120 to 250. This increase in complexity has represented a challenge to our Operations team during the course of 2011.

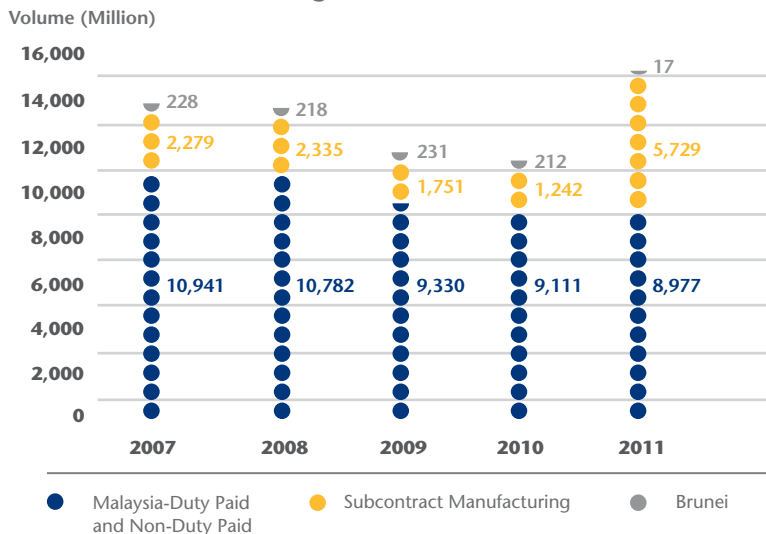
Throughout the year, we have continued our focus on cost management with a companywide campaign, *Spend Where It Matters*, to positively influence our employees' mindset on being cost-conscious, as well as to generate cost savings. As a result of this initiative, we did not incur RM18 million in overheads, which was originally budgeted for 2011, as well as RM1.5 million savings on existing costs.

The 2011 supply chain savings of RM11.6 million has been derived from the relocation of the source of wrapping materials and leaf to within Asean countries. In total, we have generated RM31 million in productivity savings over the course of 2011.

Productivity savings from 2007 to 2011



Cigarettes volume from 2007 to 2011



Consolidated Income Statement

	12 months 2011 RM million	12 months 2010 RM million	Increase/ (Decrease) %
Revenue	4,127	3,965	4.1
Cost of sales (including taxes of RM2.108 million; 2010: RM1.945 million)	(2,635)	(2,476)	6.4
Gross profit	1,492	1,489	0.2
Other operating income	14	28	(49.3)
Operating expenses	(522)	(530)	1.4
Profit from operations	984	987	(0.3)
Finance cost	(28)	(28)	-
Profit from ordinary activities before taxation	956	959	(0.3)
Taxation	(236)	(228)	3.8
Net profit for the financial year	720	731	(1.6)
Net earnings per share – basic and diluted (sen)	252.0	256.1	(1.6)
Net interim and special dividend per share (sen)	276.0	240.0	15.0
	%	%	pp
Operating profit margin	23.8	24.9	(1.10)

Financial performance in 2011

In 2011, top line revenue increased by 4.1 percent, driven mainly by higher excise tax and pricing from the excise tax increase in October 2010, and to a lesser extent subcontract manufacturing revenue growth. This was however offset by lower volumes and loss of margin following the Government's ban on cigarette pack sizes of less than 20 sticks in June 2010. Cost of sales increase, despite lower volumes, was mostly attributed to the increase in cigarette excise tax. Additionally, increase in cost of sales was also impacted by the higher product cost of cigarette packs with the DUNHILL resealable reloc seal and higher royalties offset by the lower production costs per unit as a result of increased subcontract manufacturing volume. The above factors resulted in a flat year-on-year gross profit.

Profit from operations was also broadly flat at -0.3 percent which resulted from a 1.4 percent reduction in operating expenses offset by non-recurring asset sales in other operating income of RM14 million. The decrease in operating expenses stemmed from lower than anticipated Brunei market returns due to a 380 percent Brunei excise increase in November 2010 and lower marketing expenditure as a result of absence of large-scale activities, such as the migration from cigarette packs of 14 sticks and the PETER STUYVESANT launch, which took place in 2010. In addition the Group reached a favourable resolution to a long-standing legal case with a former distributor, which resulted in savings of RM6 million. These reductions were however partially offset by charges taken in the year, in relation to accounts-related matters which amounted to RM20 million, change in merchandising assets accounting policy of RM15 million and restructuring costs associated with the change in distribution model amounting to RM17 million.

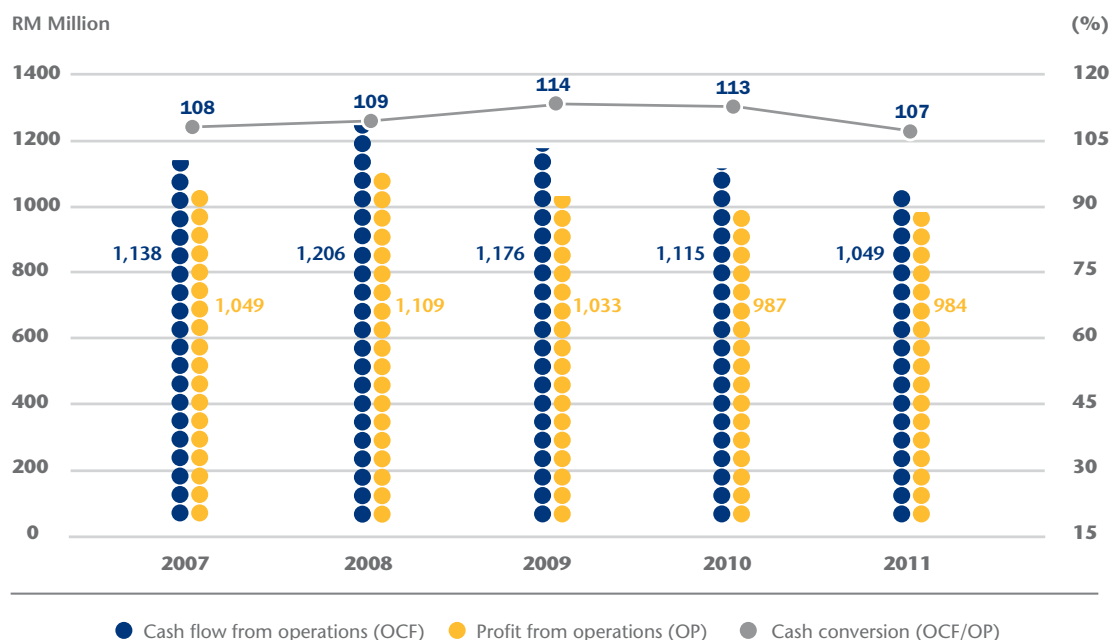
The Group's effective tax rate in 2011 was 24.7 percent, in line with the statutory tax rate of 25.0 percent as the non-deductibility of interest expense was offset by utilisation of reinvestment allowances and capital allowances. This increase from 2010 was due to a reversal of 2009's over-provision of tax in 2010. As a result, profit after tax and earnings per share were reduced by 1.6 percent.

Operating cash flow and cash conversion remained strong

The Group consistently delivers exceptional cash flow from operations. The year 2011 once again delivered cash flow exceeding RM1 billion, representing a cash conversion of 107 percent of profit from operations. This has been achieved through continuous improvements in overall working capital management. A reduction in operating cash flow by 5.9 percent from the year 2010 was seen as a result of decline in profits and volume; coupled with an increase in trade debtors balance due to the change in distribution model from Company-owned distribution to Exclusive Distributors for three of our biggest areas; Klang Valley, Johor Bahru and Penang during 2011.

The year 2011 saw an increase in net capital expenditure, predominantly due to purchases of factory machineries, most notably the purchase of our fifth resealable reloc pack machine to cater for domestic and subcontract manufacturing demand. After funding tax, finance costs, and dividend payments, our cash and cash equivalents closed at a strong RM307 million, a reduction of RM50 million as compared with the end of 2010. This decrease was principally a result of the special dividend paid in the third quarter of 2011, and in line with our commitment to return excess cash to shareholders. Our current cash holding places us at a healthy position ahead of our Medium Term Notes (MTN) maturation in September 2012.

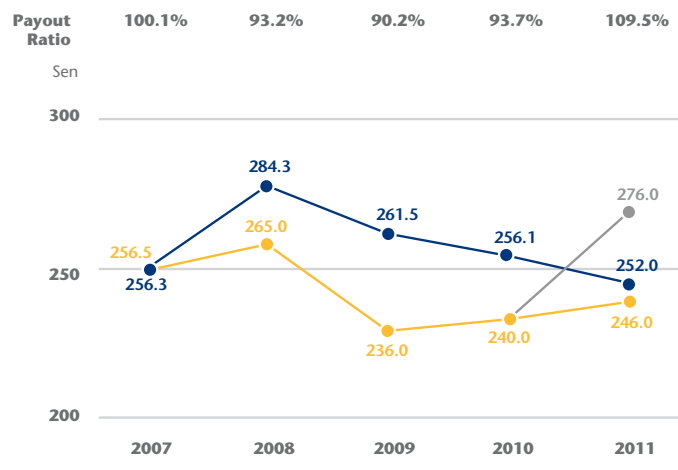
Cash flow management from 2007 to 2011



Consolidated cash flow statement

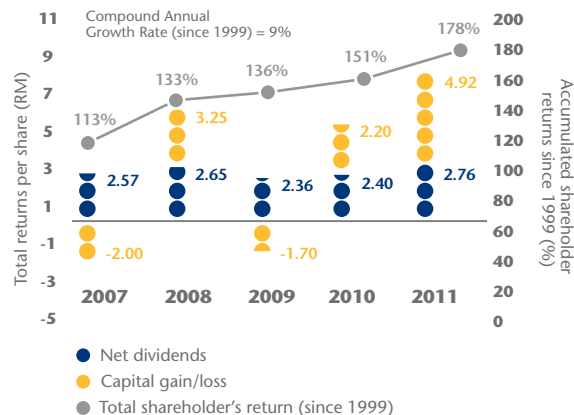
	12 months 2011 RM million	12 months 2010 RM million	Favourable/ (Adverse) %
Profit from operations	984	987	(0.3)
Adjustments for:			
Interest income	(10)	(9)	11.1
Defined benefit plan	1	1	-
(Reversal)/Provision for litigation	(6)	2	(390.0)
Property, plant and equipment & software:			
- Depreciation and amortisation	60	63	(4.2)
- Gain on disposal	(1)	(30)	(96.7)
- (Reversal)/Impairment	(14)	6	(333.3)
Allowance for doubtful debts and bad debts written off	3	-	100.0
Inventories written off	2	-	100.0
Changes in working capital	30	95	(68.4)
	65	128	(48.9)
Cash from operations	1,049	1,115	(5.9)
Income taxes paid	(241)	(239)	0.8
Net capital expenditure	(62)	13	(574.4)
Net finance costs	(17)	(19)	(11.6)
Dividends paid	(779)	(682)	14.3
(Decrease)/Increase in cash and cash equivalents	(50)	188	(126.6)

Earnings & dividends per share



- Net earnings per share
- Net total dividend per share (without special dividend)
- Net total dividend per share

Total shareholders' return



Commitment to high dividend payout

The Group continued to demonstrate strong commitment to pay dividends at a level above 90 percent of earnings. Excluding the special dividend, the 2011 payout represents 97.6 percent of earnings (109.5 percent including the special dividend).

The Group took the initiative to accelerate dividend payments to shareholders by introducing a new regime of four quarterly interim dividends. In addition, we reinforced our commitment to return excess cash back to shareholders by declaring a special dividend of 30 sen per share paid in August 2011.

The Board of Directors was pleased to announce a total net dividend payout of 276 sen per share including special dividend for 2011, which consisted of:

- Fourth interim dividend of 66 sen per share
- Third interim dividend of 60 sen per share
- Special dividend of 30 sen per share
- Second interim dividend of 60 sen per share
- First interim dividend of 60 sen per share

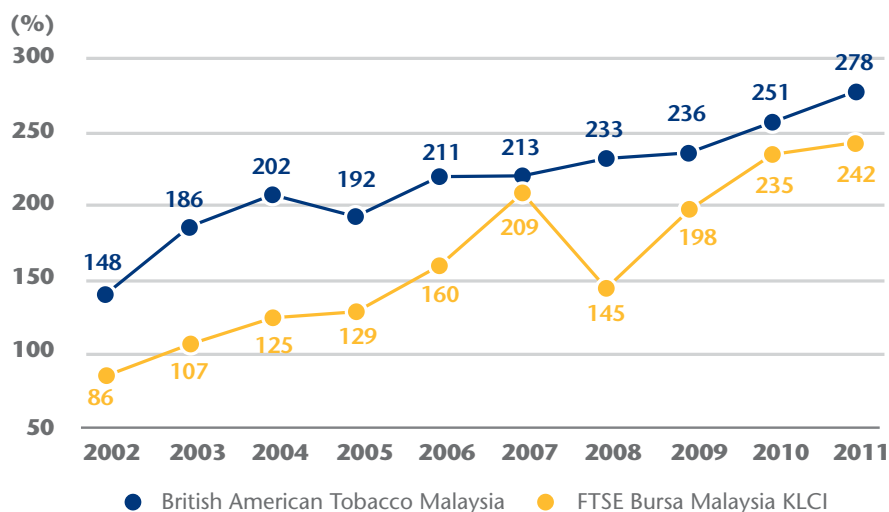
Exceptional growth in return to shareholders

The combination of the Group's excellent underlying business performance, undisputed market leadership and strong dividend policy resulted in a stable track record of high share prices and market capitalisation. In 2011, our share price recorded an all-time high, almost recording RM50.00, echoing the market's faith in the Group's earnings and management capabilities.

British American Tobacco Malaysia's shareholders have made an exceptional gain of RM7.68 per share in 2011, recording a total annual return of 17 percent, which comprised of the total dividends paid for the year, as well as a strong 10.9 percent increase in share price. When measured since the merger in 1999, this represented an impressive nine percent return per annum on a compound basis.

British American Tobacco Malaysia has consistently outperformed the FTSE Bursa Malaysia Kuala Lumpur Composite Index for the past 12 years since the merger. The Group's share price has been consistently ranked amongst the highest on the Bursa Malaysia Main Board with market capitalisation well above RM10 billion for the past 10 years. We endeavour to continue fulfilling our promise of delivering long-term sustainable shareholder value.

British American Tobacco Malaysia Total Shareholders' Return Compared Against FTSE Bursa Malaysia Kuala Lumpur Composite Index from 2002 to 2011



Efficient capital structure

The Treasury function is mainly responsible for managing financial risks through proactive management of cash flow, interest rates, and currency exposures as well as ensuring efficient treasury operations. High on the agenda of the Treasury function for 2012 is the RM400 million Medium Term Notes (MTN) due in September 2012 and consequently how best the Group should optimise its financing strategy and minimise cash holding to ensure shareholders' value is maximised. The Group is confident that it will be able to meet the repayment of the MTN due in September 2012.

The Group's strong performance, consistent cash generation capacity and efficient cash flow management have been evidenced in the reaffirmation of the Group's P1 and AAA rating for the existing commercial papers (CP) / MTN once again in July 2011 by Rating Agency Malaysia.

Firm commitment to enhance long-term shareholder value

Moving into 2012, the Group's main concerns are the high level of illegal cigarettes trade and the shrinking legal market, together with the prospect of an increasingly regulated business landscape. In the face of these challenges, the Group aims to accelerate sustainable growth and solidify its market leadership position.

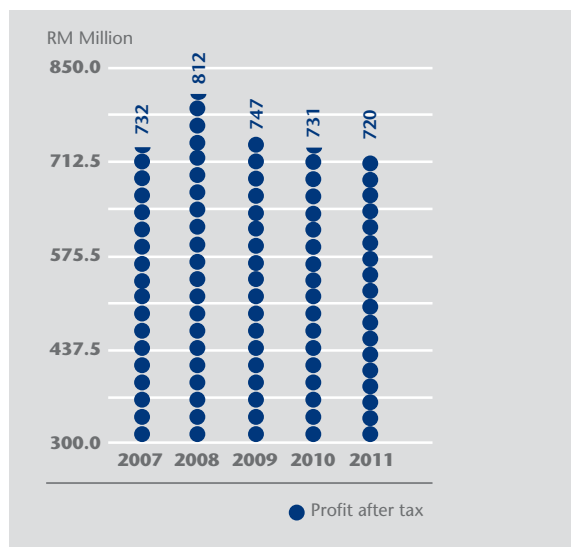
The Group's strategy and unwavering management focus on its strategic pillars of Growth, Productivity, Responsibility and Winning Organisation has proven both incredibly successful and resilient over time. We seek to continue this recipe for success and remain strongly committed to delivering sustainable long-term shareholder value.

Five-year financial highlights

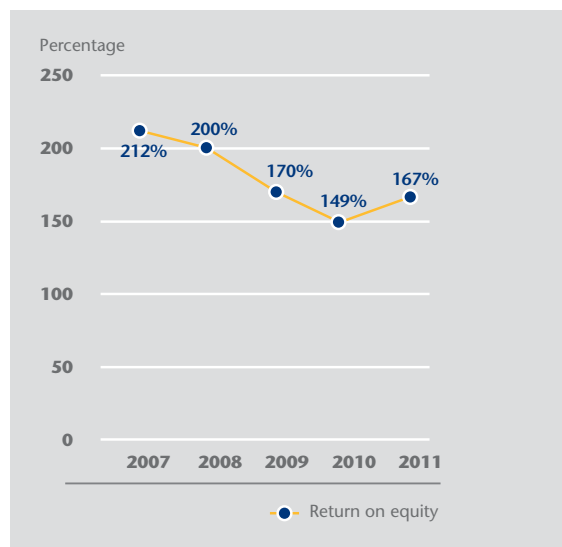
	Financial year from 1.1.11 to 31.12.11 RM'000	Financial year from 1.1.10 to 31.12.10 RM'000	Financial year from 1.1.09 to 31.12.09 RM'000 (as restated)*	Financial year from 1.1.08 to 31.12.08 RM'000 (as restated)*	Financial year from 1.1.07 to 31.12.07 RM'000 (as restated)*
Revenue	4,127,245	3,965,448	3,923,421	4,135,220	3,830,869
Profit from operations	983,668	986,581	1,033,135	1,109,297	1,049,416
Finance cost	(27,400)	(27,400)	(27,823)	(28,131)	(46,515)
Profit before taxation	956,268	959,181	1,005,312	1,081,166	1,002,901
Net profit for the financial year	719,615	731,111	746,784	811,683	731,931
Net annual dividends	702,404	685,272	673,851	756,655	732,384
Net special dividends	85,659	—	—	—	—
Share capital	142,765	142,765	142,765	142,765	142,765
Shareholders' funds	431,735	490,426	439,285	406,479	346,587
Property, plant and equipment	424,332	405,826	451,069	459,079	460,785
Investment property	138	1,636	1,654	—	—
Computer software	4,742	4,336	6,550	15,232	21,091
Goodwill	411,618	411,618	411,618	411,618	411,618
Deferred tax assets	20,102	15,158	19,295	4,978	4,978
Current assets	706,531	730,572	551,944	596,405	548,536
Total assets	1,567,463	1,569,146	1,442,130	1,487,312	1,447,008
Non-current liabilities	304,450	695,922	702,795	448,584	712,892
Current liabilities	831,278	382,798	300,050	632,249	387,529
Total liabilities	1,135,728	1,078,720	1,002,845	1,080,833	1,100,421
Net earnings per share (sen)	252.0	256.1	261.5	284.3	256.3
Net dividends per share (sen)	276.0	240.0	236.0	265.0	256.5
Net returns on shareholders' funds (%)	166.7	149.1	170.0	199.5	211.6
Net asset backing per share (RM)	1.51	1.72	1.54	1.42	1.21
Number of employees	1,191	1,540	1,656	1,454	1,326

* The restatement reflects the reclassification of existing leasehold land to property, plant and equipment following the adoption of FRS 117 Leases beginning 1 January 2010.

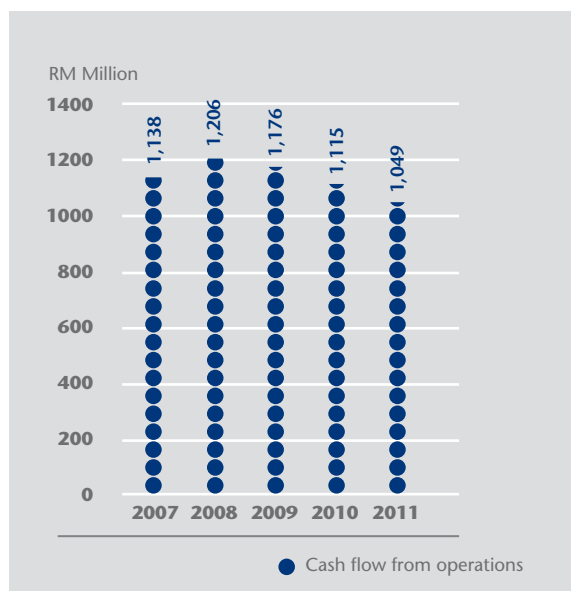
Five-year group performance



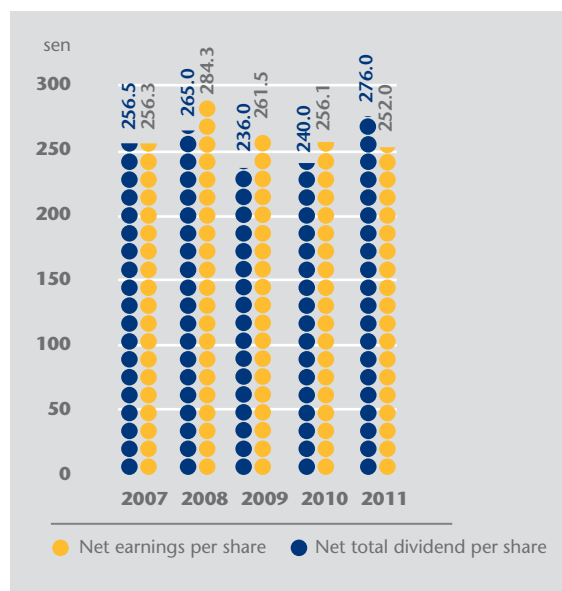
Solid financial performance



Delivering high shareholder return



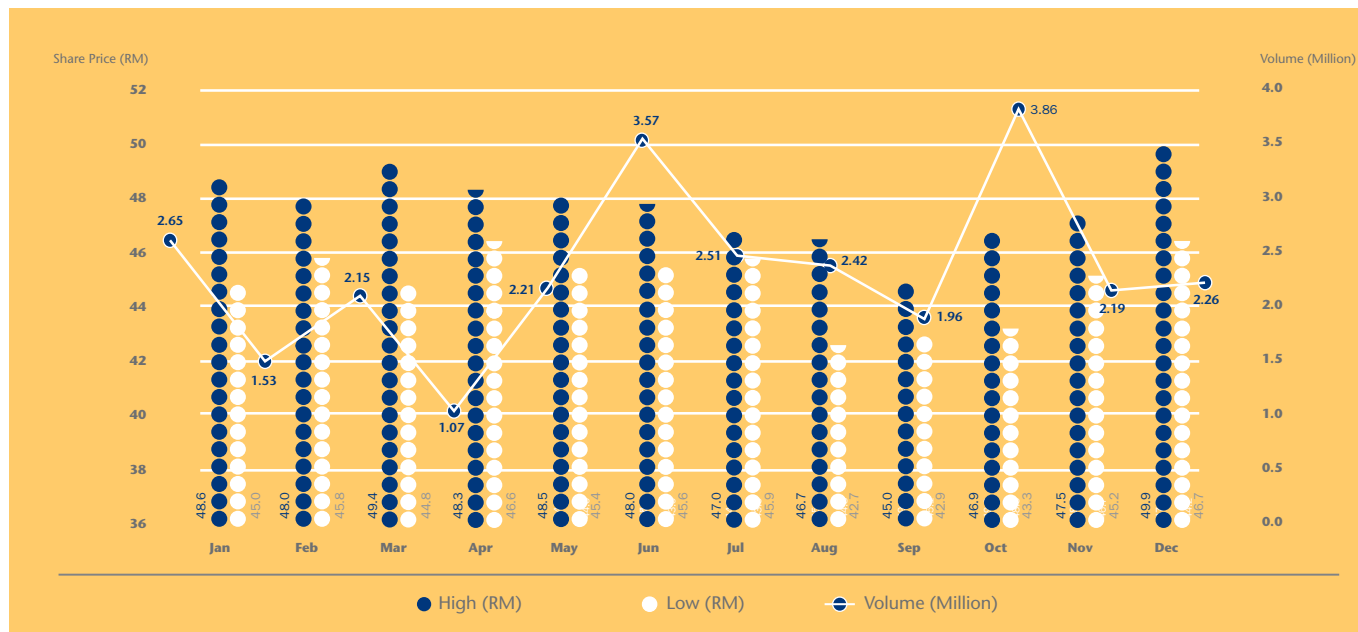
Superior cash flow from operations



Consistently high dividend contribution

British American Tobacco Malaysia continued its growth momentum and charted another year of strong financial performance, reaffirming its unwavering commitment to maximise and deliver long-term shareholder value.

Share performance and financial calendar



Share Performance 2011

Announcement of results

Unaudited consolidated results for the 1st quarter ended 31 March 2011
Thursday, 21 April 2011

Unaudited consolidated results for the 2nd quarter ended 30 June 2011
Thursday, 21 July 2011

Unaudited consolidated results for the 3rd quarter ended 30 September 2011
Thursday, 20 October 2011

Unaudited consolidated results for the 4th quarter ended 31 December 2011
Thursday, 16 February 2012

Dividends

First interim dividend of 60 sen per share, tax exempt under the single-tier system

- Date of entitlement: Wednesday, 11 May 2011
- Date of payment: Friday, 20 May 2011

Second interim dividend of 60 sen per share, tax exempt under the single-tier system

- Date of entitlement: Thursday, 11 August 2011
- Date of payment: Friday, 26 August 2011

Special dividend of 30 sen per share, tax exempt under the single-tier system

- Date of entitlement: Thursday, 11 August 2011
- Date of payment: Friday, 26 August 2011

Third interim dividend of 60 sen per share, tax exempt under the single-tier system

- Date of entitlement: Tuesday, 15 November 2011
- Date of payment: Friday, 25 November 2011

Fourth interim dividend of 66 sen per share, tax exempt under the single-tier system

- Date of entitlement: Thursday, 8 March 2012
- Date of payment: Friday, 23 March 2012

Quarterly performance

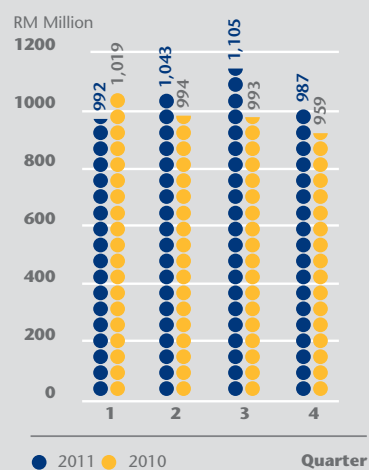
2011

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue	(RM Million)	992	1,043	1,105	987	4,127
Profit from operations	(RM Million)	247	255	246	236	984
Finance cost	(RM Million)	(7)	(7)	(7)	(7)	(28)
Profit before tax	(RM Million)	240	248	239	229	956
Profit after tax	(RM Million)	179	184	176	181	720
Earnings per share	(sen)	62.5	64.5	61.7	63.3	252.0
Net dividends per share	(sen)	60.0	90.0	60.0	66.0	276.0

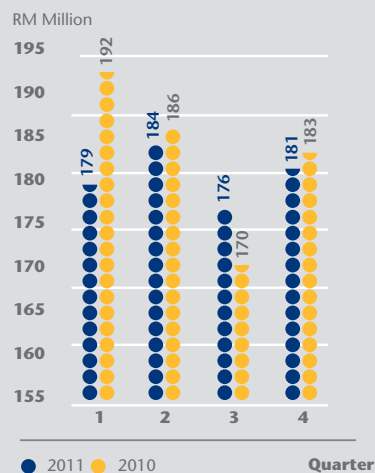
2010

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue	(RM Million)	1,019	994	993	959	3,965
Profit from operations	(RM Million)	265	257	230	235	987
Finance cost	(RM Million)	(7)	(7)	(7)	(7)	(28)
Profit before tax	(RM Million)	258	250	223	228	959
Profit after tax	(RM Million)	192	186	170	183	731
Earnings per share	(sen)	67.2	65.1	59.8	64.0	256.1
Net dividends per share	(sen)	—	113.0	64.0	63.0	240.0

Quarterly revenue



Quarterly net profit





Corporate profile

British American Tobacco Malaysia was formed from the merger of Rothmans of Pall Mall (Malaysia) Berhad and Malaysian Tobacco Company Berhad on 3 November 1999. The merger pooled talent, experience and an unrivalled portfolio of highly successful international brands to create the country's largest tobacco company.



Today, British American Tobacco Malaysia is the clear market leader of the Malaysian cigarette industry, with approximately 61 percent market share, and ranks amongst the top 25 companies on Bursa Malaysia Securities Berhad in terms of market capitalisation. British American Tobacco Malaysia manufactures and markets high quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes well-established international names such as DUNHILL, KENT and PALL MALL.

We have a combined history of close to a hundred years in Malaysia going back to 1912. The wealth of expertise, coupled with leading edge technology and efficient systems and processes employed in all aspects of our business activities, position us well to meet the challenges of the future. We employ about 1,200 employees who are involved in the full spectrum of the tobacco industry, from leaf buying and processing to manufacturing, marketing and distribution. Our comprehensive distribution network spans the length and breadth of the country, ensuring that our brands are available everywhere in Malaysia.

We aim to maintain our leadership in the industry through increasing our share of the tobacco business and satisfying consumer demands better and more profitably than our competitors. In meeting these goals, we ensure that we market responsibly, and in a manner sensitive to our environment. For us, leadership goes beyond just market share. It has to be about qualitative leadership in our eyes, and in the eyes of our stakeholders. While the tobacco industry is seen as controversial, it is also an important industry which has a role to play in contributing to the growth and development of the community in which it operates in. British American Tobacco Malaysia is committed to fulfilling that role.



British American Tobacco Malaysia in the news

Performance



Foundation builds 20 homes for the poor

By Melissa Darylow Chow

KUALA The Kuala Lumpur Development Authority (KUDA) and the British American Tobacco (BAT) Malaysia Foundation recently announced their collaboration to build 20 homes for the hardcore poor, in a worthy re-orientation of the charity's focus.

The initiative is part of the project to build 200 homes for the hardcore poor in the Klang Valley, under the KUDA's 'KUDA 200' program.

The project is a continuation of the government's 'Program Pemukiman Masyarakat Miskin' (PPMM), which aims to alleviate poverty by improving the lives of the hardcore poor in Kuala Lumpur.

BAT Malaysia Foundation chairman and BAT Malaysia's CEO, Alan Hogg, who spoke at the groundbreaking ceremony,



CONGRATULATIONS
TO THE WINNERS OF THE 2011 'THE EDGE' AWARDS FOR BEST FINANCIAL INSTITUTIONS IN MALAYSIA

BRITISH AMERICAN TOBACCO
Tearing against the odds

British American Tobacco (BAT) Malaysia has been recognized as one of the top financial institutions in Malaysia for the 11th year in a row, winning the 'Best Financial Institution' award at The Edge Awards 2011.

The award is a testament to the company's commitment to excellence in financial services and its dedication to its customers.

BAT Malaysia's success is attributed to its strong financial performance, innovative products, and excellent customer service.



BAT M'sia investors get dividend bonanza

Investment

Dividend

British American Tobacco (BAT) Malaysia has announced a dividend of RM0.10 per share for its investors, marking a significant increase from the previous year.

The dividend is a reflection of the company's strong financial performance and its commitment to its shareholders.

BAT Malaysia's dividend is expected to be paid on [date].



KEDAs bina 900 rumah selesa

KEDAs bina 900 rumah selesa

KUALA The Kuala Lumpur Development Authority (KUDA) has announced that it has completed the construction of 900 homes for the hardcore poor in the Klang Valley.

The homes are part of the KUDA's 'KUDA 200' program, which aims to alleviate poverty by improving the lives of the hardcore poor in Kuala Lumpur.

The homes are expected to be completed by the end of the year.

BAT net profit up slightly in Q3 to RM176m

British American Tobacco (BAT) Malaysia reported a net profit of RM176 million for the third quarter of 2011, a slight increase from RM170 million in the same quarter of 2010.

The increase is attributed to the company's strong financial performance and its commitment to its customers.

BAT Malaysia's net profit is expected to continue to grow in the coming quarters.

BAT a yield seeker's haven

British American Tobacco (BAT) Malaysia has become a popular choice for investors seeking high yields, thanks to its strong financial performance and its commitment to its shareholders.

BAT Malaysia's dividend is expected to continue to grow in the coming years.



INDEPENDENT, INSIGHTFUL, INDISPENSABLE

The Edge

For more information, visit www.theedge.com.my



Keuntungan kekal - KPMG

KPMG To Refine Selection Process

KPMG has announced that it will be refining its selection process for the recruitment of new graduates in Malaysia.

The new process is expected to be implemented in the coming year.



28 pelajar dapat bina/riwa Yayasan BAT Malaysia



BAT set to do... for this year

Awards and achievements

In British American Tobacco Malaysia, our strategy for success lies not only in the result of our business performance but also by how we achieve these results in a responsible manner. This year, the local and international recognitions that we have received is testament to our commitment towards a more sustainable way of working. It is also testament to our efforts in continuing to set the benchmark for high corporate governance standards, exemplary shareholder value and strong dividend payment.



1 Industry Excellence Award in the Consumer Products Category for Malaysian Corporate Governance Index 2011 Awards

Recognition for the Company's achievement in practising the highest level of corporate governance standards in the consumer products sector by the Minority Shareholders Watchdog Group.

2 Distinction Award for Malaysian Corporate Governance Index 2011 Awards

Recognition for the Company's overall commitment in practising the highest level of corporate governance standards by the Minority Shareholders Watchdog Group.

3 Highest Return on Equity Over Three Years in the Consumer Products Sector and Big Cap Category for The Edge Billion Ringgit Club Corporate Awards 2011

Recognition for the Company achieving the highest return on equity in consumer products sector as well as among companies with more than RM10 billion market capitalisation over three years, as evaluated by The Edge.

4 Industry Excellence Award in the Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2011

Recognition for the tenth consecutive year for the Company's excellence in annual reporting, demonstrating high standards of corporate governance, transparency and accountability.

5 Inaugural winner of SVA Exemplary Award for KPMG/The Edge Shareholder Value Awards 2011

Honouring British American Tobacco Malaysia's achievements in terms of performance and enhancing shareholder value, above and beyond other award categories at the KPMG/The Edge Shareholder Value Awards 2011.

6 High recognition for 2011 FinanceAsia Awards Poll

Recognition for the eleventh consecutive year of the Company's landmark achievements in overall management, corporate governance, corporate social responsibility, investor relations practices and commitment to strong dividend payment.

Our recognition includes:

- Third place for Most Committed to a Strong Dividend Policy.
- Third place for Best Corporate Governance.
- Fourth place for Best Investor Relations.
- Sixth place for Best Managed Company.

7 Notable Achievement in Environmental Performance for Prime Minister's Hibiscus Award 2010/2011

Recognition from Malaysia's premier environmental awards for the Company's environmental performance and best practices.

8 Winner for Reporting in an Annual Report category for ACCA Malaysia Sustainability Reporting Awards (MaSRA) 2011

Recognition for disclosure of sustainability initiatives in the Company's Annual Report, as well as for its strong governance structure and corporate responsibility framework.

9 Gold Award for Environmental Responsibility and Investor Relations for The Asset Corporate Awards 2011

Recognition for the Company's commitment to environmental responsibility in its operations as well as commitment to good investor relations.

10 Top 10 Companies in Malaysia for Sustainability Disclosure in the Asian Sustainability Rating

Ranked sixth Best Company in Malaysia for general management, environment, as well as the social and governance categories amongst 750 companies across 10 countries surveyed in Asia.

2011 Corporate events highlights

British American Tobacco Malaysia chartered another memorable year full of activities, initiatives and achievements in 2011. Follow us along our journey below as we take you through the key highlights of the year:

January

- Launched DUNHILL Boost. **1**
- Began expansion of contract manufacturing to more British American Tobacco operating centres.

February

- Organised Employee Volunteer Programme in Penang with residents from SIMA Handicapped Centre. **2**
- Collaborated with Kedah Regional Development Authority to build homes for the hardcore poor of Kulim, Kedah. **3**
- Conducted financial analyst briefing on Fourth Quarter 2010 financial results.
- Recreational *Chill-out* Room officially opened to all employees.

March

- Launched PALL MALL Ice. **4**
- Pledged against global warning – Earth Hour 2011. **5**
- Published British American Tobacco Malaysia Annual Report 2010.
- Held Family Day at Sunway Lagoon.

1



2



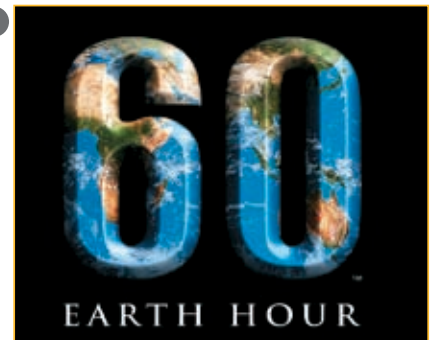
4



3



5



Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.

April

- Launched DUNHILL Switch. **6**
- Received British American Tobacco Asia Pacific Regional Award at the Regional Conference.
- Conducted financial analyst briefing on First Quarter 2011 financial results.
- Held Fiftieth Annual General Meeting. **7**
- Approved as the pilot market for globally standardised Enterprise Resource Planning (ERP) Solution.

May

- Launched Limited Edition Pack for PETER STUYVESANT. **8**
- Launched online training and development platform, *Global LearningZone*.

June

- Launched Limited Edition Pack for PETER STUYVESANT. **9**
- Implemented Rain Water Harvesting System in conjunction with World Environment Day. **10**



Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.

July

- Continued certification for ISO 9001, ISO 14001 and OHSAS 18001 with no non-conformances.
- Organised Employee Volunteer Programme with residents from Joy Garden Old Folks' Home, Semenyih. **11**
- Recognised by The Edge Billion Ringgit Club for achieving the highest return on equity in consumer products sector as well as among companies with more than RM10 billion market capitalisation over three years. **12**

August

- Awarded the Higher Education Starter Kit to tobacco farming community. **13**

September

- Organised Employee Volunteer Programme to clean up Sg. Liam Waterfall at Ulu Yam. **14**
- Awarded recognition in FinanceAsia's Best Managed Companies Poll.
- Hosted Royal Malaysian Customs visit to British American Tobacco Malaysia's factory. **15**
- Organised Employee Volunteer Programme with the Welfare Foundation for Kelantan Orphans at Grand Riverview Hotel, Kota Bharu.



October

- Awarded for sustainability reporting in an annual report by ACCA. **16**
- Organised Employee Volunteer Programme with Agathians Shelter, Petaling Jaya. **17**
- Named inaugural winner for SVA Exemplary Award by KPMG/The Edge.
- Ranked top 10 in Malaysia for sustainability disclosure by CSR Asia.

November

- Launched Limited Edition Pack for PETER STUYVESANT. **18**
- Received Industry Excellence Award in Consumer Products Category by National Annual Corporate Report Awards 2011.
- Honoured long-serving and retiring employees at the Long Service Awards 2011.
- Organised Employee Volunteer Programme to clean up Bagan Lalang Beach in Sepang Gold Coast.
- Awarded scholarships to scholars pursuing higher education. **19**
- Held Company Annual Dinner.

December

- Awarded Distinction and Industry Excellence Award for Consumer Products category by: the Minority Shareholders Watchdog Group. **20**
- Received Gold Award for Environmental Responsibility and Investor Relations by The Asset Magazine.
- Received Special Judges Award in British American Tobacco's Environment, Health and Safety Excellence Awards. **21**

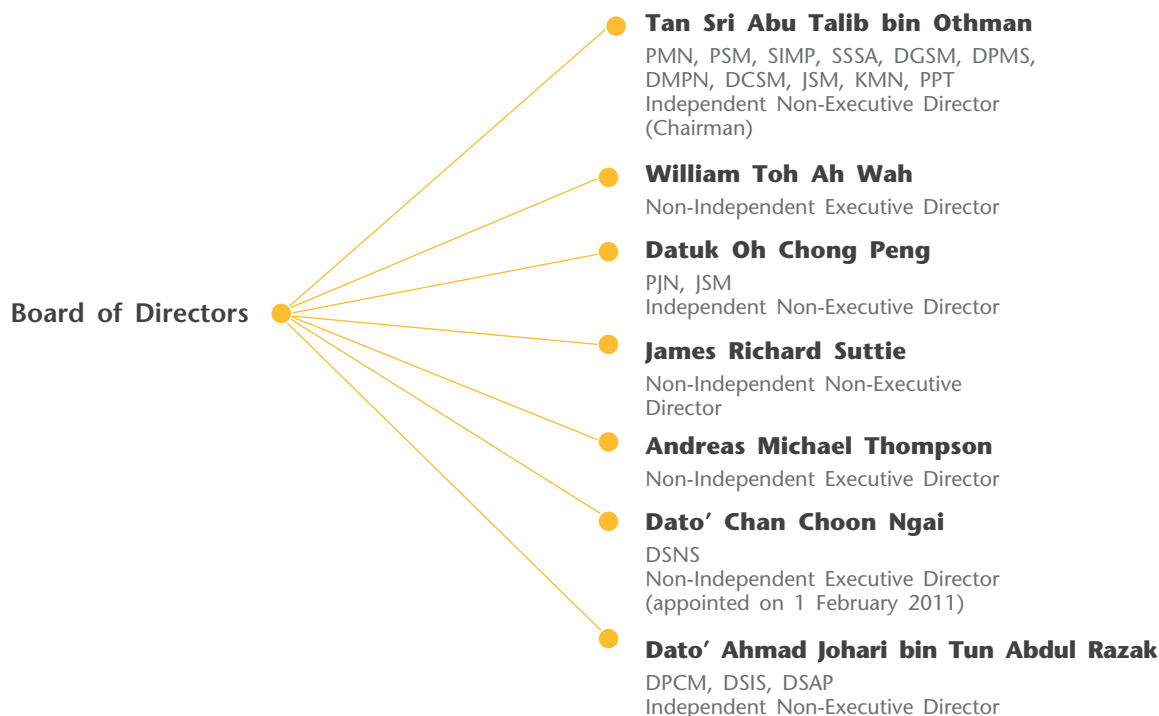


Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.



Leadership

Corporate Information



Secretary

Chan Mei Mae (LS0009460)
Tel : +60 (3)7491 7326
Fax : +60 (3)7491 3772
E-mail : Claire_Chan_Mei_Mae@bat.com

Registered Office

Virginia Park, Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : +60 (3)7956 6899/7491 7100
Fax : +60 (3)7955 8416
E-mail : bat_malaysia@bat.com

Company Website

www.batmalaysia.com

Share Registrar

Tricor Investor Services Sdn. Bhd.
(Company No. 118401-V)
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel : +60 (3)2264 3883
Fax : +60 (3)2282 1886
E-mail : lay.kiow.lim@my.tricorglobal.com

Auditors

Messrs. PricewaterhouseCoopers
(AF 1146)
Level 10, 1 Sentral
Jalan Travers, Kuala Lumpur Sentral
P.O. Box 10192
50706 Kuala Lumpur
Tel : +60 (3)2173 1188
Fax : +60 (3)2173 1288

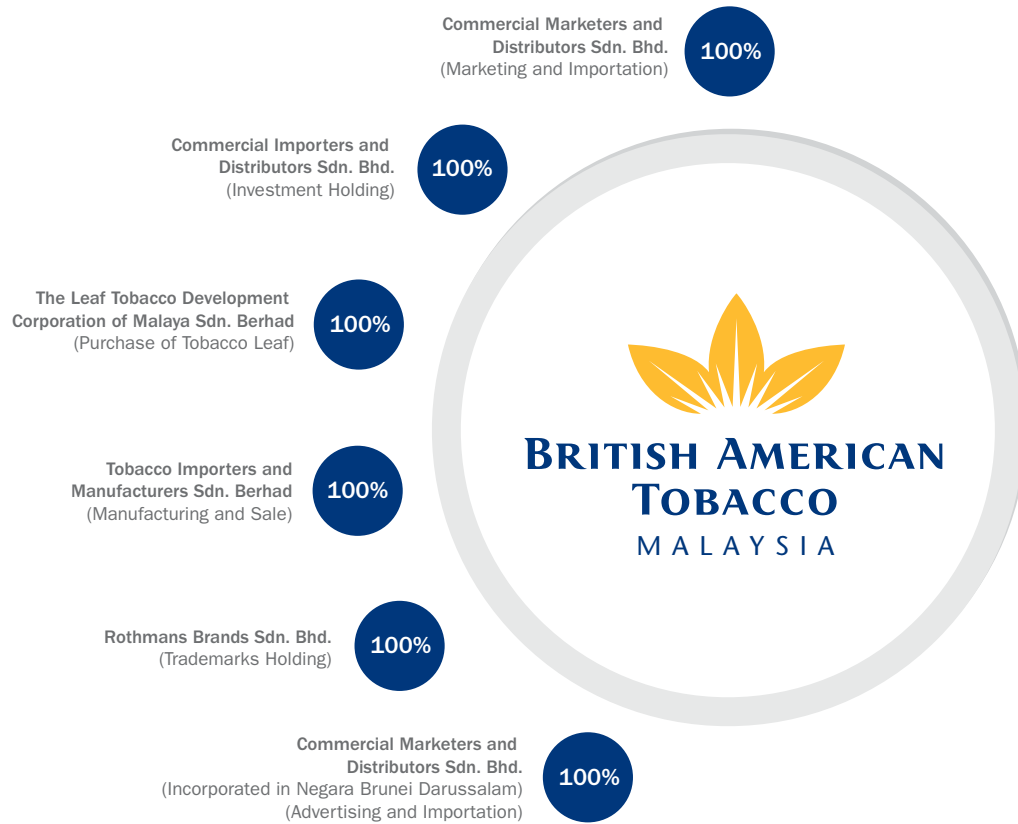
Principal Bankers

Citibank Berhad
(Company No. 297089-M)
HSBC Bank Malaysia Berhad
(Company No. 127776-A)
Malayan Banking Berhad
(Company No. 3813-K)

Stock Exchange Listing

Main Market of Bursa Malaysia
Securities Berhad
(Company No. 635998-W)
Listed Since : 27 October 1961
Stock Code : 4162
Stock Name : BAT

Corporate Structure



Note:

For the full list of the Company's subsidiaries, please refer to Note 13 to the Reports and Financial Statements on page 176 of this Annual Report.



Board of Directors

1. **Tan Sri Abu Talib bin Othman**
PMN, PSM, SIMP, SSSA, DGSM, DPMS,
DMPN, DCSM, JSM, KMN, PPT
Independent Non-Executive Director
(Chairman)
2. **William Toh Ah Wah**
Non-Independent Executive Director
3. **Datuk Oh Chong Peng**
PJN, JSM
Independent Non-Executive Director
4. **James Richard Suttie**
Non-Independent Non-Executive Director
5. **Andreas Michael Thompson**
Non-Independent Executive Director
6. **Dato' Chan Choon Ngai**
DSNS
Non-Independent Executive Director
(appointed on 1 February 2011)
7. **Dato' Ahmad Johari bin Tun Abdul Razak**
DPCM, DSIS, DSAP
Independent Non-Executive Director





[5]

[6]

[7]

[2]

[4]



Profile of Directors



Tan Sri Abu Talib bin Othman

PMN, PSM, SIMP, SSSA, DGSM, DPMS, DMPN, DCSM, JSM, KMN, PPT
(Independent Non-Executive Director)
Chairman
Malaysian, Age 73 years

Tan Sri Abu Talib bin Othman was appointed Chairman of the then Rothmans of Pall Mall (Malaysia) Berhad in 1994, now British American Tobacco (Malaysia) Berhad.

He qualified as a barrister-at-law from Lincoln's Inn, United Kingdom. Tan Sri Abu Talib had a distinguished career as a member of the Judicial and Legal Service of the Government from 1962 to 1993, serving in various capacities including as Malaysia's Attorney-General from 1980 to his retirement in October 1993.

Upon his retirement, Tan Sri Abu Talib was appointed non-executive director in various public and private companies. He is presently a Non-Executive Chairman of IGB Corporation Berhad, Alliance Investment Management Berhad, CYL Corporation Berhad and MUI Continental Insurance Berhad. He is also a Non-Executive Director of other private companies. In 1983, he was appointed as Trustee of Neoh Foundation and in 1985, in Yayasan Sultan Iskandar Johor. He served as Chairman of Suruhanjaya Hak Asasi Manusia (Suhakam) from 2002 to 2010.

He is the Chairman of the Remuneration Committee, Nomination Committee and Executive Compensation Committee and a member of the Audit Committee of the Company.

Tan Sri Abu Talib attended all of the five Board Meetings which were held in the financial year ended 31 December 2011.

Tan Sri Abu Talib does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.



William Toh Ah Wah

(Non-Independent Executive Director)
Managing Director
Malaysian, Age 55 years

William Toh Ah Wah was appointed a Director of British American Tobacco (Malaysia) Berhad on 5 March 2009 and as Managing Director of the Company on 1 October 2009.

William Toh holds a Bachelor of Commerce from the Concordia University, Montreal, Canada. He joined Rothmans of Pall Mall (Malaysia) Berhad in 1981 as a management trainee, now British American Tobacco (Malaysia) Berhad and held various marketing roles including Area Manager and Marketing Manager. He was seconded to China in 1991 and during his tenure overseas has held various positions including General Manager for Shandong Rothmans Tobacco Company Limited, China (1991-1994), Sales & Marketing Director China/Hong Kong for Rothmans (Far East) Limited (1994-1996), General Manager Taiwan of Rothmans (Far East) Taiwan Limited (1996-1997), General Manager China/Hong Kong of Rothmans (Far East) Limited (1997-1998) and Managing Director Greater China of Rothmans (Far East) Limited (1998-1999).

He joined British American Tobacco (Malaysia) Berhad in 1999 and thereafter held various positions including Business Development Director China for British American Tobacco Asia Pacific North (1999-2003), Managing Director of British American Tobacco New Zealand Limited (2003-2005), Managing Director of Pakistan Tobacco Company Limited (2005-2008), the Area Director of British American Tobacco South Asia Area (2007-2008), the Area Director of the Indonesia Cluster (covering the markets of Indonesia, Thailand and Philippines) (2008-2009) and the Regional Project Manager of British American Tobacco Asia Pacific Region Limited (2008-2009).

William Toh is a member of Remuneration Committee and the Executive Compensation Committee of the Company.

William Toh attended all five Board Meetings in the financial year ended 31 December 2011.

William Toh does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.



Datuk Oh Chong Peng
PJN, JSM
(Independent Non-Executive Director)
Malaysian, Age 67 years

Datuk Oh Chong Peng was appointed a Non-Executive Director of the then Rothmans of Pall Mall (Malaysia) Berhad in January 1998, now British American Tobacco (Malaysia) Berhad.

He undertook his accountancy training in London and qualified as a Chartered Accountant in 1969. He is a Fellow of the Institute of Chartered Accountants, England and Wales (ICAEW) as well as a member of the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA).

Datuk Oh joined Coopers & Lybrand (now known as PricewaterhouseCoopers) in London in 1969 and in Malaysia in 1971. He was a partner of Coopers & Lybrand, Malaysia from 1974 and retired as a Senior Partner of Coopers & Lybrand in 1997.

Datuk Oh currently sits as the Chairman of Alliance Financial Group Berhad. He is also a Non-Executive Director of several public companies, such as IJM Corporation Berhad, IJM Plantations Berhad, Kumpulan Europlus Berhad, Malayan Flour Mills Berhad, Dialog Group Berhad and several other private companies.

Datuk Oh is a Government appointed member of the Labuan Offshore Financial Services Authority (since 1996). He is also a trustee of the UTAR Education Foundation (2002) and a council member of University Tunku Abdul Rahman.

His past appointments include being a Government appointed Committee Member of the Kuala Lumpur Stock Exchange (1990-1996), a Council member (1981-2002), a past President (1994-1996) of the Malaysian Institute of Certified Public Accountants (MICPA) and a board member of Malaysian Accounting Standards Board (MASB) (2003-2009). He was the Chairman of Land & General Berhad (1999-2007) and Nanyang Press Holdings Berhad (2001-2005) and was a board member of Rashid Hussain Berhad Group of Companies (1998-2003) and Star Publications (M) Bhd (1987-2009).

Datuk Oh Chong Peng is the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company.

Datuk Oh Chong Peng attended all of the five Board Meetings which were held in the financial year ended 31 December 2011.

Datuk Oh does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.





James Richard Suttie
(Non-Independent Non-Executive Director)
British, Age 65 years



Andreas Michael Thompson
(Non-Independent Executive Director)
Finance Director
British, Age 43 years

James Richard Suttie was appointed a Director of British American Tobacco (Malaysia) Berhad in May 2002. He is a member of the Institute of Chartered Accountants of Scotland and an Associate of the Chartered Institute of Taxation. He joined Rothmans International p.l.c. as a Commercial Accountant/Manager in 1972 and became the Finance Director of Carreras of Jamaica Ltd. in 1982, Rothmans International Europe in 1984 and Rothmans of Pall Mall (Malaysia) Berhad in 1992. In 1997, he was appointed the Regional Finance Controller for Rothmans International in Asia. In 1999, he was appointed the Regional Finance Controller, Africa and in 2002 as Regional Finance Controller, Asia Pacific, of British American Tobacco p.l.c. until his retirement from British American Tobacco p.l.c. on 31 December 2006.

He is a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

James Suttie attended all of the five Board Meetings which were held in the financial year ended 31 December 2011.

James Suttie does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.

Andreas Michael Thompson was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 March 2011. He is a member of the Chartered Institute of Management Accountants and holds a Bachelor of Accounting (Hons) from the University of Central Lancashire, Preston, United Kingdom. He joined British American Tobacco p.l.c. as Finance Graduate Trainee in 1993 whereupon graduation he undertook a number of Finance roles within the Asia Pacific region. Over the last ten years he has held various positions including Director of Marketing Finance of Brown & Williamson Tobacco Corporation Inc (2001-2004), Finance & IT Director of A/T British American Tobacco Prilucky Tobacco Company (2004-2007), Area Finance Director of the Middle East & Caucasus (2007-2008).

Prior to his appointment with British American Tobacco (Malaysia) Berhad as Finance Director, Andreas Thompson led the Finance integration of British American Tobacco's ST (Skandinavisk Tobakskompagni A/S) acquisition, thereafter becoming the Head of Finance for the Northern Europe Cluster (2008-2011) based in Denmark.

Since his appointment to the Board of Directors of British American Tobacco (Malaysia) Berhad, Andreas Thompson has attended three Board Meetings in the financial year ended 31 December 2011.

Andreas Thompson does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.



Dato' Chan Choon Ngai
DSNS
(Non-Independent Executive Director)
Operations Director
Malaysian, Age 57 years



Dato' Ahmad Johari bin Tun Abdul Razak
DPCM, DSIS, DSAP
(Independent Non-Executive Director)
Malaysian, Age 57 years

Dato' Chan Choon Ngai was appointed Production Director of the then Rothmans of Pall Mall (Malaysia) Berhad, now British American Tobacco (Malaysia) Berhad in October 1995. He holds a Bachelor of Science in Mechanical Engineering degree from the University of Birmingham, United Kingdom. He joined Rothmans of Pall Mall (Malaysia) Berhad in 1979, as Production Management Trainee and held various significant positions in the production division including Production Executive Make and Pack (1980-1982), Personal Assistant to Rothmans International World Production Director, Rothmans International United Kingdom (1982-1984), Acting Factory Manager Rothmans of Pall Mall (Malaysia) Berhad (1984-1986), Factory Manager Rothmans of Pall Mall (Malaysia) Berhad (1986-1994) and Production Director (Designate) of Rothmans of Pall Mall (Malaysia) Berhad (1994-1995). He was a director of Tien Wah Press Holdings Berhad from May 1997 to June 2003.

In July 2000, Dato' Chan was appointed as the Operations Director of British American Tobacco (Malaysia) Berhad. Effective 15 November 2010, Dato' Chan's portfolio was expanded to include the Business Development Services function in addition to his current role as the Operations Director of the Company. Dato' Chan retired on 31 December 2010 after attaining the age of 55. He was subsequently re-appointed as the Operations Director of British American Tobacco (Malaysia) Berhad effective 1 February 2011.

Since his re-appointment to the Board of Directors on 1 February 2011, Dato' Chan attended four Board Meetings in the financial year ended 31 December 2011.

Dato' Chan does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.

Dato' Ahmad Johari bin Tun Abdul Razak was appointed a Director of British American Tobacco (Malaysia) Berhad on 5 March 2009. Dato' Ahmad Johari holds a Bachelor of Laws degree from the University of Kent, United Kingdom. He was called to the Bar of England and Wales at Lincoln's Inn in 1976 and was admitted as an Advocate and Solicitor of the High Court of Malaya in 1977. He practiced law with a large law firm from 1979 and was a partner of the firm from 1981 to 1994. He re-joined the firm as a partner on 1 August 2007.

Dato' Ahmad Johari is currently the Chairman of Ancom Berhad, Courts Mammoth Sdn Bhd and Daiman Development Berhad and a director of Hong Leong Industries Berhad, Nylex (Malaysia) Berhad, Daiman Golf Berhad and Deutsche Bank (Malaysia) Berhad. He is also a member of other board committees in Hong Leong Industries Berhad, Ancom Berhad, Daiman Development Berhad and Deutsche Bank (Malaysia) Berhad. In the academic field, he is presently an Adjunct Professor at University of Technology Mara Law Faculty.

Dato' Ahmad Johari is a member of the Nomination Committee and Audit Committee of the Company.

Dato' Ahmad Johari attended four Board Meetings in the financial year ended 31 December 2011.

Dato' Ahmad Johari does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.



Profile of Top Team Members



1 **William Toh Ah Wah**

Managing Director
Malaysian, Age 55 years

For details of William Toh's profile, please refer to page 34 of this Annual Report.

2 **Dato' Chan Choon Ngai**

DSNS
Operations Director
Malaysian, Age 57 years

For details of Dato' Chan's profile, please refer to page 37 of this Annual Report.

3 **Cheryl Ann Wong Wai Leng**

Human Resources Director
Malaysian, Age 43 years

Cheryl Ann Wong Wai Leng joined British American Tobacco (Malaysia) Berhad in 2004 as a Talent Development Manager and assumed the role as Head of Marketing HR in 2005. She was seconded to British American Tobacco Vietnam in 2007 in a dual role as the Human Resources Director and also as the Area Head of Human Resources, British American Tobacco East Asia Area. In this role, Cheryl spearheaded the Area Talent Programme to focus on effectively filling the talent pipeline at junior and mid-career levels in the context of challenging emerging markets, provided high impact development opportunities for local talent and started creating a workplace where employees could perform at their best, thereby preparing the organisation for the challenges ahead. In November 2008, Cheryl was appointed as the Human Resources Director of British American Tobacco (Malaysia) Berhad. Prior to Cheryl joining the British American Tobacco Group, she was a Country Human Resources Manager in Accenture Malaysia.

She holds an honours degree in Economics, majoring in Business Administration from the University of Malaya and a Masters in Business Administration from the Heriot-Watt University, Edinburgh.



4 **Andreas Michael Thompson**

Finance Director
British, Age 43 years

For details of Andreas Thompson's profile, please refer to page 36 of this Annual Report.

5 **Hendrik Stoel**

Marketing Director
Dutch, Age 43 years

Hendrik Stoel was appointed as the Marketing Director of British American Tobacco (Malaysia) Berhad in July 2010. He holds a degree in Marketing from Hanzehogeschool Groningen, Netherlands and Masters in Business Administration from University of Northumbria at Newcastle, England.

He joined British American Tobacco Group in 1995 as Brand Manager in Ukraine before taking up the Group Brand Manager role in 1997. Thereafter, he had several marketing leadership roles in Central Asia, Pakistan and United Kingdom. In 2006, he was appointed as the Marketing Director of British American Tobacco Gulf Cooperation Council (covering markets of Saudi Arabia, UAE, Kuwait, Oman, Bahrain and Qatar) and subsequently the Area Marketing Director East Asia in 2008 (covering the markets of Vietnam, Cambodia, Indonesia, Thailand, Philippines and Mongolia). Due to reorganisation, Hendrik left Vietnam after seven months to become the Regional Group Brand Manager Asia Pacific before he was appointed as the Marketing Director of British American Tobacco (Malaysia) Berhad.

6 **Lim Hun Chye @ Allen Lim**

Global Enterprise Resource Planning Market Lead
Malaysian, Age 56 years

Lim Hun Chye @ Allen Lim joined as a Commercial Accountant of the then Rothmans of Pall Mall (Malaysia) Berhad in 1990, now British American Tobacco (Malaysia) Berhad. He holds a degree in Commerce from the University of Melbourne and a Masters in Business Administration from Monash University, Australia. He is a member of both the Institute of Chartered Accountants in Australia and the Malaysian Institute of Accountants. In addition, he is also a member of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). He worked in various operational roles spanning both the Information Technology and Finance functions. Post the announcement of the merger between Rothmans of Pall Mall and Malaysian Tobacco Company Berhad in 1999, Allen was appointed the Integration Manager. He then took on the role of Corporate Finance Manager for two years before becoming Head of Brand Marketing Finance in 2004 and subsequently the Head of Marketing Finance in 2005. In April 2006, Allen assumed the role of Head of Strategic Business Development and in September 2006, he was appointed as the Business Development Director.

Allen assumed the role of Business Development Services Director from December 2008 to November 2010. His portfolio included Information Technology, Programme Management, Strategy and Planning, Business Security and Business Development.

Allen retired on 31 December 2011 after attaining the age of 55.

Due to Allen's relevant experience, he was re-appointed to lead Malaysia, working with a global team to pilot a globally standardised Enterprise Resource Planning Solution.

7 **Christine Lee Oi Kuan**

Corporate and Legal Affairs Director
Malaysian, Age 53 years

Christine Lee Oi Kuan was appointed to the Top Team of British American Tobacco (Malaysia) Berhad on 1 January 2006 and assumed the role of Corporate and Legal Affairs Director of British American Tobacco (Malaysia) Berhad on 1 September 2006. She has been with British American Tobacco (Malaysia) Berhad since 2001.

Christine Lee began her career in British American Tobacco (Malaysia) Berhad as Head of Legal and Company Secretary. She was previously the Legal Manager and Company Secretary of two public listed companies, Hong Leong Industries Berhad and Malaysian Pacific Industries Berhad.

Holder of a degree in law from the University of Malaya, Christine Lee served at the Attorney General's Chambers, Malaysia from 1983-1993 in the Prosecution and Advisory and International Law Divisions.

In her current role as the Corporate and Legal Affairs Director, Christine Lee is responsible for corporate and regulatory affairs and legal matters of the Group.





Governance

43	Standards of Business Conduct
44	Statement on Corporate Governance
67	Statement on Internal Control
69	Audit Committee Report
73	Report on Corporate Risk Management

Standards of Business Conduct

Our Group's employees comply with the Standards of Business Conduct (Standards) which form an integral part of our Group's corporate governance. Together with the Statement of Business Principles, it continues to underpin our commitment to high standards of corporate responsibility.

The Standards requires all employees to be committed to operate in accordance with high standards of business integrity and to comply with laws and regulations. Employees must exercise honesty, objectivity and diligence in doing their work and must ensure that the Standards is never compromised for the sake of results.

The Standards is an integral part of the Group's principles of corporate governance and is designed to:

- a. ensure that decisions and judgements made by employees are lawful and comply with high ethical standards;
- b. set a tone and culture for the organisation which will enable it to be regarded as a good corporate citizen;
- c. help employees who are faced with making difficult judgements in the course of doing their work; and
- d. give reassurance to the Group's stakeholders with whom the Group comes into business contact.

The areas covered by the Standards are:

- Conflicts of Interest
- Inside Information and Corporate Opportunity
- Interest in Competing Businesses
- Insider Dealing and Market Abuse
- Bribery and Corruption
- Political Contributions
- Charitable Contributions
- Competition Law
- Price Sensitive Information
- Trade in the Group's Products
- Money Laundering
- Sanctions
- Whistle-blowing
- Confidentiality and Information Security
- Entertainment and Gifts
- General Export Guidelines
- Commission Payments
- External Activities
- Protection of Corporate Assets and Misuse of Resources
- Accurate Accounting and Record Keeping

Compliance with the Standards is monitored regularly by the Board of Directors and Audit Committee of the Company. The Legal Department/Company Secretary of the Group is charged with the responsibility of reporting to the Board of Directors on an annual basis the compliance of the Standards by the Group and its employees.

Statement on Corporate Governance

The Company and its Board of Directors (Board) are committed to high standards of corporate governance. The Board is cognisant that the Board is accountable to the Company's shareholders for good corporate governance and poor governance undermines corporate integrity and can potentially lead to fraud incidences, thus exposing the Company to risk. Hence, the Board will continuously review and enhance the Company's governance practices to ensure that its business and affairs are in strict adherence to the doctrine and principles of good corporate governance such as integrity, transparency, accountability and responsible business conduct to safeguard the interests of shareholders and stakeholders.

British American Tobacco Malaysia's corporate governance is set out in the British American Tobacco Malaysia's Code of Corporate Governance (BATM Code), which has been developed and enhanced based on the principles and best practices outlined in the following:

- (i) Malaysian Code on Corporate Governance (Revised 2007) (Malaysian Code)
- (ii) Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements)
- (iii) Corporate Governance Guide: Towards Boardroom Excellence of Bursa Malaysia Securities Berhad (CG Guide)
- (iv) Minority Shareholder Watchdog Group (MSWG) Corporate Governance Scorecard
- (v) British American Tobacco p.l.c's Code of Corporate Governance
- (vi) Standards of Business Conduct of the Company
- (vii) Statement of Business Principles (Business Principles) of the Company
- (viii) Statement of Delegated Authorities of the Company

Such principles and best practices are applied throughout the Group.

The Standards of Business Conduct govern the conduct of all employees of the Group including the Board. The Group and every employee including the Directors are expected to live up to the Standards of Business Conduct and are required to confirm their commitment and compliance by executing a declaration of compliance annually. Examples of provisions in the Standards of Business Conduct are, avoiding situations where there are conflicts of interest, interest in competing businesses, prohibition on use of inside information, corporate opportunities, insider dealing, whistle-blowing and no corrupt activities. The Standards of Business Conduct are constantly reviewed by the Board from time to time to ensure that the Standards of Business Conduct remain at the forefront of best business practices.

The Business Principles cover key issues that underpin Corporate Social Responsibility (CSR) for a multinational business and more particularly, the unique characteristics of a tobacco business. The three Business Principles are Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct each of which is supported by a core belief which explains and supports the Business Principles.

Both the Standards of Business Conduct and Business Principles are made available to our employees and Directors on our Company's intranet and our corporate website at **www.batmalaysia.com**.

The Company's Statement of Delegated Authorities also supports good corporate governance and prudent control of risks and investment management. In the Company's Statement of Delegated Authorities, the Board has specifically reserved matters such as establishment of new businesses or factories, annual strategic plan, approval of major capital expenditure, acquisition and disposal of businesses or equity, borrowings and any corporate restructuring, for its decision.

Other internal policies, guidelines and code

The Company also has in place the following internal policies, guidelines and code to ensure good corporate governance:

No.	Internal Policy/Guideline/Code/ Procedure/Practice	Purpose and Objective
1.	Indirect Procurement Policy (Procurement Policy)	<p>Framework for indirect procurement which outlines the processes for obtaining the best overall value and quality for each amount spent and to ensure timely delivery of goods and services to meet the Group's business requirements.</p> <p>The Tender Committee of the Company which includes Executive Directors on the Board and senior management reviews the recommendation of the stakeholders and approves the tenders submitted after due consideration.</p>
2.	Code of Practice on Sexual Harassment (BATM Sexual Harassment Code)	<p>Framework to ensure that all employees are treated with respect and dignity to their gender status. The Company will not tolerate any form of sexual harassment which disrupts or interferes with the work performance and dignity of another. This policy applies to both male and female employees of the Group.</p> <p>The BATM Sexual Harassment Code is aligned with the best practices as laid out in the Code of Practice on the Prevention and Eradication of Sexual Harassment in the Workplace, established by the Ministry of Human Resources, Malaysia and the recent proposed amendment to the Employment Act 1955 to insert a new Part XVA to provide for the establishment of processes for dealing with complaints on sexual harassment and inquiry into such complaints.</p>
3.	Company Vehicle Accident and Theft Reporting Procedures	Framework which sets out clear reporting procedures including the roles and responsibilities of relevant parties in the Company upon the occurrence of any incidents involving company motor vehicles.
4.	Guidelines on Managing Cases Involving Employees and Law Enforcement Authorities	In 2011, the Company rolled out the guidelines to guide employees on what they can or should adhere to when they are in contact with any law enforcement authorities, particularly in cases involving criminal elements so that employees can be properly guided.
5.	Guidelines on Replacement Leave	<p>As part of the Company's continuous efforts to improve its HR policies and procedures, the Company had implemented new guidelines on replacement leave in 2011. Management employees who are required to attend to any of the events listed below on a non-work day and exceeding four continuous hours (excluding travel time) will be eligible for one day replacement leave:</p> <ul style="list-style-type: none"> • Ad-hoc business meetings called in order to attend to any urgent matters which are non-business as usual, or • Company mandated conferences, workshops or training courses
6.	Company Motor Vehicle Use and Upkeep Procedure	As part of the Company's effort in improving the efficiency and maintenance of Company's motor vehicles, the Company had in 2011 rolled out the guidelines to guide employees with Company motor vehicles on what they can or should adhere to when using the Company's motor vehicles.

No.	Internal Policy/Guideline/Code/ Procedure/Practice	Purpose and Objective
7.	Medical Board Out (MBO) Policy	<p>In 2011, the Company had formalised and rolled-out the Company's MBO policy as the Company's believes that its employee well-being forms an integral part of the Company's People Agenda.</p> <p>Employees who are no longer medically fit to perform his/her duties, either due to a medical condition or have been on prolonged light duties due to his/her specific medical condition can be boarded out via a MBO policy.</p>
8.	Employee Engagement Guidelines	<p>The Company currently has numerous existing communication channels to engage and consult with its employees and which are utilised for various employee populations at appropriate times. However, the said practices and processes are not formalised nor are they documented.</p> <p>In light of the above and as part of the Company's continuous efforts to enhance its corporate governance, the Company had in 2011 formalised the employee engagement and consultation process by documenting the same into a written guideline for adherence.</p>
9.	Employment Principles	<p>Framework which sets out a common approach to the Company's development of policies and procedures, while recognising that the Company must take account of local labour law and practice and the local political, economic and cultural context.</p>
10.	Environment, Health and Safety Policy	<p>Framework of best international standards of practice relating to the health and safety of employees at work and non-company personnel on the Company's premises and the conservation of the physical environment.</p>
11.	International Marketing Standards	<p>A detailed guidance on what the Company can do and should not do in all aspects of tobacco marketing, from print, billboards and electronic media to promotional events, packaging and sponsorship.</p>

The abovementioned policies, guidelines, code, procedure and practices are made available to our employees and Directors on our Company's intranet. Further, the British American Tobacco International Marketing Standards, Employment Principles, and the Environment, Health and Safety Policy can similarly be obtained from our corporate website.

The Group's commitment and dedication in managing its business responsibly amidst a challenging environment for the tobacco industry is evident from the awards and achievements that the Company had received. For details of the awards and achievements received by the Company, please refer to pages 22 to 23 of this Annual Report.

The Company had fully complied with the abovementioned corporate governance principles and best practices. This Statement on Corporate Governance (Statement) together with the Statement on Internal Control and Report on Corporate Risk Management sets out the manner in which the Company had applied the Company's corporate governance principles and best practices.

Board of Directors

Board composition

The Board's composition complies with the requirements mandated by the Listing Requirements and as prescribed by the principles and best practices of the Malaysian Code and the CG Guide. The Board comprises a mixture of Executive and Non-Executive Directors from diverse professional backgrounds with a wealth of experience, skills and expertise. As at the date of this Statement, the Board consists of seven members, four of which are Non-Executive Directors (including the Chairman) and the remaining three are Executive Directors. Three out of the four Non-Executive Directors are Independent Non-Executive Directors. Please refer to pages 34 to 37 for details of the Directors on the Board, their profiles and their respective memberships.

The current size and composition of the Board reflects the interest of shareholders as the current structure of the Board ensures that no single individual or group dominates the decision making process. Further, the Non-Executive Directors act as caretaker of the minority shareholders and their views carry significant weight in the Board's decision making process.

Further, the roles of Chairman and Managing Director are separately held, and the division of their responsibilities is clearly established, with each having distinct and clearly defined authority and responsibilities. The duties and responsibilities of the Chairman and the Managing Director are clearly outlined in the BATM Code. This division of roles and responsibilities ensures that there is a balance of power and authority, such that there is no excessive concentration of power in the Chairman or the Managing Director.

The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting the agenda for all Board meetings. Once the objectives and strategies have been reviewed and adopted by the Board as a whole, the Managing Director's responsibility is to ensure delivery of such objectives and strategies within the authority limits delegated by the Board.

The Managing Director is responsible for the stewardship of the Group's assets and the day-to-day management of the Company. It is the duty of the Managing Director, working together with the other senior management of the Group, to manage the business of the Group in the manner consistent with the Standards of Business Conduct, Business Principles and in accordance with any specific plans, instructions and directions of the Board. The members of the Board are all professionals of high calibre and integrity and they possess in-depth knowledge and experience of the tobacco business to enable them to discharge their duties effectively.

Principal responsibilities of the board

The Board directs the Group's risk assessment, strategic planning, and financial and operational management to ensure that obligations to shareholders and other stakeholders are understood and met. The Board provides the leadership necessary to enable the Group's business objectives to be met within the framework of internal controls as described in this Statement. The Board is responsible for determining all major policies, reviewing the system of internal controls, ensuring that effective strategies and management are in place, assessing the performance of the Group and its senior management. Amongst key duties for which the Board is responsible include identifying principal risks and ensuring implementation of appropriate systems to manage these risks, declaring dividends, approving financial statements and accounting policies of the Group, reviewing and adopting strategic plans for the Group, reviewing the adequacy and integrity of the Group's internal control systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Other duties of the Board are to consider succession planning, including appointing, training, fixing the compensation and where appropriate, replacing senior management.

Further, pursuant to the Company's Statement of Delegated Authorities, the Board is also tasked to decide on the following business transactions and activities:

- Acquisition, disposal or closure of a business
- Establishment of new businesses
- Annual strategic plan
- Capital investment and disposal of tangible assets from existing business to third party
- Purchase or sale of trademarks
- Proposal of borrowings
- Guarantee and Letters of Comfort
- Proposal for borrowings or the grant of extended credit facilities by an operating subsidiary from another group company
- Increase or reduction by an operating subsidiary of authorised or issued capital
- Unbudgeted redemption or early repayment of loans
- Any corporate restructuring not covered by any of the above paragraphs
- The change of name of any group company and the establishment of any new company.

In discharging its responsibilities, the Board is guided by the code of ethics and principles contained in the Malaysian Code, Listing Requirements, CG Guide, BATM Code, the Company's Standards of Business Conduct, Business Principles and Statement of Delegated Authorities. The Company's Standards of Business Conduct and BATM Code outline the conduct and responsibilities of the Board, the Chairman and the Managing Director. The Board ensures that compliance with the Company's Standards of Business Conduct is monitored through a process where declarations are obtained from all Directors and management on their compliance and this includes disclosure of any conflict of interest situations.

The Board has a collective responsibility for the management of the Group. The Executive Directors have direct responsibility for business operations and the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board and providing objective challenge to the management.

The Non-Executive Directors do not participate in the day-to-day management of the Company and do not engage in any business dealing or other relationship with the Company to ensure that they are capable of exercising judgement objectively and act in the best interest of the Company, its shareholders and minority shareholders.

Top Team

In discharging the abovementioned responsibilities and duties, the Board is duly assisted by the senior management of the Company, namely the Top Team which consists of senior officers holding the following positions:

- (i) Managing Director
- (ii) Finance Director
- (iii) Marketing Director
- (iv) Operations Director
- (v) Corporate and Legal Affairs Director
- (vi) Human Resources Director
- (vii) Global Enterprise Resource Planning Market Lead

For details of each Top Team member, please refer to pages 38 to 41 of this Annual Report.

It is important that the Board and Top Team complement each other. Hence, the responsibilities and authorities of the Top Team are clearly defined in the Company's Corporate Authority Limit read in conjunction with the Company's Statement of Delegated Authorities. The Top Team is charged with the responsibility of implementing the policies and decisions of the Board, overseeing the operations as well as developing, coordinating and implementing business and corporate strategies.

From time to time, when the Board requires relevant information or updates from any members of the Top Team, the relevant member of the Top Team will be invited to attend meetings of the Board to provide the Board with any such relevant information or updates.

Company Secretary

In addition to the Top Team, the Company Secretary provides support to the Chairman of the Company to ensure the effective functioning of the Board. The Company Secretary organises and attends all Board and Board Committees meetings and ensures that an accurate and proper record of deliberation of issues discussed, decisions and conclusions are taken.

The Company Secretary records, prepares and circulates the minutes of the meetings of the Board and Board Committees and ensures that the minutes are properly kept at the registered office of the Company and produced for inspection, if required.

In addition, the Company Secretary also updates the Board regularly on amendments to the Listing Requirements, practice and guidance notes, and circulars from Bursa Malaysia Securities Berhad, legal and regulatory developments and its impact, if any, to the Group and its business. All Directors have access to the advice and services of the Company Secretary. The Company Secretary is appointed and can be removed by the Board.

Board and Board Committee meetings

The composition of the Board Committees as at 31 December 2011 and the attendance of the Directors at the Board and Board Committees meetings held in 2011 are as follows:

Directors	Composition and Attendance					
	Board	Audit Committee (AC)	Remuneration Committee (RC)	Nomination Committee (NC)	CSR Committee	Executive Compensation Committee (ECC)
Tan Sri Abu Talib bin Othman (Chairman) <i>Independent Non-Executive Director</i>	5/5	4/4	2/2	1/1	<i>N/A – Not a CSR Committee member</i>	2/2
Datuk Oh Chong Peng <i>Independent Non-Executive Director</i>	5/5	4/4	2/2	1/1	<i>N/A – Not a CSR Committee member</i>	<i>N/A – Not an ECC member</i>
Dato' Ahmad Johari bin Tun Abdul Razak <i>Independent Non-Executive Director</i>	4/5	3/4	<i>N/A – Not a RC member</i>	1/1	<i>N/A – Not a CSR Committee member</i>	<i>N/A – Not an ECC member</i>
James Richard Suttie <i>Non-Independent Non-Executive Director</i>	5/5	4/4	2/2	1/1	<i>N/A – Not a CSR Committee member</i>	<i>N/A – Not an ECC member</i>
William Toh Ah Wah <i>Non-Independent Executive Director (Managing Director)</i>	5/5	<i>N/A – Not an AC member</i>	2/2	<i>N/A – Not a NC member</i>	2/2	2/2
Andreas Michael Thompson ¹ <i>Non-Independent Executive Director (Finance Director)</i>	3/3	<i>N/A – Not an AC member</i>	<i>N/A – Not a RC member</i>	<i>N/A – Not a NC member</i>	2/2	2/2
Dato' Chan Choon Ngai ² <i>Non-Independent Executive Director (Operations Director)</i>	4/4	<i>N/A – Not an AC member</i>	<i>N/A – Not a RC member</i>	<i>N/A – Not a NC member</i>	2/2	<i>N/A – Not an ECC member</i>

¹ Andreas Michael Thompson was appointed as a Non-Independent Executive Director of the Company effective 1 March 2011.

² Dato' Chan Choon Ngai was re-appointed as a Non-Independent Executive Director of the Company effective 1 February 2011.

All matters relating to the overall control, business performance and strategy of the Company are deliberated at the Board meetings scheduled at least four times a year. Additional meetings will be called as and when necessary.

The Board has a regular schedule of matters which are in the agenda and reviewed during the course of the year namely, the Managing Director's Quarterly Reports, the Quarterly Unaudited Consolidated Results and recommendations made in the minutes of the Audit Committee, Remuneration Committee and Nomination Committee.

In 2011, amongst the key issues presented for consideration by the Board were:

1. Managing Director's Quarterly Reports
2. Quarterly Unaudited Consolidated Results
3. Recurrent Related Parties Transactions' Quarterly Reports
4. Directors' Performance Evaluation 2010
5. All announcements released to Bursa Malaysia Securities Berhad
6. Company's Corporate Social Responsibilities activities
7. Company's Enterprise Risk Management Programme
8. Company's Annual Report (which includes the Statement on Corporate Governance, Statement on Internal Control, Audit Committee Report and Corporate Social Responsibility Committee's Report)
9. Company's Audited Financial Statements
10. Business case for the implementation of Global Enterprise Resource Planning Solutions in Malaysia

Board and Board Committees meetings are scheduled in the third quarter of the preceding year so as to enable the Directors to plan ahead and ensure that the Board and the Board Committees meetings are booked in their respective schedules.

Where any direction or decisions are required expeditiously or urgently from the Board between the scheduled meetings, special Board meetings are convened by the Company Secretary, after consultation with the Chairman. The agenda for Board meetings are set by the Chairman in consultation with the Managing Director and the Company Secretary.

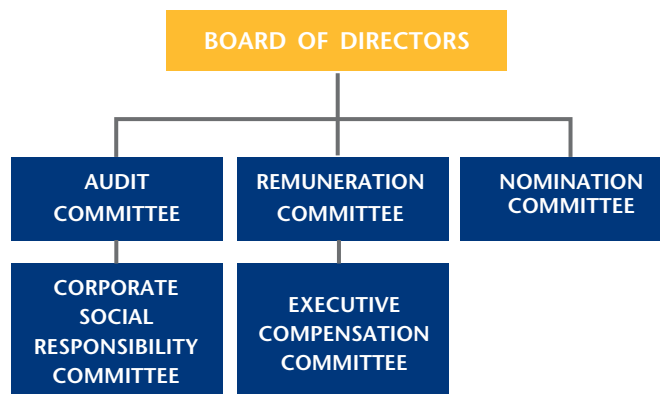
Management employees or external advisors are invited to attend Board and Board Committees meetings to advise the Board and Board Committees members and furnish the members with information and clarification as and when required on items in the agenda tabled to the Board and Board Committees to enable them to arrive at a considered decision.

Decisions of the Board are made unanimously or by consensus and these decisions and conclusions are recorded in the minutes

of the Board and Board Committees respectively. Where the Board or Board Committee is considering a matter in which a Director has an interest, the relevant Director abstains from deliberating and voting on the subject matter. Minutes of all Board and Board Committees meetings are circulated to all Directors for their perusal and confirmation. The Directors may request for clarification or raise comments on the minutes prior to confirmation of the minutes.

Where appropriate, decisions may be taken by way of Directors' Circular Resolution between scheduled and special meetings. In 2011, 10 resolutions were approved by the Directors via Circular Resolutions which covered matters such as acquisition of machinery components for the manufacturing facility, finance matters such as change of bank signatories and disposal of company vehicles.

Board Committees and Sub-Committees



The Board has established three main Board Committees namely the Audit Committee, Nomination Committee and Remuneration Committee to which it has delegated certain of its responsibilities. Both the Audit Committee and Remuneration Committee have sub-committees reporting in to them. The Corporate Social Responsibility Committee and Risk Management Team report in to the Audit Committee. The Executive Compensation Committee reports in to the Remuneration Committee. The sub-committees members are made up of Top Team and senior managers of the Company.

Each Board Committee strictly adheres to a set of terms of reference approved by the Board and set out in the BATM Code. Their roles/functions, operating procedures and authorities are clearly defined in the said terms of reference which are reviewed by the Board from time to time.

Each Board Committee has to submit to the Board, reports of their respective deliberations and recommendations and all deliberations and decisions taken have to be minuted and approved by the Board Committee and confirmed by the Chairman of the Board Committee at the next Board meeting.

The Board retains full responsibility for the direction and control of the Group. The roles and responsibilities of the Board Committees are described in detailed below.

Board Committees

1. Audit Committee

The Board's obligation to establish formal and transparent arrangements in considering how it should apply financial reporting and internal control principles, and maintaining an appropriate relationship with the Company's external auditors, Messrs. PricewaterhouseCoopers Malaysia is met through the Audit Committee.

As at the date of this Statement, the Audit Committee comprises of four Directors. All Members of the Audit Committee are Non-Executive Directors, where three of the four Members are Independent Non-Executive Directors.

All Members of the Audit Committee are financially literate as defined by the Malaysian Code and the Chairman, Datuk Oh Chong Peng fulfills the financial expertise requisite of the Listing Requirements. Datuk Oh Chong Peng is a qualified Chartered Accountant and is a Fellow of the Institute of Chartered Accountants, England and Wales.

a. Authority

The Audit Committee assists the Board in its review of the effectiveness of the internal control, risk management and governance process of the Company which includes reviewing the Company's financial statements and reporting processes.

The Audit Committee had met with senior management and the internal and external auditors to review the effectiveness of internal controls and business risk management, and receive reports from the Group's Regional Audit Committee. The Committee had reviewed compliance with the Standards of Business Conduct and procedures in place within the Group for the management of its business policies. The Audit Committee has given detailed consideration to business risks arising in the context of the Group's treasury operations, its information technology systems and the threat to the Group's business posed by illicit trade, and reviewed the specific controls in place within the Group to address such risks. The Audit Committee has satisfied itself by means of these steps that proper and satisfactory internal control systems remain in place to identify and contain business risks, and that the Group's business is being conducted in a proper and economically sound manner.

The Audit Committee is also responsible for approving audit, recurring audit related and non-audit services undertaken by the external auditors and in carrying out their duties, the Audit Committee ensures that the independence and objectivity of the external auditors are not compromised.

The Audit Committee had reviewed and discussed the Audited Financial Statements as at 31 December 2011 audited by Messrs. PricewaterhouseCoopers Malaysia and recommended to the Board on 14 February 2012, that the Audited Financial Statements as at 31 December 2011 be included in the Company's Annual Report 2011.

The Board of Directors had on 16 February 2012 approved the aforesaid Audited Financial Statements for inclusion in the Company's Annual Report 2011 and filed with the Bursa Malaysia Securities Berhad and Securities Commission.

b. Meetings

The Managing Director, Finance Director, Internal Auditors of British American Tobacco p.l.c Group and representatives of the external auditors attend meetings of the Audit Committee. The Audit Committee had met four times during 2011 and twice in 2011 with the external auditors without the presence of the Executive Directors or management.

No member of the Audit Committee, save and except the Chairman of the Audit Committee, received any payments in 2011 from the Group other than the fees which had been received as a Non-Executive Director of the Company and allowances for attendance at meetings. The Chairman of the Audit Committee receives an annual fixed fee for his chairmanship of the Audit Committee.

For details on the functions, composition, membership and summary of activities of the Audit Committee in 2011, please refer to pages 69 to 72 of this Annual Report.

2. Nomination Committee

The Nomination Committee comprises exclusively of Non-Executive Directors, where two of the three Members are Independent Non-Executive Directors.

The authority and terms of reference of the Nomination Committee are as follows:

a. Authority

The Nomination Committee is authorised by the Board to act as follows:

- To make proposals to the Board on suitable candidates for appointment as Directors.
- To ensure that the Board has an appropriate balance of skills, expertise, attributes and core competencies from its members.
- To regularly review profiles of the required skills, expertise, attributes and core competencies for membership to the Board.
- To review succession plans for members of the Board.
- To recommend to the Board, Directors to fill the seats on Board Committees.
- To assess annually the effectiveness of the Board, Board Committees and the contribution of each individual Director.

b. Meetings

- The Nomination Committee shall meet at least once a year or upon the request of any of its members.
- A majority of the members in attendance must be Independent Non-Executive Directors in order to form a quorum for the meeting.
- The Company Secretary shall record, prepare and circulate the minutes of the meetings of the Nomination Committee and ensure that the minutes are properly kept and produced for inspection if required.
- The Nomination Committee shall report to the Board and its minutes will be tabled and noted by the Board.

The Nomination Committee met once during the financial year ended 31 December 2011.

3. Remuneration Committee

The Remuneration Committee comprises four Directors who are mainly Non-Executive Directors. Two of the three Non-Executive Directors in the Remuneration Committee are Independent Non-Executive Directors. The Managing Director is one of the four Directors in the Remuneration Committee. The presence of the Managing Director in the Remuneration Committee is required as the Managing Director in consultation with the Chairman of the Company shall recommend to the Board the fees payable to Non-Executive Directors as set forth in the BATM Code.

A Director whose remuneration package is being considered will abstain from deliberating and voting on the recommendation of the relevant Director's remuneration package. The Managing Director, who is a member of the Remuneration Committee, makes presentations to the Remuneration Committee on the remuneration, compensation payments, annual bonus and salary increments of Executive Directors and members of the Top Team.

The objectives of the Remuneration Committee in determining the levels and components of remuneration packages are to

attract, motivate and retain talented and dedicated Executive Directors and members of the Top Team. In their determination, the Remuneration Committee takes into consideration levels comparable to those of key senior management in other benchmarked companies. For other employees of the Group, the Board has delegated and empowered the Executive Compensation Committee to ensure that remuneration packages are such as to attract, motivate and retain talented and dedicated employees, at least comparable to those employees in other benchmarked companies.

a. Authority

The Remuneration Committee is authorised by the Board to act as follows:

- To recommend to the Board the Company's policy framework on the terms of employment of the Executive Directors and members of the Top Team.
- To recommend to the Board on all elements of remuneration and compensation payments of the Executive Directors and members of the Top Team.
- To review and approve the annual bonus and salary increments of the Executive Directors and members of the Top Team.
- To review and recommend to the Board the remuneration of the Non-Executive Directors.

b. Meetings and minutes

- The Remuneration Committee shall meet at least once in each year or otherwise as it decides.
- A majority of the members in attendance must be Non-Executive Directors in order to form a quorum for the meeting.
- Executive Directors and Non-Executive Directors shall abstain from the deliberations and voting decisions in respect of their respective remuneration either at the Remuneration Committee or Board level as the case may be.
- The Remuneration Committee shall be entitled to call for advice internally from the Human Resources Department or from external sources, when necessary.
- The Company Secretary shall record, prepare and circulate the minutes of the meetings of the Remuneration Committee and ensure that the minutes are properly kept and produced for inspection if required.
- The Remuneration Committee shall report to the Board and the minutes of the Remuneration Committee Meeting will be tabled and noted by the Board.

In 2011, the Remuneration Committee had met two times. Amongst the items deliberated by the Remuneration Committee in 2011 were the annual bonus and salary increment for the Executive Directors and Top Team, amendments to the Company's Human Resources Policies and Procedures, remuneration packages of the Operations Director and the new Finance Director.

Sub-Committees

The composition of the Sub-Committees and their respective authority and terms of reference are as follows:

Sub-Committees	Composition of Members	Role and Responsibilities	Operating Procedure
Executive Compensation Committee (ECC)	<p>(a) Non-Executive Director of the Company (Chairman of ECC).</p> <p>(b) British American Tobacco p.l.c's Asia Pacific Regional Director or British American Tobacco p.l.c's Asia Pacific Regional Head of Human Resources.</p> <p>(c) British American Tobacco p.l.c's Asia Pacific Regional Head of Rewards.</p> <p>(d) Managing Director of the Company.</p> <p>(e) Finance Director of the Company.</p> <p>The Human Resources Director of the Company acts as the Secretary of the ECC.</p>	<p>The ECC is authorised to perform, with respect to all employees (except members of the Top Team) of the Group, the following functions:</p> <ul style="list-style-type: none"> • to review and approve all elements of remuneration, compensation payments, bonuses, rewards and benefits which include inter alia the elements set out below, save and except salaries of employees in the Group which are reviewed and approved by the relevant Head of Functions with the Human Resources Director: <ul style="list-style-type: none"> (i) to ensure that the Group remuneration systems offer the opportunity of excellent reward for excellent performance. (ii) to examine reward packages as a whole, seeking overall competitiveness rather than item-by-item comparability based on the market and affordability. (iii) to review the individual components of the total reward package to determine, via employees and market trends, the benefit value of each element and adjust the package to achieve the greatest perceived value for cost. (iv) to establish an appropriate comparator market in terms of the types of organisations which would be direct competitors for the calibre of employees required and against which the Group in practice has to recruit within the business environment. (v) to ensure that arrangements are made for regular surveys of remuneration and benefits, with a sufficient sample of comparator companies to obtain a reliable measure of the market. This may be through participation in surveys of other companies or the commissioning of a survey through suitable local consultants. 	<ul style="list-style-type: none"> • To meet at least twice a year or more frequently, if necessary. • The quorum for the ECC shall be at least three members, including the Chairman, BAT plc's Asia Pacific Regional Director or BAT plc's Asia Pacific Regional Head of Human Resources and the Managing Director, being present. • The Secretary shall record and circulate the minutes of the meeting. • ECC minutes will be tabled and noted by the Remuneration Committee and Board. <p>In 2011, the ECC met twice to deliberate on matters such as budgets for increment, increment guidelines, bonus payments and benefit reviews.</p>

Sub-Committees	Composition of Members	Role and Responsibilities	Operating Procedure
		<p>(vi) to ensure that the remuneration package is at all times fully in compliance with local taxation and legal requirements, whilst at the same time maximising legitimate commercial advantage.</p> <ul style="list-style-type: none"> • to review and approve the mandate for collective agreement. • to review, approve and amend as the case may be, the design and terms of the executive shares scheme. • to review and approve voluntary separation scheme. • to note job upgrades of Grades 36 to 38. 	
<p>Corporate Social Responsibility (CSR) Committee</p>	<p>(a) Company's Top Team with the Corporate Affairs Manager as the Secretary of the CSR Committee.</p>	<ul style="list-style-type: none"> • Identification and management of key social and environmental issues. • Identification and engagement with key stakeholders. • Monitoring the efficiency and effectiveness of corporate social responsibility management systems and controls. • Ensuring the reliability of social and environmental performance management information. • Monitoring alignment with the Company's Statement of Business Principles. 	<ul style="list-style-type: none"> • To meet at least twice annually. • Internal Auditors of British American Tobacco p.l.c Group are invited to attend the CSR Committee meeting and be heard on any corporate responsibility matter which affects the Company. <p>In 2011, the CSR Committee met twice and deliberated on the following:</p> <ul style="list-style-type: none"> • proposals to move from corporate responsibility initiatives towards sustainability initiatives through the appointment of a Sustainability Team. • enhance contribution towards eradicating poverty. • building and embedding corporate responsibility awareness amongst employees. • grant of scholarships. • the way forward for the Company's Employee Volunteer Programmes. <p>For details of the corporate responsibility activities, please refer to pages 92 to 108 of this Annual Report.</p>

Sub-Committees	Composition of Members	Role and Responsibilities	Operating Procedure
Risk Management Team (RMT)	(a) Finance Director (Chairman of RMT) (b) Senior managers from all functions of the Company	<ul style="list-style-type: none"> • Protect the Group's corporate assets and its ability to meet or exceed its strategic business objectives consistently. • Minimise the total cost of risk. • Comply with the Malaysian Code and the guidelines on risk management set by the Company's ultimate holding company, British American Tobacco p.l.c. • Review and update the Top Team and Audit Committee on the Group's Enterprise Risk Management programme. • Review and recommend to the Top Team and Audit Committee the key risks for the Group. • Review and update the Top Team and Audit Committee on the ongoing status of the key risk response measures. • Review and update the Top Team and Audit Committee on the status of the Business Continuity Plans. 	<ul style="list-style-type: none"> • To meet at least twice annually. • Internal Auditors of British American Tobacco p.l.c Group participates in the RMT meetings as an advisor on the effectiveness of the risk management process. The said Internal Auditors also review the effectiveness of the internal controls and risk mitigation plans in place for key business risks identified and provides a facilitation role on above market risks – regional and global risks that have been identified by related parties. • The Board through the Audit Committee reviews the effectiveness of the Group's Enterprise Risk Management programme bi-annually. <p>The Risk Management Team met twice during the financial year ended 31 December 2011 to deliberate on the above matters.</p> <p>For details of the Group's Enterprise Risk Management activities in 2011, please refer to pages 73 to 75 of the Annual Report.</p>

Appointment process

The Board appoints its members pursuant to the process set out in the Articles of Association of the Company. Directors who seek re-election or re-appointment at the Company's Annual General Meeting are also subjected to the same process. A Director seeking re-election and re-appointment will abstain from all deliberations regarding his re-election and re-appointment to the Board and Board Committees.

The Nomination Committee is tasked to make recommendations on suitable candidates for appointment to the Board, ensuring that the Board has the appropriate balance of expertise and ability. The Nomination Committee shall ensure that the procedures for appointing new Directors are transparent and rigorous and that appointments are made on merit and against objective criteria for the purpose. Besides evaluating the skills and experience of the candidates, the Nomination Committee also takes into consideration the following factors:

- (a) whether the individual meets the requirements for independence as defined in the Listing Requirements;
- (b) the individual's general understanding of the Company's business and market;
- (c) the individual professional expertise and educational background; and
- (d) other factors that promote diversity of views and experience.

Directors may hold up to 10 directorships in listed companies and up to 15 for non-listed companies (both non-listed and private companies).

The changes at the 2011 Annual General Meeting are as follows:

Name	Designation	Nature of changes at the 2011 Annual General Meeting
Tan Sri Abu Talib bin Othman	Independent Non-Executive Director	Re-appointed
William Toh Ah Wah	Non-Independent Executive Director	Re-elected
James Richard Suttie	Non-Independent Non-Executive Director	Re-elected

Re-election or re-appointment process

Currently the Company does not have a term limit for both Executive Directors and Independent Directors as the Board believes that continued contribution provides benefit to the Board and the Group as a whole. Further, the Company is confident and firmly believes that individuals chosen and appointed to the Board as Directors are all individuals of high calibre and integrity and can be tasked to discharge their duties and responsibilities independently and effectively.

Notwithstanding the above, Directors of the Company have offered themselves for re-appointment at regular intervals in accordance with the Company's Articles of Association (Articles).

Articles 97(1) and (2) of the Articles provides that at least one-third of the Board is subject to retirement by rotation at each Annual General Meeting. The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-election.

The Board will recommend to shareholders Executive and Non-Executive Directors proposed for re-election or re-appointment at an Annual General Meeting, in accordance with the Articles and upon recommendation of the Nomination Committee after evaluating the performance of the individual Director. In determining whether to recommend a Director for re-election and re-appointment, the Director's past attendance at meetings, participation and contribution to the activities of the Board will be duly considered by the Nomination Committee.

In accordance with the Company's Articles, at least one-third of the Directors shall retire from office at each Annual General Meeting. Retiring Directors can offer themselves for re-election. Datuk Oh Chong Peng, an Independent Non-Executive Director and Dato' Ahmad Johari bin Tun Abdul Razak, an Independent Non-Executive Director, are due to retire pursuant to Articles 97(1) and (2) at this Annual General Meeting and will be recommended for re-election and re-appointment by the Board pursuant to the Articles.

Article 103 of the Articles provides that a Director appointed by the Board from time to time shall hold office only until next Annual General Meeting and shall then be eligible for re-election.

Datuk Zainun Aishah binti Ahmad (Independent Non-Executive Director) and Christine Lee Oi Kuan (Non-Independent Executive Director, all who were appointed on 1 March 2012 retire pursuant to Article 103 and be subjected to re-election at this Annual General Meeting.

The Nomination Committee is satisfied that, Datuk Oh Chong Peng, Dato' Ahmad Johari bin Tun Abdul Razak, Datuk Zainun Aishah binti Ahmad and Christine Lee Oi Kuan have met the requirements set out above and has recommended to the Board of Directors their re-election and re-appointment at the Annual General Meeting on 10 April 2012.

The above Directors who are subject to re-election and re-appointment have accepted the recommendation and have agreed to serve as Directors if elected by the shareholders at the forthcoming Annual General Meeting.

Directors' remuneration

The policy for Directors' remuneration is to provide a remuneration package needed to attract, retain and motivate Directors who are of the quality required to manage the business of the Group.

For the Executive Directors of the Group, corporate and individual performance are rewarded through the use of an integrated pay benefits and bonus structure and reflects the competitive nature of the Group's operations in order to contribute to the Winning Organisation strategy of the Group. Executive Directors who are full time employees of the Company receive no additional compensation for services as a Director of the Board. On an annual basis, the Remuneration Committee considers market competitiveness, business results and individual performance in evaluating the Executive Directors' remuneration.

In evaluating the Managing Director's remuneration, the Remuneration Committee also takes into account, corporate and individual performance, as well as performance on a range of other factors including accomplishment of strategic goals as well as regional and global corporate performance.

The Remuneration Committee recommends to the Board the remuneration package of an Executive Director and it is the responsibility of the Board as a whole to approve the remuneration package of an Executive Director.

The remuneration package for Executive Directors comprises the following elements:

- **Basic salary**
The basic salaries for the Executive Directors are recommended by the Remuneration Committee to the Board for approval.
- **Benefits-in-kind**
Customary benefits such as provision of rented accommodation for expatriate Executive Directors, motor vehicle, club membership, and personal expenses are made available to the Executive Directors in accordance with the policies of the Group.
- **Emoluments**
Emoluments such as bonuses, retirement benefits, provision for leave, fixed allowances, statutory contributions and incentives in the form of shares/option in shares of British American Tobacco p.l.c pursuant to the British American Tobacco p.l.c's shares scheme.

All Non-Executive Directors are paid fixed annual director fees as members of the Board and Board Committees. The fees payable to each of the Non-Executive Director are determined by the Board as authorised by the shareholders of the Company. The amount of remuneration for each of the Non-Executive Director varies with the level of responsibilities undertaken by the individual Non-Executive Director.

In addition to fixed annual director fees, all Non-Executive Directors, save for the Chairman of the Board, is paid a meeting attendance allowance for each Committee meeting attended. In recognition of the additional time and commitment required, the Chairman of the Audit Committee also receives an annual fixed fee for his chairmanship in the Audit Committee.

Information prepared by independent consultants and survey data on the remuneration practices of comparable companies are taken into consideration in determining the remuneration packages for Executive and Non-Executive Directors.

The details of the remuneration of Executive and Non-Executive Directors for the financial year ended 31 December 2011 are as follows:

Director	Fees (RM)	Salaries (RM)	Other emoluments* (RM)	Benefits-in-kind** (RM)	Total (RM)
Tan Sri Abu Talib bin Othman <i>Independent Non-Executive Director (Chairman)</i>	337,000***	—	—	35,200	372,200
Datuk Oh Chong Peng <i>Independent Non-Executive Director</i>	60,000	—	27,000	—	87,000
James Richard Suttie <i>Non-Independent Non-Executive Director</i>	60,000	—	7,000	—	67,000
Dato' Ahmad Johari bin Tun Abdul Razak <i>Independent Non-Executive Director</i>	60,000	—	4,000	—	64,000
William Toh Ah Wah <i>Non-Independent Executive Director (Managing Director)</i>	—	1,848,420	3,050,605	38,795	4,937,820
Dato' Chan Choon Ngai <i>Non-Independent Executive Director (Operations Director)</i>	—	892,045	826,036	1,310,629	3,028,710
Andreas Michael Thompson <i>Non-Independent Executive Director (Finance Director)</i>	—	618,277	718,281	216,831	1,553,389

* Other emoluments include bonuses, retirement benefits, provision for leave, fixed allowances, statutory contributions and incentives in the form of shares/option in shares of British American Tobacco p.l.c pursuant to the British American Tobacco p.l.c's shares scheme.

** Benefits-in-kind include provision of rented accommodation for expatriate Executive Directors, motor vehicle, club membership and personal expenses.

*** Fees for being Chairman of the Board and Chairman of relevant Board Committees.

Board performance evaluation

The Board conducts an annual evaluation of its activities. The Board evaluates the overall Board's performance against criteria that the Board determines are important to its success. These include the Board's composition, independence, communication, effectiveness and responsibilities. The Company Secretary circulates to the Directors an evaluation survey questionnaire to ascertain their views on the performance of the Board and Board Committees which thereafter are compiled into a report for the Chairman. The report is presented to the Nomination Committee and then to the Board for evaluation and consideration.

The Board's performance evaluation process in 2011 reported that the Board and Board Committees had continued to operate effectively in discharging their duties and responsibilities. Overall, the Directors were of the opinion that they have fulfilled their responsibilities as members of the Board and Board Committees and were satisfied with the Group's direction, strategy, planning and budgeting process and their level of contribution to these matters.

All Directors confirmed that they have sufficient access to the Chairman. The Directors agreed that the Managing Director and senior management were responsive to questions and issues raised by the Board and that the Managing Director and senior management communicated with the Board in an open, candid and timely manner. The Board also agreed that the Company has sufficient risk management procedures in place and the Board's goals, objectives, expectations and concerns were effectively communicated to the Managing Director and senior management to be acted upon. The Directors also called for more gender diversity in the composition of the Board.

Directors' training

In order to ensure that the Directors are well equipped to discharge their responsibilities, newly appointed Directors will undergo an induction programme upon joining the Board which consists of briefings on all areas of the Group's business.

All existing Directors of the Company have completed the Mandatory Accreditation Programme (MAP). Any Director appointed to the Board is required to complete the MAP within four months from the date of appointment. Following the repeal of the Continuing Education Programme (CEP) requirements prescribed by Bursa Malaysia Securities Berhad with effect from 1 January 2005, the Board of Directors continue to evaluate and determine the training needs of its Directors to ensure continuing education to assist them in the discharge of their duties as Directors.

All Directors appointed to the Board, apart from attending the MAP have also completed other relevant training programmes to further enhance their business acumen and professionalism in discharging their duties to the Group. Pursuant to paragraph 15.08(2) and Appendix 9C (Part A, Paragraph 28) of the Listing Requirements, the Directors have during the financial year ended 31 December 2011 attended training programmes in areas of leadership, corporate governance, finance, regulatory developments, corporate social responsibility, information security and business intelligence.

Particulars of training programmes attended by the Directors as at 31 December 2011 are as follows:

No.	Name of Director	Training Programme/Organiser	Details of Programme
1.	Tan Sri Abu Talib bin Othman	Financial Institutions Directors' Education Programme (by The ICLIF Leadership and Government Centre)	<ul style="list-style-type: none"> – Effective boardroom – Enterprise-wide risk management – Internal controls, audit committee, financial analysis and financial reporting – Building effective Board teams and role of the Board in strategy and stakeholder relations
		Budget 2012 (by PricewaterhouseCoopers)	<ul style="list-style-type: none"> – Tax, legislative & practice developments and PricewaterhouseCoopers global economic crime survey 2011
2.	William Toh Ah Wah	Directors CEP Training Programme 2011 (In-house training)	<ul style="list-style-type: none"> – Managing corporate reputation in a digital age – Risk Management – Emergency response and real time operation
3.	Datuk Oh Chong Peng	Directors CEP Training Programme 2011 (In-house training)	<ul style="list-style-type: none"> – Managing corporate reputation in a digital age – Risk Management – Emergency response and real time operation
		Institute of Banker Malaysia	<ul style="list-style-type: none"> – Operational Risk Management
		Corporate Governance Blueprint 2011	<ul style="list-style-type: none"> – Towards Excellence in Corporate Governance
		Corporate Governance Programme (by the ICLIF Leadership & Governance Centre)	<ul style="list-style-type: none"> – Banking Insights
		Bursatra Sdn Bhd	<ul style="list-style-type: none"> – Controversies on financial reporting practices in Malaysia – An education perspective – Reviewing the risk and control on the quality of financial statement
4.	James Richard Suttie	Directors CEP Training Programme 2011 (In-house training)	<ul style="list-style-type: none"> – Managing corporate reputation in a digital age – Risk Management – Emergency response and real time operation

No.	Name of Director	Training Programme/Organiser	Details of Programme
5.	Dato' Chan Choon Ngai	Executive Leadership forum on 5 July 2011	– A great place to work
		Cranfield Executive Leadership Forum (by Knowledge Group)	– The challenges facing global leaders
6.	Andreas Michael Thompson	Mandatory Accreditation Programme (MAP) (by Bursatra Sdn Bhd)	– Bursa Malaysia Listing Requirements for public listed companies
		Directors CEP Training Programme 2011 (In-house training)	– Managing corporate reputation in a digital age – Risk Management – Emergency response and real time operation
7.	Dato' Ahmad Johari bin Tun Abdul Razak	Directors CEP Training Programme 2011 (In-house training)	– Managing corporate reputation in a digital age – Risk Management – Emergency response and real time operation
		Accounting for Financial Instruments (by The Malaysian Institute of Certified Public Accountants)	– Accounting for financial instruments simplified (frs139)

Supply of information and access to independent advice

In carrying out their duties, the Board has direct and unrestricted access to the management of the Company and individual access to the advice and services of the Company Secretary. The Board and Board Committees receive up-to-date information for review in good time and ahead of each meeting, and the Company Secretary, under the direction of the Chairman, ensures the flow of information to the Board and Board Committees. The Company Secretary is also responsible for advising the Board, through the Chairman on all governance matters. Prior to Board and Board Committees meetings, a formal and structured agenda together with a set of Board and Board Committees papers containing information relevant to the matters to be deliberated at the meeting is forwarded to all Directors at least five days before the relevant Board and Board Committees meetings. This is to enable Directors to review, consider, and if necessary, obtain further information or research on the matters to be deliberated in order to be well prepared at the meetings. The meeting papers are presented in a manner that is concise which include among others, comprehensive management reports, minutes of meetings, proposals project and supporting documents.

Presentations to the Board and Board Committees are prepared and delivered in a manner that ensures a clear and adequate presentation of the subject matter. In addition, reading materials on the subject matter are prepared and circulated prior to each meeting to assist all Directors in having an understanding of the subject matter.

The Board recognises that the decision making process is highly dependent on the quality of information furnished. In furtherance to this, every Director has unrestricted access to all information within the Company. The Board encourages the attendance of senior management as well as officers of the Company at Board and Board Committees meetings to increase the Board's understanding of the Company's operations and to give the Directors access to senior management.

The Directors are regularly updated on new statutory and regulatory requirements relating to the duties and responsibilities of Directors and their impact and implication to the Company and the Directors in carrying out their fiduciary duties and responsibilities. There is also a formal procedure approved by the Board for all Directors, whether acting as a full Board or in their individual capacity, to obtain independent professional advice when necessary, at the Group's expense. Prior to engaging an independent adviser, approval must be obtained from the Chairman of the Board and, where applicable, the Chairman may circulate the external advice to the Board.

Save for the Executive Compensation Committee and Corporate Social Responsibility Committee Meetings, the Company Secretary attends all meetings of the Board and its Committees. Save for where the meetings are held only for the Audit Committee and the external auditors, the Managing Director attends all meetings of Audit Committee and Remuneration Committee, the Human Resources Director attends all meetings of the Executive Compensation Committee, Nomination Committee and Remuneration Committee and save for where the meetings are held only for the Audit Committee and the external auditors the Finance Director attends all meetings of the Audit Committee.

Relationship with Stakeholders

The Board believes that they are not only accountable to shareholders but also responsible for managing a successful and productive relationship with the Company's stakeholders.

Shareholders

The Group believes that the management of a successful and productive relationship with its shareholders must be underpinned by the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and ensure that the rights of all investors, including minority shareholders are protected.

The Group's primary contact with shareholders is through the Chairman, Managing Director, Finance Director and Company Secretary. All shareholders' queries will be received by the Company Secretary. The Company Secretary will provide feedback and responses to shareholders' queries and where any information may be regarded as undisclosed material information about the Group such information will not be made available to a shareholder unless already in the public domain through disclosure.

Annual General Meeting (AGM)

The AGM is the principal opportunity for the Board to meet the shareholders of the Company and for the Chairman to inform on the Company's progress and receive questions from the shareholders. At the AGM, shareholders participate in the deliberations of the resolutions being proposed or on the Group's operations in general. At every AGM, a helpdesk will be set up as a contact point for the shareholders.

The 2011 AGM was held on 19 April 2011 at the Hilton Hotel in Petaling Jaya, Selangor. The number of shareholders that attended the AGM in 2011 had increased and this indicates a high level of engagement with shareholders. All resolutions were approved and all Directors including the Company Secretary attended the meeting. The Board, senior management and the Company's external legal counsels and auditors, Messrs. PricewaterhouseCoopers were present to answer questions raised and provide clarification as required by the shareholders. A press conference was held immediately after the AGM where the Chairman, Managing Director and Finance Director provided updates to the media representatives of the resolutions passed and answered questions on matters related to the Group.

The 2012 AGM will be held on 10 April 2012 at the Hilton Hotel in Petaling Jaya, Selangor. The Notice of AGM and the Form of Proxy are enclosed with the Abridged Annual Report 2011. The results of all resolutions proposed will be available on the Company's and the Bursa Malaysia Securities Berhad's websites on 10 April 2012.

Annual Report

Another major channel used by the Board to provide its shareholders and investors with information on its business, financials and other key activities is the Annual Report of the Company, which contents are continuously enhanced to take into account developments, amongst others, in corporate governance.

The Board aims to provide and present a clear and comprehensive assessment of disclosures in the Annual Report to shareholders. In disclosing information in the Annual Report, the Board is guided by the principles set out in the Listing Requirements and the BATM Code.

The Statement on Corporate Governance, Statement on Internal Control, Corporate Social Responsibility Committee's Report, Standards of Business Conduct and Audit Committee Report form part of the Annual Report 2011. These statements and reports were tabled at the Audit Committee meeting for its comments and recommendation to the Board of Directors for review and deliberation before being incorporated into the Annual Report.

An essential aspect of an active and constructive communication policy is the promptness in disseminating information to shareholders and investors. The Company sends out the Notice of the Annual General Meeting and related circular to shareholders at least 21 days before the meeting as required by the Companies Act, 1965 in order to facilitate full understanding and evaluation of the issues involved. Where special business items appear in the Notice of the Annual General Meeting, a full explanation is provided to shareholders on the effect of the proposed resolution emanating from the special business item.

Prompt and timely release of financial results on a quarterly basis enables shareholders to have an overview of the Group's performance and operations and make informed investment decisions.

Release of Annual Report

	Date of Issue/Release	Bursa Securities Deadline	Number of days after end of year
Annual Report 2011	16 March 2012	30 June 2012	76
Annual Report 2010	25 March 2011	30 June 2011	84

Release of Quarterly Financial Results

2011 Quarterly Results	Date of Issue/Release	Bursa Securities Deadline	Number of days after end of quarter
First Quarter	21 April 2011	31 May 2011	21
Second Quarter	21 July 2011	31 August 2011	21
Third Quarter	20 October 2011	30 November 2011	20
Fourth Quarter	16 February 2012	28 February 2012	47

Investor Relations

Quarterly briefings and other forms of communication

The Company holds separate quarterly briefings for fund managers, institutional investors and investment analysts as well as the media after each quarter's announcement of financial results to Bursa Malaysia Securities Berhad. The quarterly briefings are intended not only to promote the dissemination of the financial results of the Group to as wide an audience of investors, shareholders and media as possible but also to keep the investing public and other stakeholders updated on the progress and development of the business of the Group.

The quarterly briefings are attended by the Managing Director, Finance Director and Corporate and Legal Affairs Director of the Company.

In 2011, the Company held four quarterly briefings, 22 direct one-on-one meetings, one road-shows and hosted five teleconferences with fund managers, institutional investors and investment analysts.

Company website

To further enhance transparency to all shareholders and stakeholders of the Company, the Group has established a website at **www.batmalaysia.com**. Shareholders can access for information under the 'Investor' link encompassing corporate information, latest annual reports, latest press releases, latest

financial results, share prices, Bursa Malaysia Securities Berhad's announcements, investor relations and briefings. Other stakeholders can also access the website for other information related to the Group such as the Group's policies and standards, social responsibility initiatives, career opportunities, information pertaining to the illicit cigarette trade in Malaysia and its impact to the country, employment rewards and benefits and tobacco sciences issues.

Senior personnel

Shareholders and other interested parties may contact the Company's designated Senior Independent Non-Executive Director, Datuk Oh Chong Peng to address any concerns by writing or via telephone, facsimile or electronic mail as follows:

Tel: +60 (3)7956 6899/7491 7100

Fax: +60 (3)7491 3772

E-mail: ocpeng@bat.com

Postal Address: Virginia Park, Jalan Universiti, 46200 Petaling Jaya, Selangor Darul Ehsan Malaysia

Primary contact for investor relation matters:
Finance Director

Contact Details

Telephone number: +60 (3)7491 7328

E-mail: fdoffice_malaysia@bat.com

Postal Address: Virginia Park, Jalan Universiti, 46200 Petaling Jaya, Selangor Darul Ehsan Malaysia

It has been the Company's practice to respond to shareholders letters, telephone and email enquiries. Each letter or electronic mail received, if it requires the attention of the Board of Directors, will be reviewed by the Company Secretary before the same is forwarded to the Board of Directors for consideration.

While the Company endeavours to provide as much information as possible to its shareholders and stakeholders, the Company is mindful of the legal and regulatory framework governing the release of material and price sensitive information. Any information that may be regarded as undisclosed material information about the Group will not be disclosed to the public.

Employees

The Group believes in promoting high standards of conduct and to ensure that all employees continuously uphold such conduct in the performance of their duties, they are guided by four value systems, namely the Guiding Principles, Employment Principles, Business Principles and Standards of Business Conduct (Value Systems).

The Guiding Principles which are premised on four values namely, strength from diversity, open minded, freedom through responsibility and enterprising spirit embodied the Group's culture, the personality of the organisation and guides the way the Group's employees behave.

The Employment Principles focuses on work place practices and ethics, employee relations and employee human rights. This principle set out a common approach to the development of policies and procedures taking into account labour laws and practices and the political, economic and cultural context.

The Business Principles describe how the Group should be run in terms of responsibility and the Standards of Business Conduct describe high standards of business integrity and code of ethics that guide an employee's conduct.

To ensure compliance, all management employees, including the Board of Directors and the Group's suppliers and service providers are required to declare their compliance with the Standards of Business Conduct and disclose any conflicts of interest on a yearly basis. A register of declaration of interest is maintained by the Company Secretary. All declarations of interest are tabled at the Board meeting for consideration. In 2011, there had been 16 declarations of conflict of interest made by employees of the Group.

Details of the Group's Value Systems are available at the Company's website at www.batmalaysia.com.

Consumers

Guided by the Principle of Responsible Product Stewardship, the Group's products and brands are developed, manufactured and marketed in a responsible manner. To achieve Group's vision of uncompromising quality, the Company had in 2008 launched a hotline for Dunhill, the Company's leading cigarette brand with the objectives to capture consumer complaints, feedback and to respond to all complaints in a timely manner.

Suppliers and Service Providers

The Standards of Business Conduct which are applicable to the Group's employees are similarly binding on the Group's suppliers and service providers to ensure high standards of business ethics amongst all suppliers and service providers of the Group including the suppliers' or service providers' related companies. The relevant provisions in the Standards are incorporated in the contract with the relevant suppliers or service providers. It is made clear in all agreements with suppliers and service providers that breaches of any provisions in the Standards of Business Conduct of which the relevant supplier or service provider have been made aware of, may lead to immediate termination of the contract with the affected supplier or service provider.

Accountability and Audit

Financial reporting

The Board aims to provide and present a clear, balanced and comprehensive assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements, quarterly and half yearly announcement of results to shareholders as well as the Chairman's statement and review of operations in the Annual Report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

Directors' responsibility statement in respect of the preparation of the Audited Financial Statements

The Board ensures that the Company's financial statements provide a true and fair view of the state of affairs of the Group and of the Company as at the end of the accounting period and of the profit or loss and cash flows for the period then ended. In preparing the financial statements, the Directors have ensured that accounting standards approved by the Malaysian Accounting Standards Board (MASB) in Malaysia and the provisions of the Companies Act, 1965 have been complied with and reasonable and prudent judgments and estimates have been made. The Directors have also overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and for the implementation and continued operation of adequate accounting and internal control systems for the prevention of fraud and other irregularities.

The Board is satisfied that it has met its obligation to present a balanced and understandable assessment of the Company's position and prospects in the Directors' Report at pages 132 to 137 and the Financial Statements from pages 141 to 204 of this Annual Report.

Accuracy of information

The Company has in place an internal framework to ensure the accuracy of information pertaining to operation excellence, market share and growth (including illicit cigarettes concern in Malaysia) and corporate social responsibility initiatives. These are governed by project boards set up pursuant to the PRINCE 2 (PRojects IN Controlled Environments) which is a process-based governance methodology for effective project management and consist of a cross functional team comprising of Top Team and senior managers of the Company.

Internal control

It is important to emphasise that the ultimate responsibility for ensuring a sound internal control system and reviewing the effectiveness of the system lies with the Board. The Board sets policies and procedures for internal control and ensures that such internal control system is properly carried out by the management of the Company. The Company has established processes to oversee and manage risks.

For details of these processes, please refer to pages 67 to 68 of this Annual Report.

The Group has in place an Information Technology Policy that outlines the processes that should be followed to create policies, best practices, standards and the use of supporting information technologies. The Group is mindful that there is a risk of legal action if technology systems or information are misused in a manner which breaches legislation. The Group therefore ensures that all software used by the Group are licensed copies.

In accordance with the Guidance for Directors of Public Listed Companies, reviews by the Board were carried out at least annually, covering all material controls including financial, operational and compliance controls and risk management systems. The Board derives reasonable assurances from reports submitted by the relevant committee on risk management and internal control.

For details of the Internal Audit function, please refer to page 72 of this Annual Report.

Whistle-blowing policy

One of the key provisions in the Standards of Business Conduct is whistle-blowing. The Group acknowledges that misconduct in any company such as violation of laws, rules, regulations, production fault, fraud, health and safety violations or corruption are usually known first by the people who work in or with the Group.

An early warning system such as a whistle-blowing procedure can help the Group detect wrongdoings and alert the Group to take corrective action before a problem becomes a crisis. A whistle-blowing system strengthens, supports good management and at the same time demonstrates accountability, provides good risk management and sound corporate governance practices. It is the Board's belief that having a whistle-blowing procedure in place will increase investors' confidence in the Group and is in line with the Group's sound corporate governance practices.

The Company's internal whistle-blowing procedure was established in 2004 pursuant to the Standards and is reviewed by the Company for enhancements from time to time. The whistle-blowing procedure enables employees to make their concerns known without fear of retaliation and with the knowledge that their complaints will be acted upon and their identity is kept confidential. Concerns may be raised anonymously.

To further enhance the whistle-blowing procedure framework, the Company had put in place the Procedures on Incident Reporting and Investigation (Incident Procedures). The Incident Procedures is made available to all employees via the Company's intranet.

The Incident Procedures formally set out the process and procedures for reporting, investigation and evaluation of any suspicion of wrongdoing or misconduct committed by any employee of the Group and non-employee who is a business partner/service provider of the Group in a prompt and effective manner. The evaluation of any incidences reported is conducted by a formal evaluation committee comprising a majority of the Company's Top Team (EVT).

The EVT is tasked to effectively evaluate the investigation of any reported incident and to decide on appropriate action to be taken arising from the investigation and is guided in its review of all investigation of incidents reported by a set of standard operating procedures (EVT SOP). The EVT SOP amongst others sets out clearly the roles and responsibilities of the EVT, the Head of Investigation, the Head of Legal and the timelines for the review to be completed to ensure that speedy action is taken after an incident has been reported.

All incidents reported were investigated by an investigation team comprising of senior managers working closely with the EVT to ensure that all cases which have been reported or discovered are investigated upon promptly. The reports of investigation are then sent to the EVT for review and evaluation and if the case warrants it, police reports will be made, domestic inquiries will be conducted and appropriate disciplinary action including freezing of increments, issuance of severe warnings and termination will be taken.

If any control weaknesses are identified by the investigation team such weaknesses will be rectified to prevent future occurrences.

The outcome of the investigations and the actions taken by the Company will be reported to the Audit Committee of the Company and further submitted to the Regional Audit Committee for the British American Tobacco p.l.c.'s Main Board Audit Committee.

The Company maintains a register of all whistle-blowing/breach of Standards incidences.

With the presence of the whistle-blowing procedure, Incident Procedures and stringent control measures, the Company detected 17 incidents involving areas such as theft and misappropriation of the Company's assets and fraud in 2011 which is an improvement from 22 incidents in 2010. The gross losses suffered by the Company arising from the incidents reported in 2011 were approximately RM3,000 which is an improvement from RM1.3 million in 2010. 12 employees were dismissed from the Company's employment as a result of their misconduct.

Related Party Transactions

An internal compliance framework exists to ensure that the Group meets its obligations under the Listing Requirements including obligations relating to related party transactions. The Board, through its Audit Committee, reviews all related party transactions involved. A Director who has an interest in a transaction must abstain from deliberation and voting on the relevant resolution, in respect of such transaction at the Board and at any general meeting convened to consider the matter.

There are procedures established by the Company to ensure that all related party transactions are undertaken on an arm's length basis and on normal commercial terms, consistent with the Company's usual business practices and policies, which are generally not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.

The internal framework pertaining to the governance of related party transactions is summarised as follows:

- A list of related parties of the Group will be circulated to the Directors and management of the Group to notify that all related party transactions are required to be undertaken on an arm's length basis and on normal commercial terms and not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.
- All related party transactions will be reported to the Audit Committee of the Company. Any member of the Audit Committee of the Company may as he deems fit, request for additional information pertaining to the transaction including from independent sources or advisers.
- All recurrent related party transactions which are entered into pursuant to the shareholders' mandate for recurrent related party transactions will be recorded by the Company in a register or records maintained by the Company.
- All recurrent related party transactions entered into pursuant to the shareholders' mandate shall be reviewed by Internal Auditors of British American Tobacco Auditors p.l.c Group to ensure that the relevant approvals have been obtained and the review procedures in respect of such transactions are adhered to.
- The Management updates the Board on a quarterly basis on all recurrent related party transactions and in the event there are any discrepancies or queries, the Audit Committee shall direct the Internal Auditors of British American Tobacco p.l.c Group to carry out investigation pertaining to the discrepancies or queries.

The Recurrent Related Party Transactions entered into by the Group with its related parties in 2011 were for the purchase and sale of cigarettes and tobacco products, purchase of leaf, cigarette packaging materials and tobacco products, procurement of information technology services, payment of royalties, payment of fees for technical and advisory support services, provision of technical and advisory support services and purchase and sale of equipment.

For details of these transactions, please refer to pages 190 to 194 of this Annual Report.

Relationship with External Auditors

The Audit Committee discusses with the external auditors the nature and scope of the audit and reporting obligations before audit commences. The Audit Committee ensures that the management will provide a timely response on any material queries raised by the external auditors after the audit to management, in respect of the accounting records, financial accounts or systems of control.

The Audit Committee works closely with the senior audit partner assigned by Messrs. PricewaterhouseCoopers Malaysia to the Company, to act as the key representative for overseeing the relationship of the Company with the external auditors. In compliance with the Malaysian Institute of Accountants, the Company rotates its audit partners every five years to ensure objectivity, independence and integrity of the audit opinions.

The Audit Committee also meets with the external auditors to review the reasonableness of significant judgment, accounting principles and the operating effectiveness of internal controls and business risk management.

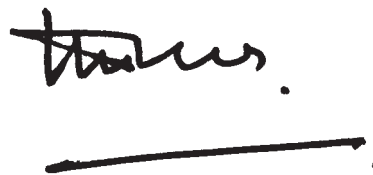
The Audit Committee met with the external auditors twice in 2011 without the presence of the Executive Directors or management.

The Audit Committee is tasked with authority from the Board to review any matters concerning the appointment and re-appointment, audit fee, resignation or dismissal of external auditors and review and evaluate factors relating to the independence of the external auditors and assist them in preserving their independence.

Compliance with the BATM Code

The Board has deliberated, reviewed and approved the Statement on Corporate Governance. The Board is satisfied that the Statement on Corporate Governance provides the information necessary to enable shareholders to evaluate how the Malaysian Code has been applied and that the Company had fulfilled its obligation under the BATM Code, Malaysian Code, the Listing Requirements and all applicable laws and regulations throughout the financial year ended 31 December 2011.

This Statement is made in accordance with the circular resolution of Board dated 16 February 2012.



TAN SRI ABU TALIB BIN OTHMAN
Chairman

Statement on Internal Control

Responsibility

The Board of Directors recognises the importance of sound internal controls and risk management practices to safeguard shareholders' investments and the Group's assets. The Board affirms its overall responsibility for the Group's system of internal control which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity. The Board had tasked Management to identify and assess the risks faced by the Group and thereafter design, implement and monitor appropriate internal controls to mitigate and control those risks. As there are limitations that are inherent in any system of internal control, the system designed can manage rather than eliminate risks that may impact the achievement of the Group's business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter alia, financial, operational and compliance controls and risk management procedures.

As part of its internal control and risk management system, the Group has in place an ongoing process for identifying, evaluating, monitoring and managing significant risks faced by the Group and this process includes reviewing and updating the system of internal controls to take into consideration changes in the regulatory and business environment. This process is regularly reviewed by the Board via the Audit Committee and the Risk Management Team and accords with the guidance for directors on internal control, the *Statement on Internal Control: Guidance for Directors of Public Listed Companies*.

Risk management

Risk management is firmly embedded in the Group's management system and is every employee's responsibility as the Group firmly believes that risk management is critical for the Group's sustainability and the enhancement of shareholder value.

The Risk Management Team, led by the Finance Director and represented by senior managers from all functions of the Group will meet at least twice a year to review and update the risk register and risk mitigation action plans.

Selected business continuity plans (or contingency plans) were reviewed, updated and/or tested during the year under review. Management continually develops new business continuity plans to support changes in the business environment. Senior managers who own the respective business continuity plans made formal presentations to the Risk Management Team on their crisis readiness.

The Audit Committee was briefed by the Enterprise Risk Manager on the Group's Risk Management Programme in April and October 2011.

For details of the Group's risk management framework and the Risk Management Programme, please refer to pages 73 to 75 of this Annual Report.

Key internal control and Risk Management processes

Central to the Group's internal control and risk management system is its Control Self Assessment (CSA) process, which it has developed and continues to improve over time. A key control checklist is developed and sets out the various key controls and process requirements across all functions in the Group and is updated annually taking into consideration the changing risk profiles as dictated by changes in the business and regulatory environment, strategies and functional activities from time to time. All business units are required to document the controls and processes for managing the risks and assess their effectiveness on an annual basis. The key control checklist and trend analysis are reported to the Audit Committee.

Other key elements of the internal control and Risk Management System

Apart from the above, the other key elements of the Group's internal control and risk management system which have been reviewed and approved by the Board are described below:

(a) Policies, procedures and limits of authority

- Clearly defined delegation of responsibilities to committees of the Board and to management including organisation structures and appropriate authority levels.
- Clearly documented internal policies, standards and procedures are in place and regularly updated to reflect changing risks or resolve operational deficiencies. All policies are approved by the Board and cases of non-compliance to policies and procedures which are in place are reported to the Board and Audit Committee by exception. Reliance is also placed on British American Tobacco p.l.c Group Internal Audit as well as the CSA approach.

- (b) **Strategic business planning, budgeting and reporting**
- Regular and comprehensive information provided by management for monitoring of performance against strategic plan, covering all key financial and operational indicators. On a quarterly basis, the Managing Director reviews with the Board on all issues covering, but not restricted to, strategy, performance, resources and standards of business conduct.
 - Detailed budgeting process requiring all business units to prepare budgets annually which are discussed and approved by the Board.
 - Effective reporting systems which expose significant variances against budgets and plans are in place to monitor performance. Key variances are followed up by Management and reported to the Board.
- (c) **Insurance and physical safeguard**
- Adequate insurance and physical security of major assets are in place to ensure that the assets of the Group are sufficiently covered against any mishap that will result in material losses to the Group.
- (d) **Top Team meetings**
- Top Team meetings, which are senior management meetings, are scheduled on a fortnightly basis and as and when required, to review, identify, discuss and resolve strategic, operational, financial and key management issues.
- (e) **Risk and control workshops**
- Our employees' attitude towards, and in understanding the Group's Enterprise Risk Management programme is as important as having good systems and policies in place in achieving a robust internal control system. To achieve this, risk awareness workshops and trainings were carried out for new employees for them to understand the significance of risk management and internal controls, and its impact on their day to day activities. The workshops included an overview of organisation risk management framework and process, importance of internal controls, types of controls, design and assessment of the effectiveness of internal controls.
- (f) **Other matters**
- Regular meetings are held between the Finance Director and analysts with a formal presentation conducted on the day the financial results are released after the Board's approval to ensure a transparent relationship and open dialogue with investors and shareholders.
 - Written declaration from all management personnel confirming their compliance with the Group's Standards of Business Conduct and where conflicts of interest situations are disclosed.
 - Written declaration from the Finance Director and Managing Director confirming their compliance with the Group's Standards of Internal Control.

During the year 2011, the Finance Director had notified the Audit Committee and the Board on a non-conformance of standard reconciliation procedures of certain balance sheet accounts. This had resulted in an immaterial misstatement of the Company's accounts for a number of years. The misstatements were detected as a result of a review performed by Management of the Company and had been adjusted during the year with no material impact to the Group. In January 2012 a further review was conducted by British American Tobacco p.l.c Group Internal Audit to verify the findings of Management of the Company. The review found no evidence that these misstatements had arisen as a result of theft or fraud. Corrective actions are underway, some requiring system configuration changes, all of which will be completed in 2012.

The Board is of the view that the Company's system of internal control is robust and is able to detect any material losses, contingencies or uncertainties that would require disclosure in the Group's 2011 Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 16 February 2012.

Review of the statement by external auditors

As required by paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the external auditors have reviewed this Statement on Internal Control. Their review was performed in accordance with *Recommended Practice Guide ("RPG") 5* issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process the Board had adopted in their review of the adequacy and integrity of internal control of the Group. RPG 5 does not require the external auditors, to and they did, not consider whether this Statement covers all risk and controls, or to form an opinion on the effectiveness of the Group's risk and control procedures.

Audit Committee Report



Datuk Oh Chong Peng
Chairman



Tan Sri Abu Talib bin Othman
Member



James Richard Suttie
Member



Dato' Ahmad Johari bin Tun Abdul Razak
Member

Membership and attendance

The Audit Committee comprised the following members and details of attendance of each member at the Audit Committee meetings during 2011 are as follows:

Composition of Audit Committee	Number of Audit Committee Meetings		%
	Held	Attended	
Datuk Oh Chong Peng Chairman (Independent Non-Executive Director)	4	4	100
Tan Sri Abu Talib bin Othman (Independent Non-Executive Director)	4	4	100
James Richard Suttie (Non-Independent Non-Executive Director)	4	4	100
Dato' Ahmad Johari bin Tun Abdul Razak (Independent Non-Executive Director)	4	3	75

The Managing Director, Finance Director, Internal Auditors of British American Tobacco p.l.c Group and representatives of the external auditors had attended all the meetings upon invitation by the Audit Committee. From time to time, other members of senior management may also be invited by the Audit Committee to attend Audit Committee meetings.

All members of the Audit Committee are financially literate and are able to analyse and interpret financial statements to effectively discharge their duties and responsibilities as members of the Audit Committee.

Composition and terms of reference

a. Members

The Audit Committee shall be appointed by the Board of Directors and shall comprise of not less than three members and the majority shall be Independent Directors. Currently the members of the Audit Committee includes the Chairman and Non-Executive Directors.

Further, at least one member of the Audit Committee shall be a member of the Malaysian Institute of Accountants or if he is not a member, he must have at least three years' working experience and

- have passed the examinations specified in Part 1 of the First Schedule of the Accountants Act, 1967; or
- is a member of one of the associations of accountants specified in Part II of the said schedule; or
- has a degree/masters/doctorate in accounting or finance and at least three years' post qualification experience in accounting or finance; or
- is a member of a professional accountancy organisation which has been admitted as full members of the International Federation of Accountants and at least three years post qualification experience in accounting or finance; or
- at least seven years of experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

No alternate director shall be appointed as a member of the Audit Committee. The Board shall review the terms of office and performance of the members of the Audit Committee at least once every three years to determine whether the members have carried out their duties in accordance with their terms of reference.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of paragraph 15.09(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements), the Board shall fill the vacancy within three months from the date of the vacancy.

b. Chairman

The Chairman of the Committee shall be approved by the Board of Directors and shall be an Independent Non-Executive Director.

c. Quorum

A quorum shall be formed with two members and shall comprise of Independent Directors.

d. Meetings and minutes

The Audit Committee shall meet at least four times annually. However, at least once a year, the Audit Committee shall meet with the external auditors without the Executive Directors and management being present. This year, the Audit Committee met twice with the external auditors without the Executive Directors and management being present.

Other than in circumstances which the Chairman considers inappropriate, the Finance Director, Internal Auditors of British American Tobacco p.l.c Group and a representative of the external auditors attends all meetings of the Audit Committee to make known their views on any matter under consideration by the Audit Committee, or which in their opinion, should be brought to the attention of the Audit Committee. The Audit Committee may, as and when necessary, invite other members of the Board and members of senior management to attend the meetings.

The Company Secretary shall be the Secretary of the Audit Committee and will record, prepare and circulate the minutes of the meetings of the Audit Committee and ensure that the minutes are properly kept and produced for inspection if required. The Audit Committee shall report to the Board and its minutes tabled and noted by the Board.

e. Authority

The Audit Committee is authorised by the Board to review any activity within the Audit Committee's terms of reference and may seek any information the Audit Committee requires from any Director or member of management. Further, the Audit Committee has full and unrestricted access to any information pertaining to the Group and the management, and all employees of the Group are required to comply with the requests made by the Audit Committee.

The Audit Committee shall obtain external professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, the expenses of which will be borne by the Company.

In the event that any member of the Audit Committee needs to seek external professional advice in furtherance of his duties, he shall first consult with and obtain approval of the Chairman of the Audit Committee.

The Audit Committee shall have direct communication channels and be able to convene meetings with the external auditors without the presence of the non-independent members of the Audit Committee, whenever deemed necessary.

Responsibilities and duties

The responsibilities and duties of the Audit Committee are:

a. Financial reporting

- To review quarterly and annual financial statements of the Company, focusing particularly on:
 - ✓ Any significant changes to accounting policies and practices.
 - ✓ Significant adjustments arising from the audits.
 - ✓ Compliance with accounting standards and other legal requirements.
 - ✓ A going concern assumption.

b. Related party transactions

- To review any related party transactions and conflict of interest situations that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

c. Audit reports

- To prepare the annual Audit Committee report to the Board which includes the composition of the Audit Committee, its terms of reference, number of meetings held, a summary of its activities and the existence of Internal Audit and summary of the activities of that unit for inclusion in the Annual Report.
- To review the Board's statements on compliance with the Malaysian Code of Corporate Governance for inclusion in the Annual Report.

d. Internal control

- To consider annually the Enterprise Risk Management Programme adopted within the Group and to be satisfied that the methodology employed allows the identification, analysis, assessment, monitoring and communication of risks in a regular and timely manner that will allow the Group to minimise losses and maximise opportunities.

- To ensure that the system of internal control is soundly conceived and in place, effectively administered and regularly monitored.
- To cause reviews to be made of the extent of compliance with established internal policies, standards, plans and procedures including for example, the Group's Standards of Business Conduct.
- To obtain assurance that proper plans for control have been developed prior to the commencement of major areas of change within the Group.
- To recommend to the Board steps to improve the system of internal control derived from the findings of the internal and external auditors and from the consultations of the Audit Committee itself.

e. Internal audit

- To be satisfied that the strategies, plans, manning and organisation for internal auditing are communicated down through the Group. Specifically:
 - (i) To review the internal audit plans and to be satisfied as to their consistency with the Business Risk Management Framework used and adequacy of coverage.
 - (ii) To be satisfied that the Internal Audit unit within the British American Tobacco p.l.c Group has the proper resources and standing to enable them to complete their mandates and approved audit plans.
 - (iii) To review status reports from Internal Audit and ensure that appropriate actions have been taken to implement the audit recommendations.
 - (iv) To recommend any broader reviews deemed necessary as a consequence of the issues or concerns identified.
 - (v) To ensure the Internal Audit has full, free and unrestricted access to all activities, records, property and personnel necessary to perform its duties.
 - (vi) To request and review any special audit which it deems necessary.

f. External audit

- To review the external auditors' audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and coordination of the external auditors. The Audit Committee will consider a consolidated opinion on the quality of external auditing at one of its meetings.

- To review with the external auditors the Statement on Internal Control of the Group for inclusion in the Annual Report.
- To review any matters concerning the appointment and re-appointment, audit fee and any questions of resignation or dismissal of the external auditors.
- To review and evaluate factors related to the independence of the external auditors and assist them in preserving their independence.
- To be advised of significant use of the external auditors in performing non-audit services within the Group, considering both the types of services rendered and the fees, such that their position as auditors are not deemed to be compromised.
- To review the external auditors' findings arising from audits, particularly any comments and responses in management letters as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.

g. Other matters

- To act on any other matters as may be directed by the Board.

Summary of activities 2011

In 2011 the Audit Committee carried out its duties in accordance with the terms of reference of the Audit Committee.

During the year 2011, the Audit Committee carried out the following activities:

Financial reporting

- a. Reviewed the quarterly and annual audited financial statements of the Company and the Group with the Finance Director and Managing Director, focusing particularly on significant changes to accounting policies and practices, adjustments arising from the audits, compliance with accounting standards and other legal requirements before recommending them to the Board for approval.

Internal control (Risk management)

- a. Reviewed the Group's Enterprise Risk Management Programme, including the top 20 risks for the Group and Risk Management Programme work plan.
- b. Reviewed and recommended to the Board steps to improve the Company's internal control systems derived from the findings of the internal and external auditors.
- c. Received updates on breaches of the Standards of Business Conduct and whistle-blowing incidents.

Internal audit

- a. Reviewed internal audit plans as to their consistency with the Enterprise Risk Management Framework used and adequacy of coverage.
- b. Reviewed status reports from British American Tobacco p.l.c Group Internal Audit to ensure that appropriate actions had been taken to implement the audit recommendations.

Related party transactions

- a. Reviewed the recurrent related party transactions entered into by the Company, its subsidiaries and the British American Tobacco plc Group in 2011 on a quarterly basis.

External audit

- a. Reviewed with the external auditors the Company's Statement of Internal Control before recommending the same for inclusion in the Company's Annual Report 2011.
- b. Reviewed with the external auditors the Group's quarterly and annual financial statements with the Finance Director and Managing Director, focusing on findings arising from audits particularly the comments and responses in management letter as well as assistance given by the employees of the Group before recommending them to the Board of Directors for approval.
- c. Reviewed the external auditors' audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and coordination of the external auditors.
- d. Reviewed the external auditors' findings arising from audits, particularly comments and responses in management letters as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.
- e. Received updates and noted the improvement in the external auditors' satisfaction survey for 2011.

Internal audit function

The British American Tobacco p.l.c Group has a well established internal audit unit, which reports to the Audit Committee and assists the Audit Committee in reviewing the effectiveness of the Company's internal control systems whilst ensuring that there is an appropriate balance of controls and risks throughout the Group in achieving its business objectives. Internal audit fees for 2011 was RM711,000.

Internal audit provides independent assessment on the effectiveness and efficiency of internal controls utilising a global audit methodology and tool to support the Company's corporate governance framework and an efficient and effective global risk management framework to provide assurance over the Group's strategy delivery and change management initiatives.

The British American Tobacco p.l.c Group Internal Audit reports directly to the Audit Committee and has direct access to the Chairman of the Audit Committee on all matters of control and audit. All proposals by management regarding the appointment, transfer and removal of British American Tobacco p.l.c Group Internal Audit shall require prior approval of the Audit Committee. Any inappropriate restrictions on audit scope are to be reported to the Audit Committee.

The Audit Committee approves the internal audit plan during the first Audit Committee meeting each year and reviews the plan on a quarterly basis. Any subsequent changes to the internal audit plan are approved by the Audit Committee. The scope of internal audit covers the audits of all units and operations, including subsidiaries.

The internal audit function adopts a risk-based approach towards the planning and conduct of audits which is consistent with the Group's established framework in designing, implementing and monitoring of its control systems.

Other main activities performed by the internal audit are as follows:

- Review of the approval procedures in respect of recurrent related party transactions.
- Undertake special reviews requested by the Audit Committee and/or management.

In October 2011, an Audit Committee effectiveness survey had been carried out with results demonstrating improvements in the overall level of effectiveness particularly in the areas pertaining to the Committee's governance process and the business risk reviews.

During the year 2011, the Finance Director had notified the Audit Committee and the Board on a non-conformance of standard reconciliation procedures of certain balance sheet accounts. This had resulted in an immaterial misstatement of the Company's accounts for a number of years. The misstatements were detected as a result of a review performed by Management of the Company and had been adjusted during the year with no material impact to the Group.

In January 2012, a further review was conducted by British American Tobacco p.l.c Group Internal Audit to verify the findings of the Management of the Company. The review found no evidence that these misstatements had arisen as a result of theft or fraud. Corrective actions are underway, some requiring system configuration changes, all of which will be completed in 2012.

In 2011, the Company's internal control systems were satisfactory and robust and had successfully prevented any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report 2011.

This Audit Committee Report is made in accordance with the resolution of the Board of Directors on 16 February 2012.

Report on Corporate Risk Management

An effective risk management framework is essential in managing the diverse risks faced by the Group. British American Tobacco Malaysia's Board of Directors has, through the Audit Committee, established a Risk Management Team to proactively manage the risks of the Group.

The Group's risk management framework and process remains the same as the previous year as detailed in the 2010 Annual Report. It is also available for viewing in our Corporate website.

The Group also adopts an Enterprise Risk Management programme, which is subjected to periodic reviews to ensure that the policy and objectives of the programme remain applicable and effective under changing operating environment. These are complemented by internal control practices such as the statement of compliance with the Malaysian Code of Corporate Governance and the key control checklist of the Company's holding company, British American Tobacco p.l.c.

2011 Risk management activities:

Promotion of risk awareness

Risk communication is equally important and forms an integral part of the risk management activity as it focuses on the dissemination of risk information to appropriate levels of employees and stakeholders. Appropriate channels are available for employees to provide feedback on risk management issues and suggestions for improvement.

The Risk Management Team continued its risk awareness induction programme for new joiners in 2011. The induction programme is aimed at educating management staff on the Group's approach to risk management and internal controls, and provides a forum to enhance the participants' knowledge on risk management and their role in the managing the Group's risks.

Review of the Group's risks

The Risk Management Team met twice during the year, in March and August 2011, to review and update the Group's risk profile and the key activities during the year, including the status of its business continuity plans. The Functional risk registers were also individually reviewed by the respective functions on a quarterly basis.

The Top Team and the Audit Committee were briefed by the Enterprise Risk Manager on the Group's Enterprise Risk Management programme in April and October 2011. The briefing included updates on the key risks of the Group and the risk mitigation plans, and the status of business continuity plans testing.

At the end of 2010, the Company experienced a breakdown in one of its four Dunhill packing modules, which resulted in below target stock holding for Dunhill. Importantly, there was no disruption on the availability of the products in the market as the Group was able to quickly recover from the machine downtime. In response to this, the Audit Committee recommended the management to consider acquisition of a fifth module. After due consideration, the management proposed this purchase, and was subsequently supported by the Board. The new module was installed and commenced commercial production in December 2011.

The key risks to the Group and activities of the crisis management and response team which was endorsed by the Top Team and Audit Committee are highlighted below.

Key risks of the Group

This section describes the key risks that might affect the Group and provides a brief description of the risk mitigation measures in place to manage these risks. It is not the intention to provide an extensive analysis and not all the risks identified are within the control of the Group. Naturally there may also be other risks besides those mentioned which may affect the performance of the business.

The risks described in this section and the risk mitigation plans should be considered in the context of the Group's overall risk management framework, which is available on British American Tobacco Malaysia's corporate website on Risk Management, and the internal control framework which is in the Statement on Internal Control.

Major risks include:

Risk	Description	Mitigation plans
Growth of illicit trade	Tax evaded cigarettes represent a significant and growing threat to the legitimate tobacco industry. This risk includes the threat of locally manufactured cigarettes illegally sold below the mandatory minimum price laws and total tax paid.	- A dedicated team is established within the Group to proactively manage this risk through engagement with relevant stakeholders and to create awareness on the impact of this growing threat.
Down trading fuelled by growth of low price segment	Down trading by consumers to the sub-value for money price point as a result of excise led price increases.	- The Group maintains a product portfolio strategy to address any changes in the competitive environment. - Contingency plans are in place.
Excise shocks from tax rate increases or structure changes	High levels and continued increase of excise and taxes, including introduction of new taxes could impact the volumes of the legal industry whilst fuelling illicit trade.	- The Group maintains an excise and pricing strategy including contingency plans to manage the impact of significant excise changes through proactive engagement with stakeholders on the Groups position.

Other risks of the Group include:

- Product boycott by consumers/retailers.
- Inoperability of factory and administrative offices by *force majeure*.
- Sabotage.

Crisis management

In addition to the Risk Management Team, the Group also has in place, a crisis management process to provide leadership and timely decision making in the event of a crisis. This is led by the Crisis Management Team and is supported by the Crisis Response Team as well as the Corporate Communications Team.

The crisis management process remains the same as detailed in the 2010 Annual Report and is also available for viewing in British American Tobacco Malaysia's corporate website.

2011 Activities

There are 13 Business Continuity Plans (BCPs) in place for the Group to manage the various potential crises which could impact the Group. These plans are reviewed and updated for content by the plan owners on an annual basis. In addition, a desktop review/simulation was conducted by the plan owners with the support of the Crisis Response Team members for the following plans, according to the testing schedule:

- Site recovery plan for the manufacturing plant
- Emergency evacuation drill
- IT Disaster recovery plan for SAP system and warehouse manufacturing system
- Distribution centre recovery plan
- Mass outbreak of infectious disease
- Site recovery plan for administrative office

The Crisis Management Team also undertook a half day training session in November 2011 on the Global BCP methodology and performed a desktop simulation exercise on the scenario of a malicious sabotage of our products.

In 2011, three BCPs which were scheduled to be tested during the year were deferred to 2012. These BCPs are outlined below:

- IT disaster recovery plan for sales system (Swift) deferred pending upgrade of the system. Scheduled to be tested in the first quarter of 2012.
- Leaf supply plan deferred due to ongoing discussion with Government authorities on tobacco duty process. Scheduled to be tested in the third quarter of 2012.
- Manufacturing contingency sourcing plan deferred due to urgent business needs. Scheduled to be tested in the third quarter of 2012.

In December 2010, the business continuity plan for wrapping material supply was activated to respond to a potential shortage in wrapping materials due to a machine breakdown in one of our suppliers. The crisis was managed in line with our business continuity plan with no disruption to our business. Key learning from this live scenario was presented to both the Top Team and Audit Committee. The Audit Committee had requested for the wrapping material supply plan, with the additional processes proposed by Crisis Response Team from their key learning, to be tested in 2011 to ensure the smooth operation of the business continuity plan. The improved plan was successfully tested in July 2011.

In 2011, there were no major crises which required the activation of the Crisis Management and Crisis Response Teams.



Growth

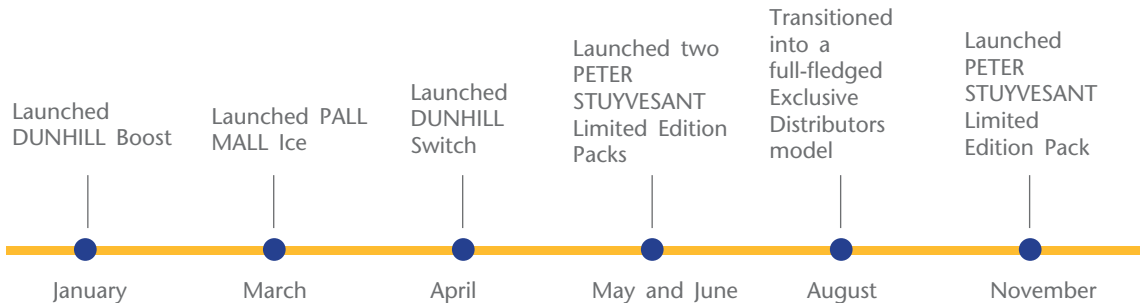
Our aim is to boost our momentum towards sustainable growth through an enhanced brand portfolio and to deliver value through an effective trade marketing and distribution model.

Boosting our momentum towards sustainable growth

61.1%
full year corporate
market share for
2011.

Following 2010's outstanding growth achievement, British American Tobacco Malaysia's vision for 2011 was to continue to drive our growth momentum forward through strategic brand initiatives, enhanced trade marketing capabilities and a robust distribution network. In line with this vision, British American Tobacco Malaysia restructured its Route-to-Market distribution in 2011 to mobilise a more effective mode of operation.

Key highlights of 2011



Global Drive Brands

Our Global Drive Brands (GDBs) have always been the cornerstone of our business, forming the foundation of our brand portfolio offering to consumers. Following British American Tobacco Malaysia's milestone achievement in growing corporate market share for the first time in 10 years in 2010, the GDB portfolio was enhanced with propositions to drive greater market strength for British American Tobacco Malaysia.

DUNHILL launched two new products, DUNHILL Boost and Switch in January and April 2011 respectively, which featured the capsule filter. This helped to grow DUNHILL's corporate

share of market by 1.8 percent to hit 44.7 percent in 2011. KENT continued to hold its position in the Premium Lights and Menthol market segments. In our Value For Money (VFM) portfolio, PALL MALL launched PALL MALL Ice, which offers consumers a highly mentholated product. PETER STUYVESANT's innovative Limited Edition Pack launches in 2011 complemented PALL MALL's efforts in accelerating towards leadership in the VFM segment.

Overall, robust GDB activities that were carried out resulted in another year of landmark achievements, delivering corporate market share growth in British American Tobacco Malaysia for the second consecutive year.

DUNHILL

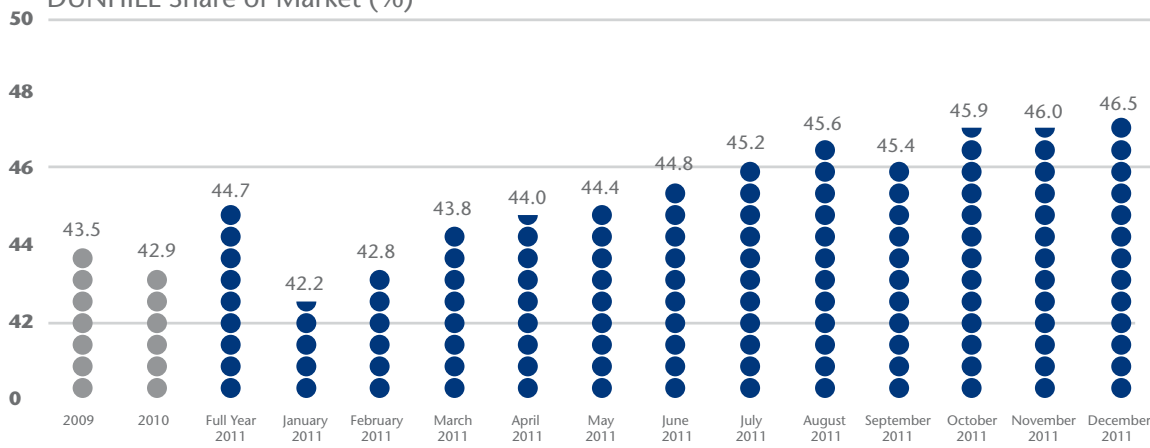
DUNHILL delivered a stellar performance in 2011, recording a gain in corporate market share of 1.8 percent in comparison to the 2010 full year. DUNHILL's outstanding results were led by the DUNHILL Red variant, which has benefited from a more stable market environment in 2011, improved economic conditions, and strong brand equity. DUNHILL's solid brand equity among consumers is garnered through its high quality standards and its position as the only brand in the market that offers the unique functionality of the resealable Reloc.

A key initiative for DUNHILL Red was to reinforce DUNHILL's high product quality and standard amongst consumers via its resealable Reloc seal. In November 2011, DUNHILL Red launched a new design for its resealable Reloc which reflects DUNHILL's key brand propositions of quality and high standards to its consumers.



DUNHILL Red launched a new design for its resealable Reloc seal to reflect the brand's high quality standards.

DUNHILL Share of Market (%)

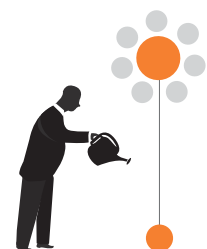


Source: Retail Audit, base = Total Whites

Winning in Premium Lights and Menthol

In 2011, DUNHILL continued to accelerate growth in the Premium Lights and Menthol segment following a realignment of the portfolio's strategy four years ago. DUNHILL's performance in these two segments was driven by its core range of DUNHILL Blue and Menthol. The journey towards leadership in the Premium Lights and Menthol segment was supported by the launch of two global innovations, DUNHILL Boost and Switch in the first two quarters of 2011.

Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.



Delivering Growth through strategic initiatives:

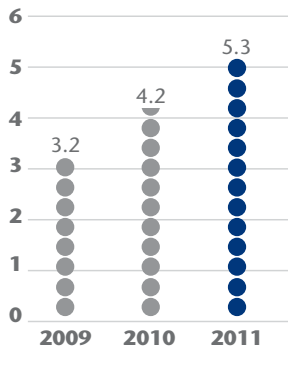
DUNHILL Boost is the first capsule product launched in the Malaysian market. Since its launch in January 2011, it has further strengthened British American Tobacco Malaysia’s Premium Menthol portfolio. DUNHILL Boost’s capsule filter provides adult consumers with the choice to crush the capsule and boost the product’s menthol content.



DUNHILL Switch, which was launched in May 2011, is another pioneer of the capsule filter innovation in the Malaysian market. It is the first cigarette product introduced to the Malaysian market that enables consumers to switch from a regular cigarette to a menthol cigarette by simply crushing the capsule in the filter to release menthol.

These two new additions to the DUNHILL range has cumulatively boosted its Premium Lights and Menthol corporate share of market to achieve one percent share growth in 2011.

DUNHILL Lights and Menthol range share of market (%)



Source: Retail Audit, base = Total Whites

DUNHILL’s excellent performance for 2011 is a reflection of the strength of its core proposition in redefining the premium segment through its focus on high standards of quality and product innovation in catering to the preferences of adult consumers in Malaysia.



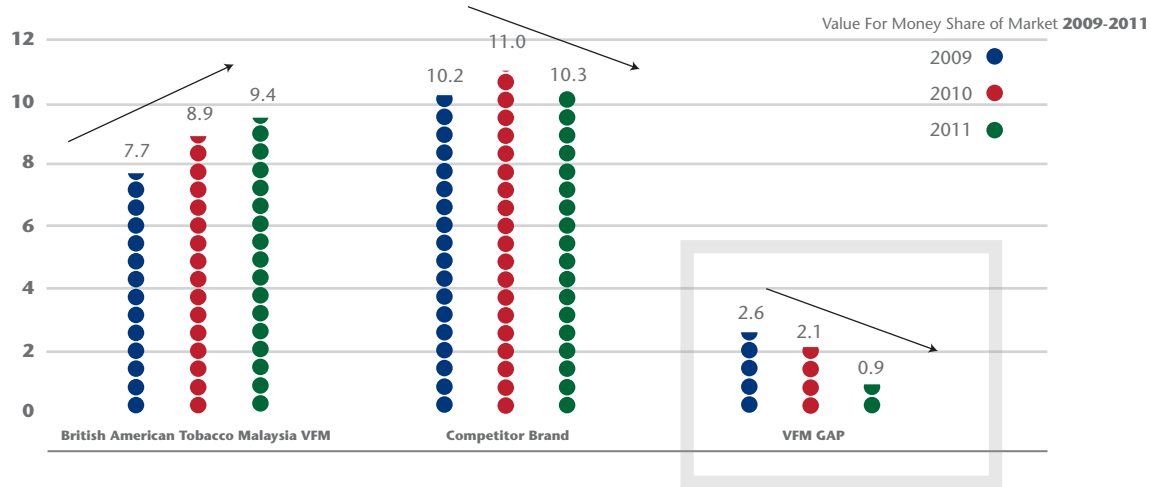
KENT

Through the essence of innovation, the KENT range, which comprises of 3TEK (Triple Filter Charcoal Technology) and KENT Red, continues to deliver products that complement today’s modern consumer preferences.

Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.

Accelerated progress towards leadership in the Value For Money segment

British American Tobacco Malaysia versus competitor's share of market in the Value for Money (VFM) segment (%)



Source: Retail Audit, base = Total Whites

British American Tobacco Malaysia progressed further towards achieving its vision of attaining leadership in the Value for Money (VFM) segment in 2011. The strategic initiatives of both PALL MALL and PETER STUYVESANT placed British American Tobacco Malaysia's VFM portfolio just 0.9 percent shy of VFM leadership in 2011, in comparison to the previous gap of 2.1 percent in 2010.

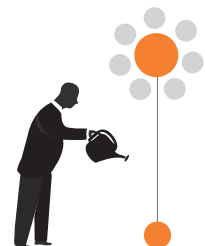
The solid performance of our VFM portfolio can be attributed to PETER STUYVESANT's emphasis on the key messages of quality and high premium standards in a VFM brand and reinforcement of PALL MALL's menthol proposition in the VFM segment through its initiatives.



PALL MALL

PALL MALL continues to be the second largest brand in the VFM segment in 2011. PALL MALL kickstarted the year with an introduction of PALL MALL Ice, the first highly mentholated product with spearmint in Malaysia. Launched in March 2011, this new product offering further reinforced PALL MALL's position as the number one Menthol brand in the VFM segment with menthol share of segment of 59.9 percent in 2011.

Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.





PETER STUYVESANT

Following the successful launch of PETER STUYVESANT in 2010, the brand continued to support the vision of achieving VFM leadership through brand initiatives that emphasised premium and high quality propositions in a VFM brand. Two Limited Edition Packs were launched for both PETER STUYVESANT Red and Blue. The first Limited Edition Pack launched in May 2011 was an exclusive metal casing whilst the second Limited Edition Pack launched in June 2011 featured a foil stamped logo of PETER STUYVESANT on the pack.



PETER STUYVESANT was also the first in the market to launch the Click Pack in November 2011. The Click Pack is an innovation which features a hinge lid design that can be clicked shut.

Leading excellence in distribution with strategic trade marketing execution

Maintaining leadership in a dynamic environment by charting an effective distribution footprint to ensure sustainable growth in British American Tobacco Malaysia.

In 2005, British American Tobacco Malaysia began its distribution network consolidation journey after recognising the need to change the way its products were distributed in order to stay ahead of the curve. British American Tobacco Malaysia set up the in-house Direct Store Sales (DSS) operations to implement best practices in sales and distribution as well as to enhance its trade marketing execution.

Once these improved processes and in-market standards were fully established, British American Tobacco Malaysia began the next phase of the journey, which was to set up Exclusive Distributors (EDx) that were upskilled, setting them apart from the traditional Exclusive Distributors (EDs). By replicating the standards and best practices in in-house DSS operations, the EDx business partners were able to deliver objectives and goals according to our standards of excellence. As a result, British American Tobacco Malaysia's distribution model was a hybrid of the in-house DSS, EDx and EDs.

Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.



British American Tobacco Malaysia's in-house DSS operations in Peninsular Malaysia was successfully transitioned to EDx operations on 15 August 2011.

However, declining industry volumes due to the growth of the illegal cigarette trade heavily impacted the sustainability of traditional EDs' operations. In addition to this, the Company also experienced escalation of cost and resources in managing its in-house DSS operations.

Charting our Route-to-Market footprint to maintain excellence in a dynamic environment

Taking into account the increasingly unfavourable business conditions, British American Tobacco Malaysia embarked on one of its biggest change management journey in its history, which

was to transition the hybrid distribution model for Peninsular Malaysia into a full-fledged EDx distribution model. This decision was made following a full review on the Route-to-Market (RtM), which revealed that trade effectiveness of our EDx partners' operations have reached the same standards as our in-house DSS operations.

Transitioning British American Tobacco Malaysia's distribution model into a full-fledged EDx distribution model also enabled the Company to put more strategic focus on driving trade marketing activities in an EDx environment.

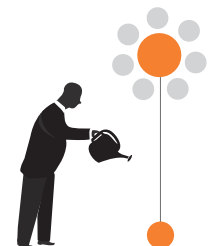
Emphasising transparent and comprehensive communication to employees on change management

In the process of transitioning British American Tobacco Malaysia's distribution model into a full-fledged EDx distribution model, great importance was placed on a transparent and timely communication to all impacted employees in the in-house DSS setups. Town hall briefings were conducted with relevant in-house DSS personnel to share the rationale of the transition, key timelines and the impact of this transition on each employee in the in-house DSS operations.

British American Tobacco Malaysia also opened various communication channels to gather feedback from employees during the transition period before finalising the transition plans. These communication channels included feedback boxes which were placed in the in-house DSS offices. These feedback were then channelled to the management for their review and response. Employees were also encouraged to provide feedback on this transition to their line managers and through the town hall briefings conducted.



In conclusion, through mobilisation of companywide support, British American Tobacco Malaysia's DSS operations in Peninsular Malaysia were successfully transitioned to EDx operations on 15 August 2011 and the new EDx distribution model for British American Tobacco Malaysia in Peninsular Malaysia will be fully completed by end May 2012.





Productivity

We channel our momentum towards working more efficiently to deliver effective results in an increasingly globally-integrated environment.

Channelling momentum to operate faster, better and smarter

Our business environment is rapidly evolving to be more globally integrated, spurring our operations around the world to adopt a more dynamic approach to maintain business sustainability. In our efforts to progress ahead of the curve in 2011, British American Tobacco Malaysia leveraged on the global scale of our operations to channel its momentum towards operating faster, better and smarter.

- Identified as Pilot Market for a globally standardised Enterprise Resource Planning (ERP) Solution.
- Implemented productivity initiatives that resulted in a reduction of 3,750 man-days and generated total savings of RM10.4 million company wide in 2011.
- Took on subcontract manufacturing volumes for Japan, Australia and Global Travel Retail.
- Implemented various key Information Technology (IT) initiatives in support of a more globally-integrated business.

Key highlights of 2011

Pioneering momentum towards a globally-integrated business

In early 2011, the British American Tobacco Global Systems Board put forward a proposal for British American Tobacco Malaysia to be the Pilot Market for a globally standardised Enterprise Resource Planning (ERP) Solution. The proposal was subject to the approval of British American Tobacco Malaysia's Board and relevant listing requirements. In July 2011, our Board of Directors approved this proposal. This marked a proud and historic moment for British American Tobacco Malaysia as we will pioneer the solution on behalf of the British American Tobacco Group.

What makes British American Tobacco Malaysia an ideal candidate as the Pilot Market can be summarised as follows:

- We have both the scale and scope of activities that makes the case for a global transformational programme credible in proving both the design and implementation methodology.
- We have good infrastructure and systems support provided by British American Tobacco Group's IT Services which is located in the Multimedia Super Corridor (MSC).
- Our current SAP system also needs to be replaced by 2014 and this requirement represented an opportunity for British American Tobacco Malaysia to bring forward its ERP system replacement.
- The strong sponsorship and leadership shown by the British American Tobacco Malaysia management team is seen as a critical success factor.
- During implementation, Malaysia will be provided with access to the Group's best practices and world-class resources.



The Asia Pacific Leadership Team visiting British American Tobacco Malaysia's factory to sign-off on the first round of contract manufacturing production.



New production machines setup in the factory to handle increased production volumes, resulting from contract manufacturing.

Highlights of 2011 in rolling out the ERP Solution

- Recommendation for British American Tobacco Malaysia to be the Pilot Market for a Global ERP Solution.
- Approval by the British American Tobacco Malaysia's Board for Malaysia to be the Pilot Market.
- Strong project governance process in place to ensure project is delivered according to plan.
- The robustness of the Global Solution was tested and exceeded expectations.

Success in the pilot will provide a strong platform to deliver long-term benefits which include:

- Simplified and standardised processes, giving more scope for Shared Services adoption.
- Fast and accurate period-end close.
- Automated, straight-through processing resulting in efficiencies.
- Adoption of a standardised reporting suite – less ad hoc reporting, more focus on understanding the numbers.
- Globally consistent planning and budgeting tools.

British American Tobacco Malaysia is proud to be given the opportunity to test the Global ERP Solution on behalf of the British American Tobacco Group.

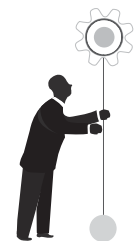
Driving towards our vision to be the No.1 Supply Chain in Asia Pacific

Following 10 years of landmark initiatives and programmes in delivering supply chain excellence under our Breakthrough Programme, British American Tobacco Malaysia took a few steps closer to our vision of being recognised as the number one regional supply hub for Asia Pacific.

In 2011, British American Tobacco Malaysia expanded our factory capabilities by taking on subcontract manufacturing for Japan, Australia and the Global Retail Travel. These manufacturing volumes were taken over from the RJ Reynolds factory in United States of America and British American Tobacco Australia, amongst others. This initiative was in line with British American Tobacco's focus on optimising cost-effectiveness of its manufacturing operations.

Additionally, in 2011, British American Tobacco Malaysia has also expanded on its export manufacturing to other British American Tobacco operating centres. These exports include manufacturing Lucky Strike for South Korea and Alain Delon for Cambodia. British American Tobacco Malaysia also saw an increase in volume production to meet British American Tobacco Japan's demand following Japan Tobacco's temporary closure due to the natural disaster that struck the nation in March 2011.

Overall, the additional manufacturing volume in 2011 marked an increase in British American Tobacco Malaysia's production volumes from 10.5 billion sticks in 2010 to 14.8 billion sticks in 2011. Managing this increase in production volumes has propelled British American Tobacco Malaysia towards better asset utilisation of our manufacturing plant and generated greater financial benefits through lowering operating cost base.





British American Tobacco Malaysia's Operations function team with the General Manager of British American Tobacco Japan and his team during a factory visit to Malaysia.

Overcoming challenges to demonstrate our world-class manufacturing expertise

Increasing production of subcontract manufacturing volumes also entailed an increase in the manufacturing complexity across end-to-end supply chain. In 2011, British American Tobacco Malaysia's supply chain saw an increase of manufacturing 120 types of brands and its variants in 2010 to 250. This increase in brand variants resulted in a corresponding increase in manufacturing complexity as manufacturing machines were required to produce according to the specifications of individual brand variants.

Additionally, British American Tobacco Malaysia also had to meet the stringent quality expectations and standards of the Japanese market on the manufactured products. As part of our commitment towards delivering customer satisfaction, British American Tobacco Malaysia's Quality Manager was seconded to British American Tobacco Japan for six months to better understand the quality standards and expectations of the Japan market.

Best practices identified from British American Tobacco Japan was implemented locally through a Clean, Set and Maintain campaign. The campaign focused on up-skilling our machine operators and factory personnel with knowledge on how to improve product quality performance.

This campaign was in line with our aim to overcome our challenges to deliver results that further demonstrates British American Tobacco Malaysia's world-class manufacturing expertise.

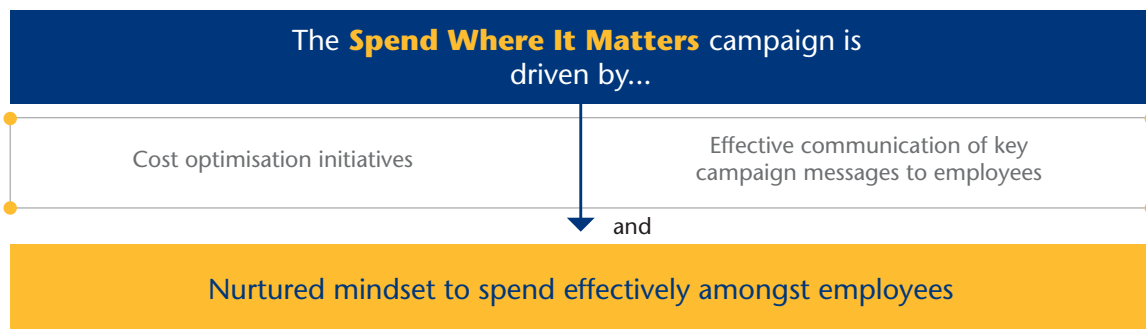
Enhancing supply chain operations moving forward

British American Tobacco Malaysia will also be supplying cut tobacco to Australia in 2012. This initiative is aligned with our efforts to increase efficiency of our manufacturing assets and British American Tobacco Malaysia has laid the groundwork of sourcing for necessary facilities and resources to prepare for this supply.

Implementing productivity initiatives to ensure business sustainability

Key initiatives to enhance company productivity were introduced through two campaigns, *Spend Where It Matters* (SWIM) and *Make Time To Win* (MTTW) in 2011. These campaigns were spearheaded by drive teams and aimed at reducing daily work complexity, as well as generating the resources needed to invest back into the business and grow sustainably.

The SWIM campaign targeted on creating a mindset amongst employees to spend effectively.





The MTTW campaign encouraged employees companywide to identify ways to work smarter and more efficiently.

Key highlights of initiatives from these two campaigns are outlined below:

SWIM initiatives:

- Optimised travel expenditure.
- Consolidated telecommunications service for employees.
- Obtained optimised services from external suppliers.

MTTW initiatives:

- Introduced 'work-life balance friendly' best practices and procedures (e.g. no meetings after 6.00 p.m.).
- Removed unnecessary red tape and bureaucracy.
- Educated employees to develop mindset to reduce unnecessary waste of resources by focusing on efforts to get things right the first time.

Resulting from these initiatives, the Company reduced 3,750 man-days of work and generated total savings of RM10.4 million companywide in 2011.

Leveraging on technology to spur momentum towards business sustainability

The Information Technology (IT) function is one of the key vehicles of change to transition British American Tobacco's operating model into an above market global enterprise. British American Tobacco Malaysia, in turn, has embarked on its journey to transition into a more globally integrated enterprise to deliver a more effective way of working. Several of its key initiatives in support of this goal are outlined below:

■ Centralising IT talent pool in Malaysia

In October 2011, 10 British American Tobacco Malaysia IT employees were transferred to Group Services Delivery (GSD) Kuala Lumpur, which is our global British American Tobacco IT shared services entity based in Technology Park Malaysia. This initiative has allowed IT to manage its global talent pool more effectively and enhance global alignment of IT management.

■ Streamlining IT applications portfolio

Following the focus to further streamline IT applications and ensure the IT landscape is in a sharper, fitter state to land the Global ERP solution in 2012, a review on the current IT applications was conducted to decommission existing non-value-adding applications. Subsequently, four local applications were decommissioned and their functionality migrated into existing global systems. By streamlining our IT portfolio, cost of ownership for IT applications has been reduced by RM100,000 per annum.

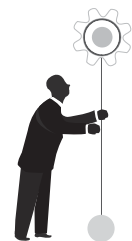
■ Technical upgrade of British American Tobacco Malaysia's Sales System

In mid-2011, Swift, the sales system used by British American Tobacco Malaysia's field force underwent a major technical upgrade. The Swift system is hosted on a shared platform with four other British American Tobacco end-markets. This initiative leveraged on a regional project team comprising of IT personnel and business users to deliver the upgrade successfully.

Blend7 – Core Desktop Application

Blend7 is a global initiative by British American Tobacco to deliver the latest desktop upgrade of core components to all British American Tobacco users in line with the British American Tobacco Group's objective of streamlining our IT systems globally. This desktop upgrade replaced the previous IT interface environment and consists of upgrades to Windows 7, MS Office 2010, Lotus Notes 8.5 and other security enhancements to deliver an improved computing experience.

Blend7 is a prerequisite towards supporting the technical requirements for an above-market enterprise, including the Enterprise Resource Planning (ERP) Solution. Malaysia is one of the first three markets across the British American Tobacco p.l.c Group to deploy Blend7. At the end of 2011, Blend7 was deployed to more than three quarters of British American Tobacco Malaysia users, with more than 100 applications tested and packaged as part of the project.





Responsibility

Driving momentum of a responsible corporation towards a long-term business sustainability



Responsibility to British American Tobacco Malaysia is a prerequisite which defines how we operate our business. As such, we are committed to keep the momentum going in embedding a sustainable way of working throughout our operations.

British American Tobacco Malaysia is steadfast in our belief that responsibility is integral to everything we do, and is especially important to a business such as ours where our products pose real risks to health. Our determination to act responsibly spans the whole business and is underpinned by our emphasis on creating sustainability in the environment we operate in.

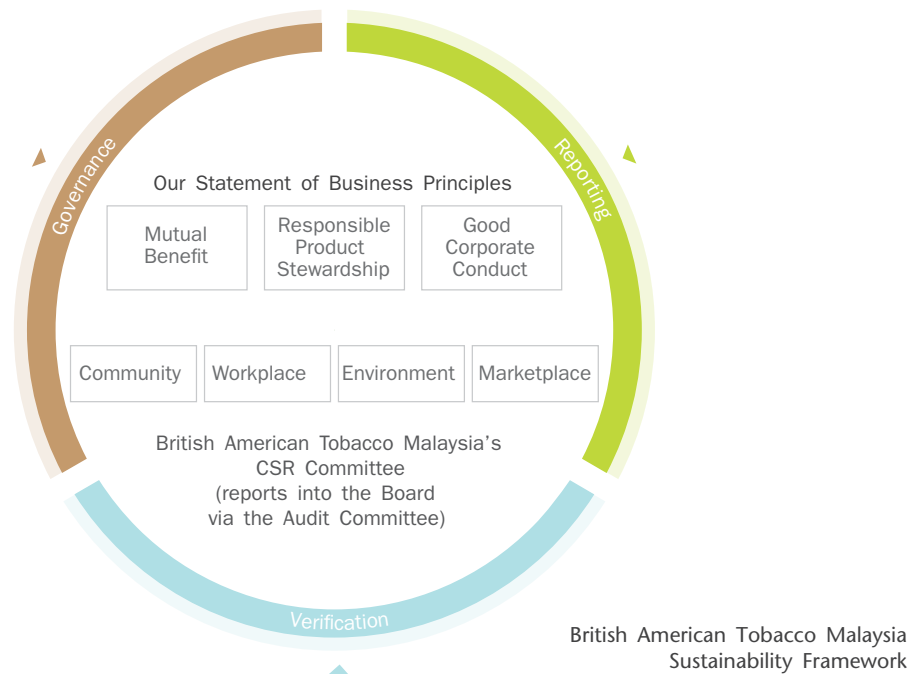
Sustainability to British American Tobacco Malaysia is all about shared value – developing economic value in a way that also creates value for our stakeholders. How we do this is through addressing key business-related social, environmental and economic impacts to build that stakeholder and shareholder value, thereby improving our commercial sustainability.

As we progress into an increasingly dynamic business environment, British American Tobacco Malaysia has seen an evolvement of stakeholder expectations, providing us with the impetus to step up and enhance value for our stakeholders by implementing a step-change in how we approach sustainability.

In line with this, British American Tobacco Malaysia constantly strives to improve the way we build sustainability into our economic, environmental and social framework. Many of the Company's initiatives, such as its Afforestation Programme to offset the Company's carbon dioxide emissions, building homes for the hardcore poor and robust Environment, Health and Safety (EHS) programmes, just to name a few, are demonstrative of these efforts.

In 2011, our initiatives continued to be based on the framework of Community, Environment, Workplace and Marketplace. Our commitment towards adhering to this framework and meeting our stakeholders' expectations is in line with our goal towards a holistic sustainability approach.

Our momentum towards entrenching responsibility in our operations is spurred on by the dedication of our people and the commitment of the Company with the goal of achieving long-term business sustainability.



Sustainability agenda – commitment from the top

The governance of our sustainability agenda is a process that we take very seriously in British American Tobacco Malaysia, as we strongly believe in embedding the ethos of sustainability at the core of our business. Demonstrating its commitment from the top, the Company’s sustainability agenda is governed by a Corporate Social Responsibility (CSR) Committee. Our CSR Committee comprises of all members of British American Tobacco Malaysia’s functional directors (also known as the ‘Top Team’) and is chaired by the Managing Director.

The objectives of the CSR Committee are as follows:

- Identification and management of key social and environmental issues.
- Engagement with relevant stakeholders on corporate responsibility initiatives.
- Monitoring efficiency and effectiveness of corporate responsibility management systems and controls.
- Ensuring reliability of social and environmental performance management information.
- Monitoring alignment with the Company’s Statement of Business Principles – Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct.

The CSR Committee reports on the Company’s sustainability initiatives to the Board of Directors via the Audit Committee and meets at least twice a year. This line of reporting is further escalated to the British American Tobacco Regional Audit and CSR Committee, which in turn reports to the British American Tobacco Global Audit and CSR Committee. A dedicated CSR team is also tasked to coordinate and implement sustainability initiatives.

In our efforts to further drive awareness on our sustainability agenda, the sustainability team in 2011 continued to work together to identify, implement and monitor sustainability initiatives company wide.

British American Tobacco Malaysia’s sustainability framework

British American Tobacco Malaysia’s sustainability initiatives are conducted with clear alignment to Bursa Malaysia’s CSR framework, which was launched as a guideline for public listed companies in 2007.

As we evolve from the Corporate responsibility into sustainability, we have continued to use this framework. We believe that a company’s sustainability focus is dependent on the business impact of its operations in the four areas of Community, Workplace, Environment and Marketplace.



Community



Our community

British American Tobacco Malaysia strongly believes that operating as a responsible corporation entails supporting our surrounding communities. This is why we are committed towards the sustainability of these communities.

In line with this sustainability agenda, British American Tobacco Malaysia has embarked on numerous initiatives to give back to the community in which we operate.

Key highlights in 2011 under our Community pillar

Poverty alleviation	Education	Employee volunteerism	Environment	Underprivileged/disabled community
- Building 20 homes for the hardcore poor in Kedah.	- Awarded scholarships to 28 students . - Provided Higher Education Starter Kits to 242 students .	- Organised six employee volunteer programmes. - Extended Employee Volunteer Programme across Peninsular Malaysia.	- Volunteered time towards environmental conservation by cleaning a waterfall and a beach.	- Volunteered time with the disabled, orphans and disadvantaged communities throughout Malaysia.



British American Tobacco Malaysia Foundation Chairman, William Toh, officiating the groundbreaking ceremony for the homes, together with KEDA Chairman Y.B. Dato' Paduka Ahmad Md. Hanapiah.



A total of 28 students received scholarships from the British American Tobacco Malaysia Foundation.

Building homes for the hardcore poor

Quick facts: In 2011, the British American Tobacco Malaysia Foundation collaborated with the Kedah Regional Development Authority (KEDA) to build 20 homes for the hardcore poor of Kulim, Kedah.

Following its successful collaboration with the Kelantan Southern Development Authority (KESEDAR) in building 15 homes for the hardcore poor in Gua Musang in 2010, the British American Tobacco Malaysia Foundation has continued its efforts in contributing towards poverty eradication with the building of 20 homes for the hardcore poor of Kulim, Kedah.

A collaborative effort with the Kedah Regional Development Authority (KEDA), the initiative is estimated at a cost of RM660,000 and will provide a decent home for 20 mid-sized hardcore poor families under the Program Penempatan Masyarakat Setempat (PPMS). The PPMS is one of the many programmes established by the Government to reduce the national poverty rate and eradicate hardcore poverty.

Awarding scholarships to nurture the leaders of tomorrow

Quick facts: In November 2011, the British American Tobacco Malaysia Foundation awarded scholarships to 28 students from the retailers and leaf growers community, as well as employees and their children.

British American Tobacco Malaysia strongly believes that a solid education lays the foundation for a successful future. In November, it held its Foundation Day scholarship awards ceremony, awarding scholarships to 28 students from the retailers and leaf growers community, as well as employees and their children. The scholarships awarded amounted to RM317,618 and covers the full duration of the recipients' courses.

To date, the British American Tobacco Malaysia Foundation has awarded scholarships to more than 2,000 Malaysians, bringing the total investment of the Foundation to more than RM15 million.



National Kenaf and Tobacco Board Director-General En. Ahmad Loman (centre) and British American Tobacco Malaysia's Head of Leaf En. Mohd. Yusof Alias (center left) posing together with students during the HESK Awards Ceremony in Kubang Kerian, Kelantan.



Providing financial aid for higher education to the tobacco growing community

Quick facts: In August 2011, the British American Tobacco Malaysia Foundation embarked on its 10th year collaborating with the National Kenaf and Tobacco Board (NKTB) in the Higher Education Starter Kit (HESK) Programme to the tobacco growing community to ease financial difficulties in pursuing higher education.

On 23 August 2011, a total of 242 recipients received their Higher Education Starter Kits (HESK) which totalled RM147,000. The event was officiated by the NKTB Director-General En. Ahmad Loman, joined together by En. Mohd Yusof Alias, our Head of Leaf.

Students pursuing diploma courses received RM500, while those pursuing degree courses were awarded RM700. This fund goes

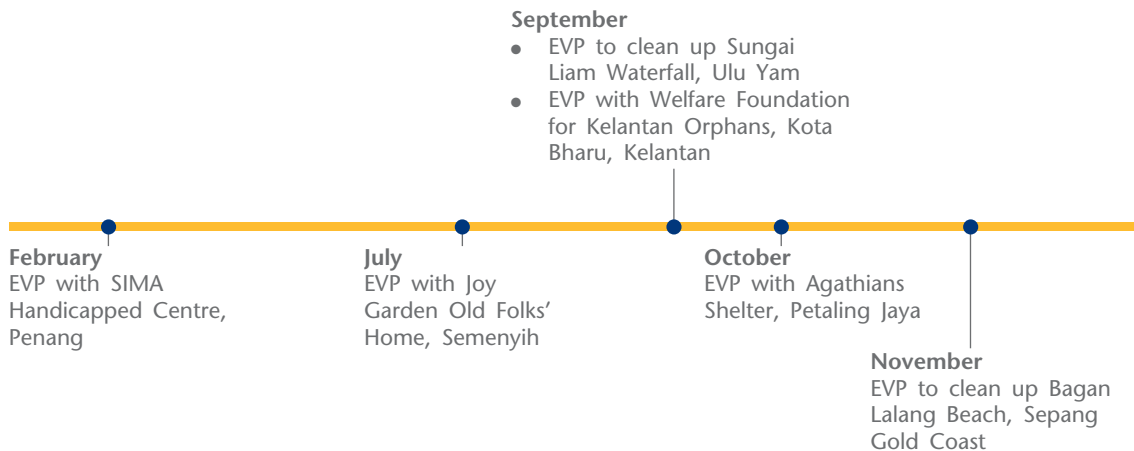
a long way in helping these students to get necessities such as books, clothes, accommodation and transportation.

The HESK programme is a jointly sponsored initiative between the British American Tobacco Malaysia Foundation and NKTB since 2003. To date, more than RM1.2 million have been awarded to more than 3,000 students under this programme.

Organising Employee Volunteer Programmes for a deserving cause

Quick facts: The British American Tobacco Malaysia Foundation organised six Employee Volunteer Programme (EVP) activities throughout 2011, extending the initiatives across Peninsular Malaysia for the first time. This was also the highest number of EVP activities conducted in a year since its inception.

The Employee Volunteer Programme (EVP) activities throughout 2011 are outlined below:



We believe that the culture of giving back to our communities should be inculcated from within. As such, for the past nine years since its inception, the EVP continues to involve our employees dedicating their time and effort for a good cause.

In 2011, the EVP activities, which were previously held in Klang Valley, were extended to the other states in Peninsular Malaysia to enable our employees to reach out to more communities and support needy causes. The EVP activities were also shifted to be conducted on weekdays, to encourage employee participation and support of the programme.

We also continued conducting our EVP activities during festive seasons to spread warmth and cheer to the less fortunate. The British American Tobacco Malaysia Foundation kickstarted its EVP activities by spending time with the residents of SIMA

Handicapped Centre, Penang, in conjunction with Chinese New Year. Hari Raya festivities were celebrated with the orphans from the Welfare Foundation for Kelantan Orphans in Kota Bharu. During the Deepavali festive period, our employees spruced up the Agathians Shelter in Petaling Jaya and spent time with the residents there.

Other EVP activities conducted throughout the year also included a visit to the Joy Garden Old Folks' Home in Semenyih to help them build a vegetable patch, as well as activities to clean up the Bagan Lalang beach in Sepang Gold Coast and the Sungai Liam Waterfall in Ulu Yam, Selangor.

For further information on our environment-related EVP activities, please refer to our ENVIRONMENT section of the Responsibility pillar.



- 1 Volunteers entertaining residents from SIMA Handicapped Centre in Penang.
- 2 Volunteers helping the Agathians Shelter in Petaling Jaya build a surrounding wall.
- 3 Treating orphans from Welfare Foundation for Kelantan Orphans to a sumptuous meal during the Raya EVP.



Workplace



Key highlights of 2011:

- Improved employee work-life balance by optimising the way we work and reducing 3,750 annualised man-days of work.
- Employed robust communications strategy to deliver clear line of sight to employees on the Company's direction.
- Awarded Environment, Health and Safety Merit Award for Zero Lost Workday Case in Tobacco Importers and Manufacturers and for One Million Man-hours with Zero Lost Workday Case in Commercial Marketers and Distributors.

Engaging employees

We believe that a high performance workforce depends on a precise understanding of a company's strategy and direction. This is why British American Tobacco Malaysia places great emphasis on a robust communication strategy to provide our employees from every level of employment with a clear line of sight of how their roles and responsibilities are aligned to the Company's strategy and direction. Through this clear line of sight, our employees also gained a better understanding of how they contributed to the Company's growth and sustainability.

Our communication strategy in 2011 leveraged on numerous communication channels that comprised of direct communication (i.e. face-to-face) and indirect communication (i.e. circulars, regional newsletters and etc.).

Our communication channels and activities for 2011 are outlined below:

- **Indirect communication**

Our indirect communication channels disseminate important announcements, company notices and key updates on projects and programmes to all employees. These communication channels include the company intranet, notice boards and company email lists.

- **Direct communication**

In 2011, we disseminated our key business information through direct communication channels outlined below:

	Business Update (Employee town hall sessions)	Functional Team Talks	Focus Group Sessions
Scheduled dates	January, March, May, August, December	March, May, July, August, October, December	January to September
Objective	To share updates on the global business, the region we operate in (i.e. Asia Pacific), as well as the business in Malaysia.	<i>(See Business Update objectives)</i> Additionally, updates from individual functions are also shared companywide.	To communicate the Company's strategic direction for 2011 and obtain feedback on what is working in the Company and ideas for improvement.
Audience	Management employees	All employees	All employees
Spokesperson	Managing Director, Top Team and senior management	Senior management	Top Team and senior management



Employee propositions

British American Tobacco Malaysia constantly reviews and improves its propositions to employees to nurture a winning organisation and sustain a strong talent pipeline. These compelling propositions that we offer to our employees include:

- A reward structure that pays competitively for performance.
- Strong career development opportunities.
- Robust talent development programmes.
- Great working environment.
- Emphasis on work-life balance as well as employees' wellbeing.

Our propositions above demonstrate British American Tobacco Malaysia's commitment towards focusing our efforts where it matters – our people.

For further information on our employee propositions, please refer to our Winning Organisation pillar and Global Reporting Initiative Indicators section.

Focusing on employee welfare and quality of life

British American Tobacco Malaysia recognises the need for our employees to balance their work schedules with quality of life. In 2011, one of the Company's key priorities was on creating a more balanced work-life culture amongst its employees, prompting the launch of its campaign entitled, *Make Time to Win*. Through this campaign, a team with representatives from all functions was set up to review the root causes of work life imbalances and recommend solutions and ideas for improvement.

Through this campaign, numerous processes and red tape companywide were streamlined and optimised, resulting in a reduction of approximately 3,750 man-days of workload for employees. Additionally, tips and advice were also communicated via our direct and indirect communication channels to educate employees on how to practice better work-life balance.

Additionally, the Company's in-house clinic provided health-related education, counselling, prevention and other programmes for employees to ensure their health and general wellbeing were well taken care of.

For further information on initiatives on employee welfare and quality of life, please refer to our Winning Organisation pillar and Global Reporting Initiative Indicators section.

Employee safety

British American Tobacco Malaysia has always placed great emphasis on sustaining our high standards of Environment, Health and Safety. Our stringent standards extend to maintaining the safety of our employees in the workplace. In 2011, British American Tobacco Malaysia received the Environment, Health and Safety Merit Award by British American Tobacco for Zero Lost Workday Case (LWC) for its subsidiary, Tobacco Importers and Manufacturers. The Company's subsidiary, Commercial Marketers and Distributors also garnered the same award for One Million Man-hours with Zero Lost Workday Case.

Our emphasis on high safety standards applies not only to our employees but also to the business partners we work with. In 2011, we continued our initiative to ensure all external contractors working at British American Tobacco Malaysia adhered to high safety standards through the Green Card Programme.

All supervisors for contractors that have been hired by British American Tobacco Malaysia for contract work around our premises were required to undergo the Green Card Programme. In the Green Card Programme, these contract supervisors were briefed by our Environment, Health and Safety (EHS) team on the EHS policies and regulations in British American Tobacco Malaysia. The contract supervisors then underwent an evaluation session to ensure they have full understanding of these policies. The Green Card Programme was held in July and December 2011, to 49 participants.

We also conducted a Defensive Driving Training Programme for selected employees to train them on handling their vehicles during an emergency situation. This programme was aligned to the national 1Malaysia staff upskilling and safety programme and received recognition from the Ministry of Human Resources, Malaysia.

Environment



Key highlights of 2011:

- Environmental management governed by stringent policies.
- Implemented various initiatives to improve management of energy, water, waste, air and noise pollution.
- Continued to drive a carbon positive business forward.
- Inculcated awareness and provided education on biodiversity.

Our environmental policy

British American Tobacco Malaysia's commitment to improve its business operations in the aspects of ensuring environmental responsibility to enhance its business sustainability is governed by the tenets outlined in its Global Environment, Health and Safety and Integrated Management System (IMS) policies.

Our Global Environment, Health and Safety policy applies the best international standards of practice in all aspects of its operations throughout the British American Tobacco world. The IMS policy acts as a guideline for all employees to understand and practice their individual responsibilities in all aspects of Quality, Environment, Health and Safety in our business operations. Formulated and implemented by our fully-owned subsidiary, Tobacco Importers and Manufacturers, the IMS policy is certified by three international standards (ISO 9001, ISO 14001 and OHSAS 18001).

Upholding high standards of responsible management

British American Tobacco Malaysia also recognises the importance of maintaining the high standards underpinning our IMS policy. In July 2011, external auditors, Lloyds' Register Quality Assurance conducted an audit to reaffirm our certification of the standards outlined below for the ninth consecutive year, after rigorous reviews of our systems which also included site inspections, documentation verification and interviews with employees and contractors. This stands as a testament to our emphasis on high standards of responsible management.

- ISO 9001: 2008, for a quality management system that consistently provides and enhances products that meets regulatory requirements and delivers customer satisfaction.
- ISO 14001: 2004, for implementing, maintaining and improving our environmental management system.
- OHSAS 18001: 2007, for effective management of occupational health and safety in reducing risk and improving performance.

Implementing initiatives to promote environmental sustainability

British American Tobacco Malaysia recognises the importance of understanding and taking proactive measures to reduce our impact on the environment to proactively ensure environmental and business sustainability via the programmes and initiatives outlined below:

● Reducing energy consumption

In 2011, our manufacturing subsidiary, Tobacco Importers and Manufacturers installed an additional economiser in our factory operations to reduce fossil fuel consumption, which will reduce the amount of carbon dioxide emitted. These economisers are installed to our boilers in the factory and also to recover heat in exhaust gases released from our factory operations into the atmosphere.

As such, with the operation of these economisers, we can reduce overall consumption of natural gas used in our manufacturing process as well as reduce the amount of carbon dioxide emissions and heat released into the atmosphere. This in turn, reduces our operation's impact on the environment.

● Improving waste production and management

Biofilters are used in the Company's factory premises to remove odour organically from exhaust gases released into the atmosphere from our factory operations. In November 2011, the organic woodbark material used in one of our biofilters were replaced and the subsequent waste material was sent to Recycle Energy Sdn Bhd to be converted into Refuse Derived Fuel, an alternative source of energy. The second biofilter is planned for replacement in 2012.

Additionally, the Company's Effluent Treatment Plant, which treats waste water from the factory operations also upgraded its capacity by 25 percent in November 2011. One composting site was also constructed to encourage development of compost from garden waste. Compost generated from this site was used for landscaping the Company's compound.

1



1

We improved our waste production and management by upgrading our Effluent Treatment Plant capacity in 2011.



- 2 Additional economisers were installed in 2011 to reduce the Company's fossil fuel consumption.
- 3 Operations Director, Dato' Chan Choon Ngai officiating the installation of water tanks to reduce water consumption.
- 4 British American Tobacco Malaysia's Environment, Health & Safety and Technical Facilities Manager visiting the Company's afforestation site in Ulu Tungud, Sabah.

● **Enabling more effective water consumption**

In conjunction with World Environment Day in June 2011, British American Tobacco Malaysia installed a rain water harvesting tank in the factory premises. This tank operates to collect rain water directed from the factory area. Built from recycled water tanks, it has a capacity of 2,200 litres. Harvested rain water is recycled for use in daily cleaning of our waste disposal area and management of factory waste processes.

The rain water harvesting system is projected to reduce domestic water consumption by 100,000 litres annually.

● **Enhancing air, atmosphere and noise pollution management**

The Company has also installed acoustic curtains and erected a noise enclosure around the air compressors in the factory to reduce overall noise emissions.

For further information on British American Tobacco Malaysia's initiatives in reducing air and atmosphere pollution, please refer to the initiatives on 'Improving waste production and management' and 'Reducing energy consumption' outlined in the previous page.

● **Driving a carbon positive business**

British American Tobacco Malaysia is committed to supporting long-term environmental sustainability through reducing its carbon footprint. This is aligned to the nation's goal of reducing 40 percent of its carbon dioxide (CO₂) emissions by the year 2020 compared to 2005 levels.

Eleven years ago, British American Tobacco Malaysia initiated an afforestation programme which has contributed approximately 6,467 hectares of various tree species (equivalent to 8,858 football fields). Planted in Forest Management Unit No. 4 in Ulu Tungud, Sabah, the afforestation programme has sequestered more than 230,000 tonnes of CO₂ per annum.



Annual checks to verify the net hectareage of surviving trees and their growth rate are conducted by an external third party auditor, SGS Forestry. Additionally, our afforestation programme partner, TSH Resources Berhad carried out constant monitoring and maintenance of the trees planted.

In 2011, British American Tobacco Malaysia's total CO₂ emission was 38,549 tonnes and current projections demonstrate that we will remain carbon positive until 2024 based on present business operations.

- **Educating employees on protecting biodiversity**

Our employees were also encouraged to play active roles in preserving biodiversity through two Employee Volunteer Programmes (EVP) in 2011. In September, the British American Tobacco Malaysia Foundation collaborated with Waterfall Survivors, a non-government organisation that supports the preservation of waterfalls, to clean up the Sungai Liam Waterfall in Ulu Yam, Selangor.

Employees who participated in the cleanup were given a talk by Waterfall Survivors on the pollution levels of our waterfall areas and the importance of protecting its biodiversity. The British American Tobacco Malaysia Foundation also organised a cleanup of the Bagan Lalang beach in Sepang Gold Coast in November 2011 under the EVP banner.

- **Benchmarking key business partners against our environmental standards**

The Environment, Health and Safety (EHS) Mentoring Programme is a three-year programme that was developed in 2008 with the objective of benchmarking our key business partners' EHS standards against ours and to share with them our business expertise and best environment, health and safety practices. Key business partners were reviewed and identified by British American Tobacco Malaysia's management team to undergo this programme.

Currently in 2011, two business partners, TASCOS, who provides logistics service, and Parkside, who supplies packaging material to British American Tobacco Malaysia, are undergoing the EHS Mentoring Programme with the Company.



Volunteers successfully cleaned up the Bagan Lalang beach in Sepang Gold Coast in November 2011.



Volunteers cleaned up Sungai Liam Waterfall in Ulu Yam in September 2011.

Marketplace



Key highlights of 2011:

- Supported Confederation of Malaysian Tobacco Manufacturers to increase public awareness on illicit trade in the country.
- Rolled out SAP eSourcing tool to manage tender processes for indirect procurement.
- Complied with key regulatory requirements that took effect in 2011:
 - Requirement to apply for Retail Selling Price (RSP) of tobacco products to the Ministry of Health.
 - Requirement to apply for Retail Selling Price (RSP) to the Ministry of Health due to change in excise duty and sales tax.
 - Requirement to sell tobacco products with a Retail Selling Price (RSP) approved by the Ministry of Health.
 - Increase in the Minimum Cigarette Price (MCP).

Tackling illicit trade in Malaysia

It is estimated that four out of every 10 packs of cigarettes sold in Malaysia are smuggled from outside Malaysia, for which taxes or duties are evaded. This translates into nine billion sticks of illegal cigarettes consumed each year in Malaysia, costing the Government an estimated RM2 billion in taxes lost annually. The Illicit Cigarette Study in 2011 by TNS-RI, an international agency recorded Malaysia's illicit cigarette trade at 36.1 percent of the total market. A global tobacco report in 2009 released by global investment banking, securities and investment management firm Goldman Sachs further ranked Malaysia as number one in the world for illegal cigarette trade following a study of 52 countries around the world.

Cigarettes are the most commonly traded products in the black market due to good profit margins and relative ease of production and movement. It is estimated that the Government has suffered a compounded tax revenue loss in the region of RM15 billion over the last 10 years due to the illicit trade in cigarettes.

The Confederation of Malaysian Tobacco Manufacturers (CMTM), of which British American Tobacco Malaysia is a member, continued to drive its awareness campaign on illicit trade to retailers by distributing information leaflets to more than 80,000 retailers nationwide. These leaflets set out the enforcement activities undertaken by the enforcement agencies, laws and penalties related to illicit cigarette trade and key pointers to differentiate between illegal and legal cigarettes.

CMTM also provided support to the Royal Malaysian Customs (RMC) on their anti-illicit trade campaign called OPS PACAK. OPS PACAK is a campaign to raise awareness on the problems of illicit cigarette trade amongst retailers and the public, and also to crack down on its rampancy through enforcement activities. The OPS PACAK campaign has been run by the Royal Malaysian Customs since July 2010 in the following areas:-

15 July 2010	Chow Kit, Kuala Lumpur
21 December 2010	Semenyih, Selangor
20 May 2011	Tanjung Bidara, Melaka
25 June 2011	Pontian, Johor
12 July 2011	Selayang, Selangor
21 November 2011 to 3 December 2011	Seberang Prai Tengah, Penang
21 November 2011 to 17 December 2011	Rinching, Semenyih, Selangor
9 November 2011 to 22 December 2011	Teluk Intan, Perak

In order to raise the level of awareness on illicit cigarette trade and to identify key illicit brands in Malaysia, CMTM also proactively engaged with various law enforcement agencies which included the Royal Malaysian Customs, the Royal Malaysian Police, Malaysian Maritime Enforcement Agency and the Ministry of Health Enforcement division through dialogues.



The Royal Malaysian Customs of Melaka together with CMTM Chief Executive, Shaik Abbas Ibrahim in an OPS PACAK campaign.



The Royal Malaysian Customs of Perak destroying illegal cigarettes in an OPS PACAK campaign.

Retailer roadshows were organised by CMTM together with local enforcement agencies. These targeted around 300 retailers in hotspots for illicit trade in the Malaysian states of Selangor, Malacca, Penang, Johor, Perak and Kuala Lumpur. The retailers were provided with information on the various security features on legal cigarette packs and reminded of the laws and penalties relating to the sale of illicit cigarettes.

The issue of illegal cigarette trade was acknowledged by the Honourable Prime Minister of Malaysia, Dato' Sri Najib Tun Abdul Razak who explained that the decision not to increase excise on cigarettes in the national budget for 2012 was due to the current high levels of illicit cigarette trade. He added that excise tax on cigarettes can be increased at any time, appropriate with current prices. British American Tobacco Malaysia is committed to continue to work with the various enforcement agencies and industry partners to promote awareness of this serious issue.

Procurement policies and procedures

British American Tobacco Malaysia believes strongly in embedding the culture of transparency and openness throughout all aspects of our operations, particularly in how we conduct our procurement processes with external business suppliers.

The Company's Procurement Policy, which is approved by the Board of Directors, outlines the processes and procedures involved in the acquisition of all goods and services throughout the Company and encompasses the vendor selection process. The Procurement Policy also outlines the responsibilities of all functions in this process.

In February 2011, the Company rolled out the SAP eSourcing tool to replace the manual process of conducting tenders for indirect procurement in British American Tobacco. The SAP eSourcing tool is a global British American Tobacco platform that manages end-to-end tender proceedings between external vendors and British American Tobacco Malaysia. Implementation of this tool enhances the overall transparency and efficiency of the tender process.

Product responsibility

At British American Tobacco Malaysia, we accept that smoking is a health risk. Our business is not about persuading people to smoke but in offering quality brands to adult smokers. As such, in line with maintaining transparency towards our products, we want our consumers and stakeholders to know the facts of ingredients used by our Company in the manufacture of tobacco products.

This is why British American Tobacco Malaysia took the lead six years ago in the local tobacco industry to voluntarily publish ingredients in our products on a website that is accessible by the general public.

Regulatory developments in 2011

British American Tobacco Malaysia supports sensible tobacco regulations that balances the preferences of consumers with the interests of society and enables our business to continue to compete since tobacco consumption poses real risks to health. We believe that our business must demonstrate responsibility in everything that it does and this includes compliance with regulatory requirements.

In 2011, further regulatory requirements were introduced through amendments by the Ministry of Health to the Control of Tobacco Product Regulations 2004 (CTPR 2004).

The key regulatory developments which took effect in 2011, were:

1. Requirement for Retail Selling Price (RSP) of tobacco products to be approved by the Ministry of Health

With effect from 1 April 2011, the Ministry of Health requires all manufacturers and importers of a tobacco product to apply in writing to the Director of the Ministry of Health for approval on the RSP of any tobacco product for sale in domestic market.



Information leaflets on illegal cigarette trade distributed to over 80,000 retailers nationwide.



2. Requirement for Retail Selling Price (RSP) to be approved by the Ministry of Health due to change in excise duty and sales tax

With effect from 1 April 2011, the Ministry of Health requires all manufacturer or importer of a tobacco product to apply in writing to the Director of the Ministry of Health on the RSP of any tobacco product for sale in domestic market within seven days after a change in excise duty and sales tax.

Application for the RSP approval has to comply with the following requirements:

- The RSP of each tobacco products must be increased at least to the sum of the retail selling price prior to the change in excise duty and sales tax added with the quantum of total change of excise duty and sales tax. The sum shall be rounded up to the nearest 10 sen.
- The quantum of total change of excise duty and sales tax means that for every increase of 1 sen per stick of excise duty and sales tax on tobacco product, the quantum of total excise duty and sales tax increased shall be 1.05 sen for each stick of such tobacco product.

3. Requirement to sell tobacco products with a Retail Selling Price (RSP) approved by the Ministry of Health

With effect from 1 April 2011, sale of any tobacco product with a RSP not approved by the Ministry of Health is an offence, which if convicted, be liable to a fine not exceeding RM10,000 or to imprisonment for a term not exceeding two years, or to both.

4. Increase in the Minimum Cigarette Price (MCP)

With effect from 1 April 2011, the MCP was revised via amendments to the Tenth Schedule of CTPR 2004 from 32 sen per stick or RM6.40 for a pack of 20 sticks cigarettes to 35 sen per stick or RM7.00 for a pack of 20 sticks cigarettes.

In addition, the Ministry of Health also issued a Declaration of Non-Smoking Area 2011 which specified five non-smoking areas in the state of Melaka. The five non-smoking areas in Melaka are:

- City of World Heritage, Melaka City, under the Melaka Historic City Council.
- Melaka Raya, under the Melaka Historic City Council.
- Melaka International Trade Centre, under the Hang Tuah Jaya Municipal Council.
- Alor Gajah town, under the Alor Gajah Municipal Council.
- Jasin town, under the Jasin Municipal Council.

Smoking is prohibited in all buildings, premises, public places or land within the specified non-smoking area except for any roads located in the area for all five areas in Melaka. However, for Jonker's Walk which is located in the City of World Heritage, Melaka City and Jalan Kota, which is located in Melaka Raya, Melaka Historic City Council, no smoking is allowed in any area.

As a responsible company, British American Tobacco Malaysia is fully compliant with all relevant legislation enacted by the Government governing the manufacturing, marketing and sale of our products.

Global Reporting Initiative (GRI) Indicators

To demonstrate accountability and transparency, British American Tobacco Malaysia is once again incorporating key Global Reporting Initiative (GRI) Indicators in its reporting to provide a comprehensive disclosure of its economic, environmental, social and governance performance in 2011. This is the third year that the Company is continuing this initiative in line with its sustainability agenda to demonstrate its commitment in operating responsibly.

The GRI Indicators form an integral part of the GRI vision, whereby the GRI Reporting Guidelines are recommended for organisations to use as a basis for their annual reporting.

For more information
on the Global Reporting
Initiative, please log on to
www.globalreporting.org.

GRI Code	Issue Area	Response for 2011
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	<p>Direct economic value generated (Revenues): RM4,141 million</p> <p>Economic value distributed:- Operating costs: RM882 million Employee wages and benefits: RM165 million Payment to providers of capital: RM807 million</p> <p>Payment to government in the form of taxes: RM2,333 million Community investment: RM1.6 million Economic value retained: – RM68 million*</p> <p>*Due to total dividend payout in 2011</p>
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	British American Tobacco Malaysia has continually implemented measures to reduce its business environment footprint by adopting a multi-pronged approach which encompassed changing employees' behaviour, investing in new technology, improving product designs and practising voluntary carbon off-set through its Afforestation Programme located in FMU No.4, in Ulu Tungud, Sabah.
EC3	Coverage of the organisation's defined benefit plan obligations.	British American Tobacco Malaysia contributed an additional four percent into the employees account, in excess of the 12 percent mandatory employer Employees Provident Fund (EPF) contribution. Altogether, British American Tobacco Malaysia contributed 16 percent to employees' EPF. Employees contribute 11 percent to EPF.
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	<p>British American Tobacco Malaysia procured from the most competitive supplier offering the highest product quality, regardless of whether it was a local or overseas supplier.</p> <p>British American Tobacco Malaysia practices the Business Enabler Survey Tool (BEST) to select its suppliers. The top 90 percent of vendors (by volume) were all surveyed using BEST, which covers management policies such as education and training, competency and technological enhancement, safety and regulatory compliances, business ethics and environment responsibility.</p> <p>The proportion of spending on locally-based suppliers in 2011 was 55 percent against 75 percent in 2010.</p>
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	<p>British American Tobacco Malaysia hired the most talented personnel, regardless of whether they were local or foreigners. The senior management, defined as the "Top Team" consisted of 71 percent local hire in 2011.</p> <p>Formula $(5 \div 7) \times 100$ percent = 71 percent</p>
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Please refer to pages: 95 to 97 on the British American Tobacco Malaysia Foundation which encompass Eradicating Poverty by 2010 (E10), the Higher Education Starter Kit (HESK), Foundation Scholarships and Employee Volunteer Programme (EVP).
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	<p>A total of 23 British American Tobacco Malaysia Foundation Scholarship recipients completed their higher education in 2011 and were ready to join the country's skilled workforce.</p> <p>In comparison, a total of 20 British American Tobacco Malaysia Foundation scholarship recipients graduated in 2010.</p>

GRI Code	Issue Area	Response for 2011
EN1	Materials used by weight or volume.	<p>Total materials: 30,946 tonnes</p> <p>Non-renewable materials: 5,204 tonnes <i>(Parts, fuels, cleaning materials, chemicals and processing aids)</i></p> <p>Direct materials: 25,742 tonnes <i>(Leaf, wrapping, packaging, filter and flavouring)</i></p> <p>Normalised: 1.46 tonnes/million cigarette equivalent</p> <p>British American Tobacco Malaysia recorded a 23 percent increase in total materials in 2011. The increase in both non-renewable and direct materials were due to higher volumes of output in production operations.</p>
EN3	Direct energy consumption by primary energy source.	<p>Total: 237,697 Gigajoules</p> <p>Non-renewable: 237,697 Gigajoules <i>(Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)</i></p> <p>Renewable: 0 Gigajoules</p> <p>Normalised: 13.51 Gigajoules/million cigarette equivalent</p> <p>An increase of 4.8 percent in direct energy consumption was recorded in 2011 as a result of increased air freight usage.</p>
EN4	Indirect energy consumption by primary source.	<p>Total: 306,659 Gigajoules</p> <p>Non-renewable: Electricity – 306,659 Gigajoules</p> <p>Normalised: 17.43 Gigajoules/million cigarette equivalent</p> <p>An increase of 6.8 percent in indirect energy consumption was recorded in 2011 from 287,251 Gigajoules in 2010. This was due to higher volumes of output in production operations.</p>
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	<p>British American Tobacco Malaysia initiatives:</p> <ol style="list-style-type: none"> 1. Installation of a third unit of economiser in the factory boilers. 2. Replacement of an air washer located in the factory premises. 3. Replacement of normal T8 fluorescent lights in factory premises with energy efficient T5 fluorescent lights. <p>Estimated recorded reductions:</p> <ol style="list-style-type: none"> 1. Third unit of economiser estimated to deliver four percent improvement in boiler efficiency. 2. Air washer replacement estimated to improve performance efficiency by two percent. 3. Replacement of fluorescent lights estimated to deliver 15 percent reduction in energy consumption.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Please refer to GRI G3 Reference EN6.

GRI Code	Issue Area	Response for 2011
EN8	Total water withdrawal by source.	Total: 223,383 cubic metres Normalised: 12.7 cubic metres/million cigarette equivalent British American Tobacco Malaysia recorded three percent decrease in water withdrawal as a result of various recycling initiatives such as rainwater harvesting and replacement of underground hydrant pipes.
EN9	Water sources significantly affected by withdrawal of water.	British American Tobacco Malaysia facilities sourced water from its respective Government authorised state water supplier. The water withdrawal did not affect any of the six sites designated as Ramsar List of Wetlands of International Importance in Malaysia.
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN13	Habitats protected or restored.	British American Tobacco Malaysia sponsored an afforestation programme in Forest Management Unit No. 4 located in Ulu Tungud, Sabah since 2002. For the year 2011, a total of 168 hectares of various species of trees were planted, bringing the total hectareage planted to date to 6,635 hectares – the equivalent of 9,089 football fields. *Size of one football field is approximately 0.73 hectares. The project partner for this afforestation programme was TSH Resources Berhad.
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Please refer to pages: 102 to 104 on <i>Implementing initiatives to promote environmental sustainability</i> .
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN16	Total direct and indirect green-house gas emissions by weight.	Total: 38,549 tonnes of carbon dioxide Normalised: 2.19 tonne/million cigarette equivalent An increase of 36 percent in direct and indirect green-house gas emissions was recorded in 2011 as a result of increased air freight usage.
EN17	Other relevant indirect green-house gas emissions by weight.	Total: 28,270 tonnes of carbon dioxide An increase of 46 percent in indirect green-house gas emissions was recorded in 2011 as a result of increased air freight usage.
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Please refer to GRI G3 Reference EN6.

GRI Code	Issue Area	Response for 2011
EN19	Emissions of ozone-depleting substances by weight.	All British American Tobacco Malaysia air conditioning equipments are chlorofluorocarbon (CFC) free.
EN21	Total water discharge by quality and destination.	British American Tobacco Malaysia facilities discharged water through these routes: <ol style="list-style-type: none"> Public waterways (16,785 cubic metres) after the water that was used in factory operations has been treated at our effluent treatment plant to stringent corporate standards. Sewage system, water that has been used for amenities, such as toilets and office pantry (206,598 cubic metres).
EN22	Total weight of waste by type and disposal method.	<p>2010 : Hazardous Waste – 39 tonnes : Non-Hazardous Waste – 1,603 tonnes</p> <p>2011 : Hazardous Waste – 25 tonnes : Non-Hazardous Waste – 1,810 tonnes</p> <p>All our hazardous wastes were sent to Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan for disposal while a majority of our non-hazardous wastes were sent to Recycle Energy Malaysia in Semenyih for conversion into refuse derived fuel pellets. The remainder of our non-hazardous wastes which were not sent to Semenyih were recycled (e.g. paper, plastic and metal materials).</p>
EN23	Total number and volume of significant spills.	British American Tobacco Malaysia did not have any significant spills in 2011.
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	<p>Total: 39 tonnes (39 tonnes in 2010)</p> <p>All hazardous wastes were sent to Government approved site (Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan) for disposal.</p>
EN25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting.	British American Tobacco Malaysia treated water that was used in factory operations through its upgraded effluent treatment plant (20 percent increase in capacity) to meet stringent corporate standards before discharging it into public waterways which are located outside water catchment zones and other protected areas.
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	<p>British American Tobacco Malaysia's comprehensive environment, health and safety programme achieved improvements in minimising its business environment footprint during the year through the implementation of initiatives in the areas of process and practices:</p> <ol style="list-style-type: none"> Water usage reduced by 3.1 percent from 230,581 cubic metres in 2010 to 223,383 cubic metres in 2011 despite a production volume increase of 22.4 percent. Scheduled waste (hazardous waste) had reduced from 39 tonnes in 2010 to 25 tonnes in 2011. Energy index improved from 16.45 Gigajoules/mille equivalent in to 14.07 Gigajoules/mille equivalent.
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	British American Tobacco Malaysia was in full compliance with environmental laws and regulations.

GRI Code	Issue Area	Response for 2011
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	There were no significant environmental impacts recorded resulting from transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.
EN30	Total environmental protection expenditures and investments by type.	<p>Total: RM2.091 million</p> <p>Below is the breakdown for total environmental protection expenditures and investments:</p> <ol style="list-style-type: none"> 1. Afforestation maintenance: RM580,000 2. BioFilter wood bark replacement: RM150,000 3. Effluent Treatment Plant expansion: RM895,000 4. Installation of economisers in boilers: RM118,000 5. Replacement of chilled water pipes – RM127,000 6. Installation of rainwater harvesting tank – RM12,000 7. Underground sprinkler pipe replacement – RM89,000 8. Underground hydrant pipe replacement – RM120,000
LA1	Total workforce by employment type, employment contract, and region.	<p>Total Workforce: 1,191</p> <p>Employment type Permanent/Full-time: 869 – Management: 631 – Non-Management: 238</p> <p>Temporary/Consultants/Contracts: 322</p> <p>British American Tobacco Malaysia's workforce by region:</p> <ol style="list-style-type: none"> 1. North = 173 2. South = 68 3. East Coast = 148 4. East Malaysia = 122 5. Central = 680
LA2	Total number and rate of employee turnover by age group, gender, and region.	<p>As at 31 December 2011:</p> <p>The total number of employees who left employment in 2011 by age group:</p> <ol style="list-style-type: none"> 1. Less than 30 years old = 185 2. 30-50 years old = 388 3. Above 50 years old = 61 <p>The total number of employees who left employment in 2011 by gender:</p> <ol style="list-style-type: none"> 1. Male = 578 2. Female = 56 <p>The total number of employees who left employment in 2011 by region:</p> <ol style="list-style-type: none"> 1. East Coast = 5 2. North = 126 3. South = 112 4. East Malaysia = 21 5. Central = 370 <p>A total of 634 employees left employment in 2011 as they were transitioned from British American Tobacco Malaysia's in-house distribution to exclusive distribution partners.</p>

GRI Code	Issue Area	Response for 2011
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	<p>The following benefits were provided to British American Tobacco Malaysia's full-time management and non-management employees:</p> <ol style="list-style-type: none"> 1. Medical benefits 2. Cigarette ration 3. Free meals 4. Annual, calamity, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, sports and pilgrimage leave 5. Bonus 6. Group Term Life insurance scheme 7. Company vehicle and monthly cash allowance (depending on grade) 8. Corporate club membership (depending on grade) 9. Housing loan interest subsidy (depending on grade) 10. Car loan interest subsidy (depending on grade)
LA4	Percentage of employees covered by collective bargaining agreements.	<p>The percentage of total employees covered by collective bargaining agreements is 18 percent. All eligible employees amounting to 220 non-management staff were covered by the Collective Agreement, effective from 1 July 2004 to 30 June 2007.</p> <p>In October 2007, the Director General of the Trade Unions (DGTU) of the Ministry of Human Resources had decided that British American Tobacco Employees Union (BATEU) could only represent employees of the holding company, British American Tobacco (Malaysia) Berhad. The Ex General Secretary of BATEU (an employee of Tobacco Importers and Manufacturers Sdn. Bhd. (TIM)) had filed a judicial review on behalf of BATEU in the High Court challenging the decision of the DGTU. In July 2010, the High Court has set aside the Judicial Review application made by BATEU and BATEU has made an appeal to the Court of Appeal.</p> <p>Pending the outcome of the judicial review, the decision of the DGTU stands. Hence, employees from British American Tobacco Malaysia's subsidiary companies, TIM and Commercial Marketers and Distributors Sdn. Bhd. (CMD) cannot be represented by BATEU and would have to form their respective unions. CMD has applied for the formation of its union and is currently awaiting its registration.</p> <p>Notwithstanding the DGTU's decision, all the terms and conditions of the current Collective Agreement have been honoured by British American Tobacco (Malaysia) Berhad and duly extended to the employees of TIM and CMD on a Personal To Holder (PTH) basis pending their respective new Collective Agreements.</p>
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	<p>The minimum notice period for retrenchment was not less than three months. The notice period was specified in Article 61 of the Collective Agreement between British American Tobacco Malaysia and British American Tobacco Employees Union (BATEU), effective from 1 July 2004 to 30 June 2007.</p> <p>(Please refer to LA4 on judicial review filed on behalf of BATEU)</p>
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	<p>100 percent of the total workforce was represented by a Senior Manager representing each function in our Corporate Environmental Health and Safety Committee.</p> <p>Six representatives (from management and non-management employees respectively) were members of the Petaling Jaya EHS Committee. This committee is headed by a chairman (Head of Production) and also includes representatives from Occupational Health, Security and an appointed Secretary (EHS Manager).</p>

GRI Code	Issue Area	Response for 2011																																												
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.	<p>British American Tobacco Malaysia lost workday case injury incidence rate (LWCIR) for 2011 was one lost workday cases per 2,338,638 man-hours (January to December 2011) worked by its employees.</p> <p>The one lost workday case accidents (LWC) reported during the year was an accident involving an employee driving a company vehicle.</p> <p>By comparison, in 2010 there were two lost workday cases reported during the year of which both involved accidents of employees driving company vehicles.</p>																																												
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	<p>Assistance Programme</p> <table border="1"> <thead> <tr> <th rowspan="2">Recipients</th> <th colspan="2">Programme</th> <th colspan="2">Counselling</th> <th colspan="2">Prevention/ Risk Control</th> <th colspan="2">Treatment</th> </tr> <tr> <th>Yes</th> <th>No</th> <th>Yes</th> <th>No</th> <th>Yes</th> <th>No</th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Workers</td> <td>√</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> </tr> <tr> <td>Workers' families</td> <td></td> <td>√</td> <td>√</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> </tr> <tr> <td>Community members</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> <td></td> </tr> </tbody> </table> <p>For Workers: Education/Training 1. First Aid CPR training 2. Ergonomics 3. Noise Conservation programme</p> <p>Counselling 1. Chronic diseases 2. Sickness absenteeism 3. Overseas travel</p> <p>Prevention/Risk Control 1. Immunisations 2. Updates on infectious diseases on OPUS, Notice Boards, LN 3. Routine – Annual/Biennial medical examinations 4. Coronary care 5. Statutory medical examinations 6. Vaccinations against Hepatitis A, Hepatitis B, Tetanus Toxoid, Seasonal Flu 7. Provision of hand sanitisers and face masks and notice of precautions for overseas travel in light of the AH1N1 epidemic 8. Chemical Hazardous Regulation Act Surveillance (CHRA)</p> <p>Treatment 1. Medications for Daily Sickness report 2. Medications for chronic diseases 3. Investigations 4. Referral to specialists</p> <p>For Workers' Families: Education/Training 4. On adhoc basis</p> <p>Counselling 1. On adhoc basis 2. On confidentiality Basis</p> <p>Prevention/Risk Control 1. Vaccination against H1N1 2. Vaccination against the seasonal flu</p> <p>Treatment 1. Clinic/hospitalisation 2. Medications</p>	Recipients	Programme		Counselling		Prevention/ Risk Control		Treatment		Yes	No	Yes	No	Yes	No	Yes	No	Workers	√		√		√		√		Workers' families		√	√		√		√		Community members		√		√		√		
Recipients	Programme			Counselling		Prevention/ Risk Control		Treatment																																						
	Yes	No	Yes	No	Yes	No	Yes	No																																						
Workers	√		√		√		√																																							
Workers' families		√	√		√		√																																							
Community members		√		√		√																																								

GRI Code	Issue Area	Response for 2011
LA9	Health and safety topics covered in formal agreements with trade unions.	<p>Environment, health and safety topics were covered in a formal agreement which was specified in various articles contained in the Collective Agreement between British American Tobacco Malaysia Berhad and British American Tobacco Malaysia Employees Union (BATEU), effective from 1 July 2004 to 30 June 2007. (Collective Agreement)</p> <p>Articles 20-23 cover employees maximum working hours, Article 27, 30-31 cover employees' leave entitlement and Article 40 covers employees' entitlement to appropriate personal protective equipment while at work. Article 54 states that the Company's working environment is to be in compliance with relevant regulations including providing for medical examination for employees.</p>
LA10	Average hours of training per year per employee by employee category.	<p>Management 2.33 hours</p> <p><u>Management attendee</u> Central programmes: 9.84 hours Functional programmes: Operations – 0 hours Marketing – 0 hours</p> <p>Non-management 8.36 hours</p> <p><u>Non-management attendee</u> Central programme : 9.59 hours Functional programmes: Operations – 11.67 hours Marketing – 24.22 hours</p> <p>The central programmes were under the purview of British American Tobacco Malaysia's Human Resources Department and covered all other functions within the Company with the exception of Operations and Marketing, as these two functions conducted their individual functional programmes.</p> <p>However, the Marketing and Operations management employee programmes were conducted at a central level in 2011 instead of at a functional level, hence the record of nil for Marketing and Operations management employees.</p>
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	British American Tobacco Malaysia provided assistance to employees who have been terminated via its career transition or outplacement programme. Plans for restructuring were communicated to the relevant Labour Authorities (i.e. Director General of Industrial Relations and Director General of Labour) and briefing sessions were conducted to employees communicating the business rationale for restructuring and details of the outplacement programme itself. This programme was a collaboration between British American Tobacco Malaysia and CareerSolutions Asia Sdn. Bhd., which provided counselling to affected employees and carried out a transition skills programme.
LA12	Percentage of employees receiving regular performance and career development reviews.	100 percent of employees, both management and non-management staff, received a formal performance appraisal and review during the reporting period.

GRI Code	Issue Area	Response for 2011
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	<p>The percentage of British American Tobacco Malaysia's Board of Directors by gender: Male = 100 percent Female = zero percent</p> <p>The percentage of British American Tobacco Malaysia's Board of Directors by age group: Under 30 years old = zero percent 30-50 years old = 14 percent Over 50 years old = 86 percent</p> <p>The percentage of employees in British American Tobacco Malaysia by gender: Male = 83 percent Female = 17 percent</p> <p>The percentage of employees in British American Tobacco Malaysia by age group: Under 30 years old = 23 percent 30-50 years old = 64 percent Over 50 years old = 13 percent</p>
LA14	Ratio of basic salary of men to women by employee category.	<p>Male and female employees of the same grade shared the same salary scale, but their starting salary might differ based on talent, experience and skills set.</p> <p>Male and female Management Trainees were paid equal basic salaries.</p>
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	<p>British American Tobacco Malaysia's significant investments were with its suppliers. Our philosophy on supplier partnership was not just about procurement but how we could increase value in the supply chain. We use the Business Enabler Survey Tool (BEST) to select the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provision of education and training, regulatory compliances, business ethics and environment, health and safety responsibility. The top 90 percent of vendors (by volume) were all surveyed using BEST.</p> <p>Other significant investments also included the contracts we have with tobacco leaf farmers. Our contracts cover good agricultural practices, appropriate use of agrochemicals, environmental, occupational health and safety and termination of contracts should farmers be employing child labour.</p>
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Please refer to GRI G3 Reference HR1.
HR4	Total number of incidents of discrimination and actions taken.	<p>There were no incidences of discrimination reported to British American Tobacco Malaysia.</p> <p>We also have a grievance procedure under Article 5 of the Collective Agreement between British American Tobacco Malaysia Berhad and British American Tobacco Malaysia Employees Union (BATEU), effective from 1 July 2004 to 30 June 2007, for non-management employees to escalate matters of discrimination to senior management.</p> <p>In addition, our Standards of Business Conduct provides for a comprehensive whistle-blowing procedure which enables any employee to raise any concern including that of discrimination. Our code of practise on sexual harassment protects employees from gender discrimination.</p>

GRI Code	Issue Area	Response for 2011
HR5	Operations identified in which the right to exercise freedom of association or collective bargaining may be at significant risk, and actions taken to support these rights.	<p>In 2007, the Malaysian Trade Union Congress made a complaint on behalf of the British American Tobacco Employees' Union, to the United Kingdom's OECD National Contact Point (UK NCP), alleging the reclassification of roles to reduce union membership and also insufficient prior consultation with the union then on the reclassifications.</p> <p>In December 2010, the UK NCP determined it would not examine the said primary allegation of reclassification of roles to reduce union membership as it could not examine the rulings made by the relevant authorities on the matter under Malaysian laws without expressing a view on the legal merits of the alleged acts. The risk of reaching different conclusions from those reached by the relevant Malaysian authorities would be the effect of purporting to override Malaysian laws or of placing British American Tobacco Malaysia Berhad in a situation where it faced a conflict between the requirements of the UK NCP's conclusions and Malaysian laws.</p> <p>However, it examined the secondary allegation of insufficient prior consultation on the reclassification and is of the view that British American Tobacco Malaysia did not adequately meet the OECD's standards of employment under Chapter IV(8) of the OECD Guidelines for Multinational Enterprises.</p> <p>The UK NCP has recommended that British American Tobacco Malaysia Berhad review their policies and practices to include a process on consulting and informing its employees on matters of mutual concern before key decisions are made on those matters and to provide an update to the UK NCP. After reviewing its policies and practices, the Company was found to have numerous existing communications channels to engage and consult with its employees, and which are utilised for various employee populations at appropriate times. However, the said practices and processes are not formalised, nor are they documented.</p> <p>Following this, the Company updated the UK NCP in June that it will be formalising the employee engagement and consultation process by documenting the same into a set written guideline for adherence by August 2011.</p> <p>In respect of the abovementioned allegations, the Company had at all times complied with all relevant legal requirements governing the matters and demonstrated commitment to good employment practices.</p>
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	<p>British American Tobacco Malaysia has identified its leaf supply as at risk for incidents of child labour, as it was not under its direct employment.</p> <p>To mitigate this risk, the Company has gone into an agreement with the local leaf suppliers as part of our Social Responsibility in Tobacco Production (SRTP) to ensure that no child labour was used to perform activities related to tobacco production. Any breach of the terms and conditions of the agreement would result in a cease in supplies to the Company.</p>
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour.	Please refer to GRI G3 Reference HR6.

GRI Code	Issue Area	Response for 2011
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	There was no formalised training specifically on human rights issues provided to security personnel. The focus of their responsibilities was to ensure a safe and secure working environment for employees and the core need to treat every individual with respect in the execution of their duties.
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	<p>British American Tobacco Malaysia has identified its leaf supply as at risk for incidents of compulsory/forced labour, as it was not under our direct employment.</p> <p>To mitigate this risk, British American Tobacco Malaysia's Employment Principles builds on its commitment to good employment practices and workplace related human rights. It sets out a common approach to the development of policies and procedures, while recognising that we must take account of local labour laws and practices and the local political, economic and cultural context.</p> <p>Topics covered by our Employment Principles include:</p> <ol style="list-style-type: none"> 1. Equality of opportunity and non-discrimination. 2. Internal communications and the free flow of ideas. 3. Worker representation and freedom of association. 4. Fairness at work and the unacceptability of harassment and bullying. 5. Do not condone or employ child labour. 6. Forced or bonded labour is completely unacceptable. 7. Performance responsibility. 8. Health, safety and environmental responsibility. 9. Community contributions and skills development for employees and communities in markets where our companies operate. 10. Personal development and learning. 11. Reasonable working hours and family friendly policies. 12. Fair, clear and competitive remuneration and benefits.
SO1	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.	British American Tobacco Malaysia aimed to address the social and environmental issues associated with tobacco growing and processing by guiding tobacco farmers on good agricultural practices, the appropriate use of agrochemicals and consideration for environmental, occupational health and safety issues through the Social Responsibility In Tobacco Production (SRTP) policy. We were also active in maintaining our afforestation initiatives.
SO2	Percentage and total number of business units analysed for risks related to corruption.	Please refer to page 43 on Standards of Business Conduct.
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	22 personnel underwent an induction programme throughout 2011 and were informed about British American Tobacco Malaysia's Standards of Business Conduct (SOBC) which included information about anti-corruption and bribery.
SO4	Actions taken in response to incidents of corruption.	There were no incidences of corruption reported to British American Tobacco Malaysia.

GRI Code	Issue Area	Response for 2011
SO5	Public policy positions and participation in public policy development and lobbying.	<p>As a responsible company, British American Tobacco Malaysia believes that we can contribute, through information and ideas to help regulators address the key issues surrounding our product.</p> <p>In 2011, we undertook the following:</p> <ul style="list-style-type: none"> • Distribution of information leaflets to approximately 80,000 retailers nationwide that explained the types of illegal cigarettes, laws and penalties related to illicit tobacco trade as well as key indicators of genuine cigarettes. • Submission of a proposal paper on illegal cigarettes trade to the Government which outlined a comprehensive approach and strategy on addressing the issue. • Presentation at the Inter Ministerial Task Force and to other Government agencies such as Royal Malaysian Customs on the results of the Illicit Cigarette Survey in Malaysia and the issues affecting the industry. • Discussion with the National Kenaf and Tobacco Board on leaf issues, of which the Company's Head of Leaf is a member. • At a global level, these and other issues and our core positions with regards to public policy development can be found on www.bat.com.
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	<p>There were no legal actions against British American Tobacco Malaysia for anti-competitive behaviour, anti-trust and monopoly practices.</p> <p>British American Tobacco Malaysia's Standard of Business Conduct (SOBC) embeds the principles of fair competition rules in conducting our business. In addition, British American Tobacco Malaysia's Competition Guidelines which was rolled out company wide on 18 June 2009 also ensures that our business activities are not in any manner anti-competitive and not in breach of the Competition Act 2011.</p>
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	<p>There were no significant fines or any non-monetary sanctions imposed on British American Tobacco Malaysia.</p>
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	<p>Please refer to information on smoking and health which can be found on our website at www.bat.com. Information on tobacco ingredients can be found on www.bat-ingredients.com.</p> <p>British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.</p> <p>The Company also went into an agreement with the local leaf suppliers as part of the Social Responsibility in Tobacco Production (SRTP) to ensure that there was appropriate utilisation of agrochemicals with respect to the environment and operator safety. Therefore, where agrochemicals were deemed necessary, selection and usage adhered to the relevant British American Tobacco Agrochemical Procedures that included the selection of approved chemicals.</p>
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.	<p>British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.</p>

GRI Code	Issue Area	Response for 2011																		
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	<table border="1"> <thead> <tr> <th></th> <th colspan="2">2011</th> </tr> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>The sourcing of components of the product or service</td> <td></td> <td>√</td> </tr> <tr> <td>Content, particularly with regard to substances that might produce an environmental or social impact</td> <td>√</td> <td></td> </tr> <tr> <td>Safe use of the product or service</td> <td>√</td> <td></td> </tr> <tr> <td>Disposal of the product and environmental/social impacts</td> <td></td> <td>√</td> </tr> </tbody> </table> <p>In 2011, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required health warnings and further textual warnings and/or labeling requirements on every cigarette pack.</p>		2011			Yes	No	The sourcing of components of the product or service		√	Content, particularly with regard to substances that might produce an environmental or social impact	√		Safe use of the product or service	√		Disposal of the product and environmental/social impacts		√
	2011																			
	Yes	No																		
The sourcing of components of the product or service		√																		
Content, particularly with regard to substances that might produce an environmental or social impact	√																			
Safe use of the product or service	√																			
Disposal of the product and environmental/social impacts		√																		
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	In 2011, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required health warnings and further textual warnings and/or labeling requirements on every cigarette pack.																		
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	<p>The Control of Tobacco Product Regulations (CTPR) 2004 regulates the tobacco industry in terms of prohibition of tobacco product advertisement, regulation on the sale of tobacco products, labeling and packaging requirements among others.</p> <p>Compliance with the regulations was further enhanced by British American Tobacco Malaysia's adherence to the British American Tobacco International Marketing Standards (IMS) which embodies in detail our commitment to marketing appropriately and only to adult smokers. The Standards aim to 'raise the bar' by establishing a benchmark for the industry worldwide and in some countries they are stricter than local laws.</p> <p>The British American Tobacco International Tobacco Products Marketing Standards were updated on 1 July 2007 (currently IMS 2) and a yearly refresher course is conducted to brief the Marketing Department and their relevant agencies on the Standards.</p>																		

GRI Code	Issue Area	Response for 2011
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.	There were no incidents of non-compliance with regulations concerning marketing communications.
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	<p>No complaints were received.</p> <p>British American Tobacco Malaysia worked with reputable market research business partners who adhere to the ESOMAR* code of conduct, in which the privacy of respondents' information is strictly protected. This is enshrined in Article 7 of the ICC/ESOMAR International Code of Market and Social Research.</p> <p>* ESOMAR is an industry standard in conducting market research.</p>
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.

Winning Organisation



The force behind our momentum in British American Tobacco Malaysia lies in the passion, commitment and dedication of our people. This is why our organisation places great emphasis on attracting, developing and retaining the people we need to drive that momentum.

Harnessing the force of a winning organisation behind our momentum

In British American Tobacco Malaysia, the force behind our momentum lies in the passion, commitment and dedication of our people. Our key to harnessing momentum of a winning organisation is by providing our employees with robust talent development, recognising their hard work and building a sustainable talent pipeline. Reinforcing this through our principles of upholding employee wellbeing, we are able to build and sustain a high performing workforce to contribute towards organisational excellence.

- Launched *Open Resourcing* recruitment to enhance transparency in processes and provide employees with more access to different job opportunities.
- Rolled out *Global LearningZone*, an online global learning and development system.
- Recognised 100 recipients in the Long Service Awards.
- Recognised contribution of 117 employees through our employee recognition awards.
- Set up drive teams to focus and implement numerous initiatives to improve employee wellbeing and work-life balance.
- Conducted additional employee engagement activities to better understand what our people want and need from the organisation.

Attracting great talent to support our winning organisation

Attracting and recruiting the right talent at various levels was a key focus in support of business critical projects for British American Tobacco Malaysia in 2011. For example, more than 90 technical trainees and technical assistants were hired in the Operations function throughout the year to meet the increase of production volume as a result of taking on subcontract manufacturing for British American Tobacco markets overseas. In the Marketing function, a total of 36 Trade Marketing executives and Sales and Marketing executives were hired within three months to support the Company's Route-to-Market distribution change.

Talent sourcing for Management Trainees was conducted through various sources – locally, from the United Kingdom, and also Australia, while mid-career recruitment was on-going with assistance from reputable recruitment firms. In order to improve the quality of our selection, a pool of Human Resources (HR) senior managers were sent to attend the *License to Hire* programme – a British American Tobacco in-house workshop, to refresh and enhance their skills in conducting effective interviews to assess candidates' suitability for positions. The plan was to ensure more hiring managers (both HR and non-HR) are up-skilled in this area moving forward.

On top of the talent sourcing initiatives above, *Open Resourcing* was launched amongst the Finance function employees of British American Tobacco Malaysia and other British American Tobacco entities located in the Klang Valley, i.e. British American Tobacco Asia Pacific Service Centre and British American Tobacco Global Service Delivery in 2011. *Open Resourcing* is a practice whereby relevant vacancies are announced internally for application by eligible employees, in the spirit of transparency and providing employees with more access to different job opportunities. This has shown encouraging results and will be launched to the wider organisation formally.

Key
highlights of
2011

Continuous talent development

Global LearningZone (GLZ), the new British American Tobacco global online learning and development system, was launched in 2011 to support employees' leadership development. By using the GLZ, employees are able to better assess and identify their development gaps against their current and future roles and thus increase the effectiveness of their development via discussions with their line managers.

Based on the development areas identified through the new system's features, employees can close their development gaps by looking at an enhanced curriculum of learning in GLZ to meet their development needs. The curriculum includes more than 100 electronic learning modules available around the clock for employees to sign up and learn on their own terms. Further initiatives will be carried out to encourage employees to maximise the benefits that GLZ provides.

British American Tobacco Malaysia also places great emphasis on providing our employees with the skills and training that they require to advance in their future with us. Outlined below are some of the training programmes that British American Tobacco Malaysia has offered to employees throughout the years:

• Manage Self/Others development path

Aimed at employees managing their own career path or those with reporting lines.

Programme	Benefits
Assessor Training	Develop skills in conducting employee assessments.
License to Hire	Develop skills and knowledge on conducting recruitment process.
Finance Appreciation Programme	Provide technical appreciation to managers in understanding the basics of finance and how it relates to the business.
Team Leaders Development Workshop	Enable managers to manage teams more effectively.
PRINCE 2 Practitioner	Better understand and apply structured project management methodology in daily work.

• Manage Self development path

Aimed at employees managing their own career path.

Programme	Benefits
Crucial Conversations	Understand and implement more effective communication skills with others.
First Aid & CPR	Basic first aid training.
7 Habits of Highly Effective People	Understanding how to adopt an effective mindset.
Product Knowledge (1&2)	Develop basic understanding on our products.
PRINCE 2 Foundation	Understand and apply foundations of structured project management methodology in daily work.
SCQuaRE	Learn effective skills in presenting business proposals.
Mind Mapping	Encourage creative thinking and problem-solving.
Beyond Negotiation Power	Learn how to negotiate and maintain long-term deals.
Applied Problem Solving & Creative Decision Making	Develop effective problem-solving and creative decision-making skills.
Microsoft Office 2010 Excel: Intermediate & Advanced	Enhance skills in operating Microsoft Office 2010 Excel.
Microsoft Office 2010 Powerpoint: Intermediate & Advanced	Enhance skills in operating Microsoft Office 2010 Powerpoint.

In addition to GLZ and local training, international training and cross-market assignment opportunities were also given to our high performing and high potential employees to ensure they received the exposure and leadership development required to take on critical roles and drive results for the business.

For further information on our international training and cross-market assignment opportunities, please refer to the section, 'Developing our talent across the globe' at the end of the Winning Organisation pillar.

Giving our employees a voice through Your Voice

The results of our Employee Engagement Your Voice Survey which was conducted in 2010 focused our attention on two corporatewide priorities – Leadership and Work-life Balance. In 2011, the company responded to the survey outcome by setting up cross-functional drive teams to implement clear action plans on these areas.





Employees attending a First Aid and CPR training workshop.



Several recipients recognised with Everest 3 awards from the Company's Top Team for their outstanding contribution to the company.

Leadership initiatives, for example, were driven through the *Passion for People* drive team whereby improvements on alignment, motivation and engagement were implemented. Initiatives to improve work-life balance, on the other hand, were led by the *Make Time to Win* drive team.

For further information on initiatives to drive leadership and better work-life balance, please refer to the section, 'Employee Engagement' and 'Improving employee wellbeing and work-life balance' in the Winning Organisation pillar.

Recognising long-serving and retiring employees

In November 2011, British American Tobacco Malaysia hosted its annual Long Service Awards, which recognises its long-serving and retiring employees who have supported the Company over the years.

This year, 2011, recorded the highest number of recipients in the awards' history – a total of for 100 recipients. They comprised of employees who have served for 10 to 30 years in the Company, as well as those who were retiring.

Employee recognition scheme

British American Tobacco Malaysia's employee recognition scheme serves as a platform to motivate, recognise and reward outstanding employees who have demonstrated exceptional work commitment, desired behaviours, significant and remarkable achievements that supported the Company's strategic goals. The scheme is divided into three categories, namely; *Bravo Award*, *Everest 3 Bonus* and *Battlefield Bonus*, which are awarded to employees depending on their level of achievement and contribution.

In 2011, 117 employees were awarded with these recognition.

Employee engagement

As part of our continuous efforts to increase organisational effectiveness and improve overall employee wellbeing and welfare, British American Tobacco Malaysia formed a cross-functional drive team called *Passion for People* to focus on driving the agenda of raising employees' morale and enthusiasm in the workplace.

One of the goals successfully achieved under this banner with the Human Resources function in 2011 was to encourage our people to speak up and take on a bigger role in enhancing the culture in their workplace. British American Tobacco Malaysia's Top Team members hosted engagement sessions with employees of various levels and functions across the organisation to listen to their views and provide real-time, face-to-face engagement and coaching. Our various functional teams also organised focus groups and dipstick survey sessions to enable leadership teams to better understand people issues and to work together for solutions. Functional working trips also enabled teams to have meaningful one-on-one feedback and to have fun, building stronger teams in the process.

In 2011, the Company also organised a series of open concept workshops to gather feedback from our employees on British American Tobacco Malaysia's organisational culture, develop a clear understanding of employee morale and identify the key drivers of employee engagement.



Employees enjoying a durian feast during one of the Company's 'mini celebrations' in achieving set performance targets.



Employees taking a break at the chill-out recreational room.

As we continued to harness a culture of openness and transparency, it was a positive indication when employees of various levels spoke up and participated in open discussions which acknowledged the positive aspects of the organisation, what needed to change and also ideas to promote stronger passion and motivation. Further to that, the senior managers and leadership teams conducted a discussion to define our future business, and also identified our key organisational must wins.

The teams also debated on organisational challenges, root causes of issues and identified clear outcomes, milestones and action plans towards achieving both business and organisational goals.

Following the feedback from these sessions, British American Tobacco Malaysia will embark on a series of engagement sessions with all employees of British American Tobacco Malaysia. This forms a core part of the Company's strategy and is intended to create an energised organisation with the right capabilities to achieve our corporate vision.

Improving employee wellbeing and work-life balance

In British American Tobacco Malaysia, we continue to prioritise on creating a healthier work-life balance for our employees, in line with our mission of nurturing our employees' wellbeing. Focusing on this agenda, the Company's *Passion For People* drive team and *Make Time To Win* drive team, together with the Human Resources function embarked on numerous initiatives throughout 2011 to deliver our mission.

Key initiatives in enhancing employee wellbeing through encouraging healthier work-life balance of our employees are outlined below:

- Implemented employee feedback to extend paid maternity leave to 90 days.
- Reviewed functional and corporate wide initiatives and its impact to resource requirement, timing, as well as level of importance for better prioritisation and planning.
- Identified and rolled out various functional initiatives to improve work-effectiveness and reduce unnecessary complexity and corporate bureaucracy. This resulted in 3,750 annualised man-days of work reduction.

- Introduced new procedures and best practices that are work-life balance friendly such as:
 - ✓ No meetings after 6.00 p.m.
 - ✓ No Company trainings/events on weekends unless necessary.
 - ✓ Introduced leave replacement policy.
 - ✓ Rolled out tips on best practices on emails etiquette, among others.
- Created a fun place to work through activities aimed at boosting employee enthusiasm:
 - ✓ Launched the *Chill-out* recreational room in the office headquarters, with games equipments.
 - ✓ Conducted mini celebrations on achieving set performance targets.
 - ✓ Hosted Exclusive Corporate Employee Purchase Programmes (e.g. corporate tie-ups with HP Computers, Maxis Broadband and Ogawa products, amongst others).

Our journey in driving towards better work-life balance practices will definitely continue in the future as we strongly believe in enhancing the wellbeing of our most valuable asset, our people.

Developing our talent across the globe

British American Tobacco Malaysia is proud to develop our local talents by sending them to various British American Tobacco operating centres to equip them with the opportunity to develop new skillsets and a more holistic understanding of our business on a global scale.

We currently have our employees in various roles around the world, as listed in the next page:



We are proud to list our seconded Malaysian employees that are currently in other **British American Tobacco operating centres around the world.**



INDONESIA

Chief Planning and
Integration Officer

President Director,
Export Leaf

Head of Trade
Marketing and
Distribution

Corporate and
Regulatory Affairs
Project Manager

Retail Communication
Manager

Operations Director

SINGAPORE

Regional Manufacturing
Development Manager

Regional Supply
Planning Manager

New Product
Introduction Manager

Head of Trade
Marketing and
Distribution

Marketing Operations
and Planning Manager

Head of Singapore
Manufacturing

HONG KONG

Regional IT Planning
Manager

Regional Head of
Regulations

SOUTH KOREA

Group Brand Manager

NEW ZEALAND

Corporate and
Regulatory Affairs
Manager

BANGLADESH

Finance Director

AUSTRALIA

Brand Finance Manager



Reports and Financial Statements

132	Directors' Report
138	Statement by Directors
138	Statutory Declaration
139	Independent Auditors' Report
141	Income Statements
142	Statements of Comprehensive Income
143	Balance Sheets
145	Consolidated Statement of Changes in Equity
147	Company Statement of Changes in Equity
149	Cash Flow Statements
150	Summary of Significant Accounting Policies
164	Notes to the Financial Statements

DIRECTORS' REPORT

The Directors are pleased to submit their annual report to the members together with the audited financial statements of the Group and Company for the financial year ended 31 December 2011.

Principal Activities

The Company provides day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos and cigars.

There have been no significant changes in the nature of the Group's and the Company's activities during the financial year.

Financial Results

	Group RM'000	Company RM'000
Profit before tax	956,268	775,278
Tax expense	(236,653)	(1,034)
Net profit for the financial year	719,615	774,244

Dividends

	RM'000
The dividends paid or declared by the Company since 31 December 2010 were as follows:	
In respect of the financial year ended 31 December 2010, as shown in the Directors' report of that year:	
Third interim dividend of 63.00 sen per share, tax exempt under the single-tier system, paid on 23 March 2011	179,884
In respect of the financial year ended 31 December 2011:	
First interim dividend of 60.00 sen per share, tax exempt under the single-tier system, paid on 20 May 2011	171,318
Second interim dividend of 60.00 sen per share, tax exempt under the single-tier system, paid on 26 August 2011	171,318
Special dividend of 30.00 sen per share, tax exempt under the single-tier system, paid on 26 August 2011	85,659
Third interim dividend of 60.00 sen per share, tax exempt under the single-tier system, paid on 25 November 2011	171,318
	599,613

The Directors declared a fourth interim dividend of 66.00 sen per share, tax exempt under the single-tier tax system amounting to RM188,449,800 in respect of the financial year ended 31 December 2011, payable on 23 March 2012, to all shareholders whose names appear on the Register of Members and Record of Depositors on 8 March 2012. These financial statements do not reflect the fourth interim dividend which will be accounted for in the financial year ending 31 December 2012.

The Directors do not recommend a final dividend in respect of the financial year ended 31 December 2011.

Reserves and Provisions

All material transfers to and from reserves and provisions during the financial year are shown in the financial statements.

Directors

The Directors who held office during the period since the date of the last report are as follows:

- Tan Sri Abu Talib bin Othman (Chairman)
- Toh Ah Wah
- Dato' Ahmad Johari bin Tun Abdul Razak
- Andreas Micheal Thompson (appointed wef 01.03.2011)
- Dato' Chan Choon Ngai
- James Richard Suttie
- Datuk Oh Chong Peng

In accordance with Articles 97(1) and (2) of the Company's Articles of Association, Datuk Oh Chong Peng and Dato' Ahmad Johari bin Tun Abdul Razak will retire by rotation from the Board at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

Directors' Benefits

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate pursuant to provisions under the Companies Act, 1965, other than as may arise from equity-settled share-based compensation plans offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. is deemed to be the ultimate holding company) as disclosed in Note 31 to the financial statements.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than the benefits shown in Note 4 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than by virtue of transactions entered into in the ordinary course of business as disclosed in Note 28 to the financial statements.

Directors' Interests in Shares

According to the Register of Directors' Shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares and share options in the Company and its related corporations are as follows:

The Company	Number of ordinary shares of 50 sen each in Company			
	At 1.1.11	Bought	Sold	At 31.12.11
Shareholdings in the name of the Director:				
Tan Sri Abu Talib bin Othman	41,000	10,000	–	51,000
Datuk Oh Chong Peng	1,000	–	–	1,000
James Richard Suttie	1,500	–	–	1,500
Dato' Chan Choon Ngai	1,000	–	–	1,000
Shareholdings in which the Director is deemed to have an interest:				
Dato' Chan Choon Ngai	6,000	–	–	6,000

Ultimate Holding Company – British American Tobacco p.l.c.	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.11/ (Date of Appointment)	Bought/ Granted	Sold	At 31.12.11
Shareholdings in the name of the Director:				
James Richard Suttie	7,154	–	–	7,154
Dato' Chan Choon Ngai	25,433	34,598	31,070	28,961
Andreas Michael Thompson	4,306	3,494	6,680	1,120
Toh Ah Wah	32,825	14,816	–	47,641
Shareholdings in which the Director is deemed to have an interest:				
James Richard Suttie	7,073	–	–	7,073

Ultimate Holding Company – British American Tobacco p.l.c. (Deferred Share Bonus Scheme & International Share Reward Scheme)	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.11/ (Date of Appointment)	Awarded	Vested	At 31.12.11
Shareholdings in the name of the Director:				
Dato' Chan Choon Ngai	6,009	–	6,009	–
Andreas Michael Thompson	6,600	1,634	928	7,306
Toh Ah Wah	14,386	6,331	4,663	16,054

Directors' Interests in Shares (cont'd.)

Ultimate Holding Company – British America Tobacco p.l.c.	Number of option in ordinary shares of 25p each in (British American Tobacco p.l.c)				
	At 1.1.11/ (Date of Appointment)	Granted	Exercise	Lapsed	At 31.12.11
Shareholdings in the name of the Director, Exercise Price & Expiry Date:					
Andreas Michael Thompson					
LTIP - Nil (13 March 2018)	5,044	–	2,544	–	2,500
LTIP - Nil (27 March 2019)	6,982	–	–	–	6,982
LTIP - Nil (25 March 2020)	5,144	–	–	–	5,144
LTIP - Nil (25 March 2021)	–	5,228	–	–	5,228
Dato' Chan Choon Ngai					
ESOS - £5.98 (19 March 2013)	7,392	–	7,392	–	–
ESOS - £8.085 (17 March 2014)	5,163	–	5,163	–	–
LTIP - Nil (13 March 2017)	5,178	–	5,178	–	–
LTIP - Nil (13 March 2018)	4,811	–	4,811	–	–
LTIP - Nil (27 March 2019)	7,784	–	4,540	3,244	–
LTIP - Nil (25 March 2020)	5,482	–	1,505	3,977	–
William Toh Ah Wah					
LTIP - Nil (17 March 2014)	10,856	–	–	–	10,856
LTIP - Nil (17 May 2015)	9,244	–	–	–	9,244
LTIP - Nil (15 March 2016)	8,642	–	–	–	8,642
LTIP - Nil (13 March 2017)	8,517	–	–	–	8,517
LTIP - Nil (13 March 2018)	8,635	–	8,635	–	–
LTIP - Nil (27 March 2019)	14,098	–	–	–	14,098
LTIP - Nil (25 March 2020)	10,317	–	–	–	10,317
LTIP - Nil (25 March 2021)	–	11,724	–	–	11,724

Some of the shares and options in the ultimate holding company held by Directors arose as a result of the Directors' participation in the employee share schemes offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company). Further details on the employee share schemes offered by British American Tobacco p.l.c. are contained in Note 31 to the financial statements.

Statutory information on the financial statements

Before the income statements and balance sheets were made out, the Directors took reasonable steps:

- a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or
- b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or
- c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or Company to meet their obligations when they fall due.

At the date of this report, there does not exist:

- a) any charge on the assets of the Group or Company which has arisen since the end of the financial year which secures the liability of any other person; or
- b) any contingent liability of the Group or Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

- a) the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or Company for the financial year in which this report is made.

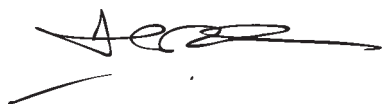
Ultimate holding company

The Directors regard British American Tobacco p.l.c., which is incorporated in England and Wales, to be the ultimate holding company of the Company.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 16 February 2012.



Toh Ah Wah
Managing Director

Petaling Jaya



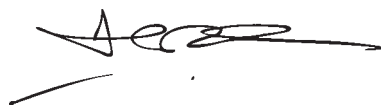
Andreas Michael Thompson
Finance Director

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, TOH AH WAH and ANDREAS MICHAEL THOMPSON, two of the Directors of British American Tobacco (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 141 to 203 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2011 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965.

The note to the financial statements on page 204 has been prepared, in all material respects, in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution dated 16 February 2012.



Toh Ah Wah
Managing Director



Andreas Michael Thompson
Finance Director

STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

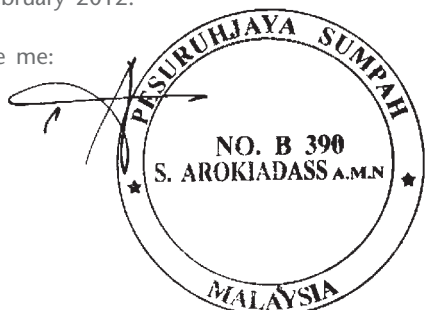
I, ANDREAS MICHAEL THOMPSON, the Director primarily responsible for the financial management of British American Tobacco (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 141 to 203 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



Andreas Michael Thompson
Finance Director

Subscribed and solemnly declared by the abovenamed Andreas Michael Thompson at Petaling Jaya in the state of Selangor on 16 February 2012.

Before me:



Commissioner for Oaths
Petaling Jaya

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Incorporated in Malaysia) (Company No. 4372-M)

Report on the financial statements

We have audited the financial statements of British American Tobacco (Malaysia) Berhad on pages 141 to 203 which comprise the balance sheets as at 31 December 2011 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies, as set out on pages 151 to 163 and other explanatory notes, as set out on Note 1 to 31.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards in Malaysia and the Companies Act, 1965, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards in Malaysia and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2011 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' report of the subsidiary of which we have not acted as auditors, which is indicated in Note 13 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other reporting responsibilities

The supplementary information set out in Note 32 on page 204 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants



THAYAPARAN A/L S.SANGARAPILLAI
(No. 2085/09/12 (J))
Chartered Accountant

Kuala Lumpur
20 February 2012

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	Group		Company	
		Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Revenue	2	4,127,245	3,965,448	802,832	784,477
Cost of sales		(2,635,104)	(2,476,641)	-	-
Gross profit		1,492,141	1,488,807	802,832	784,477
Other operating income		14,243	28,120	9,214	5,265
Distribution and marketing costs		(358,432)	(370,109)	-	-
Administrative expenses		(152,662)	(156,471)	(8,700)	(19,355)
Other operating expenses		(11,622)	(3,766)	(668)	(1,182)
Profit from operations	3	983,668	986,581	802,678	769,205
Finance cost - interest expense		(27,400)	(27,400)	(27,400)	(27,400)
Profit before tax		956,268	959,181	775,278	741,805
Tax expense	6	(236,653)	(228,070)	(1,034)	(5,424)
Profit for the financial year		719,615	731,111	774,244	736,381
Profit attributable to:					
Owners of the Company		719,615	731,111	774,244	736,381
Earnings per share (sen)	7	252.0	256.1	-	-
Net dividends per share (sen)	8	276.0	240.0	276.0	240.0

The accounting policies on pages 151 to 163 and the notes on pages 164 to 204 form an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	Group		Company	
		Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Profit for the financial year		719,615	731,111	774,244	736,381
Other comprehensive income:					
Changes in fair value of cash flow hedges		1,510	(1,832)	588	(592)
Defined benefit plan actuarial gain/(loss)		59	(90)	337	(31)
Deferred tax movement on other comprehensive income	14				
- Deferred tax on revalued land and buildings		-	3,911	-	-
- Deferred tax on fair value changes on cash flow hedges		(378)	458	(147)	148
Total other comprehensive income for the financial year		1,191	2,447	778	(475)
Total comprehensive income for the financial year		720,806	733,558	775,022	735,906
Total comprehensive income for the financial year attributable to: Owners of the Company		720,806	733,558	775,022	735,906

The accounting policies on pages 151 to 163 and the notes on pages 164 to 204 form an integral part of these financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2011

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Non-current assets					
Property, plant and equipment	9	424,332	405,826	13,959	16,567
Investment property	10	138	1,636	–	–
Computer software	11	4,742	4,336	4,742	4,336
Goodwill	12	411,618	411,618	–	–
Subsidiaries	13	–	–	1,022,389	1,022,389
Deferred tax assets	14	20,102	15,158	4,349	4,166
Loan to a subsidiary	15	–	–	80,000	80,000
		860,932	838,574	1,125,439	1,127,458
Current assets					
Assets held for sale	16	–	888	–	–
Inventories	17	192,959	193,572	–	–
Receivables	18	206,925	179,489	6,352	104,501
Deposits, cash and bank balances	19	306,647	356,623	145,866	258,517
Tax recoverable		–	–	766	–
		706,531	730,572	152,984	363,018
Current liabilities					
Payables	20	361,295	314,208	319,358	526,098
Deferred income	21	2,095	–	–	–
Borrowings (interest bearing)	22	400,000	–	400,000	–
Derivative financial instruments	23	322	1,832	4	592
Current tax liabilities		67,566	66,758	–	220
		831,278	382,798	719,362	526,910
Net current (liabilities)/assets		(124,747)	347,774	(566,378)	(163,892)
		736,185	1,186,348	559,061	963,566

The accounting policies on pages 151 to 163 and the notes on pages 164 to 204 form an integral part of these financial statements.

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Capital and reserves					
Share capital	24	142,765	142,765	142,765	142,765
Cash flow hedge reserve		(242)	(1,374)	(3)	(444)
Retained earnings		289,212	349,035	163,975	168,891
Shareholders' funds		431,735	490,426	306,737	311,212
Non-current liabilities					
Borrowings	22	250,000	650,000	250,000	650,000
Deferred income	21	7,683	–	–	–
Post employment benefit obligations	25	4,511	4,117	2,324	2,354
Deferred tax liabilities	14	42,256	41,805	–	–
		736,185	1,186,348	559,061	963,566

The accounting policies on pages 151 to 163 and the notes on pages 164 to 204 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	Issued and fully paid ordinary shares of 50 sen each		Cash flow hedge reserve RM'000	Share based payment reserve RM'000	Retained earnings RM'000	Total attributable to owners RM'000
		Number of shares '000	Nominal value RM'000				
At 1 January 2011		285,530	142,765	(1,374)	–	349,035	490,426
Profit for the financial year ended 31 December 2011		–	–	–	–	719,615	719,615
Other comprehensive income:							
– changes in fair value of cash flow hedges	23	–	–	1,510	–	–	1,510
– defined benefit plan actuarial gain	25	–	–	–	–	59	59
– deferred tax on fair value changes on cash flow hedges	14	–	–	(378)	–	–	(378)
Total comprehensive income		–	–	1,132	–	719,674	720,806
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	–	–	–	4,439	–	4,439
Recharge of share based payment	31	–	–	–	(4,439)	–	(4,439)
Dividends for financial year ended 31 December 2010							
– third interim	8	–	–	–	–	(179,884)	(179,884)
Dividends for financial year ended 31 December 2011							
– first interim	8	–	–	–	–	(171,318)	(171,318)
– second interim	8	–	–	–	–	(171,318)	(171,318)
– special dividend	8	–	–	–	–	(85,659)	(85,659)
– third interim	8	–	–	–	–	(171,318)	(171,318)
Total transaction with owners		–	–	–	–	(779,497)	(779,497)
At 31 December 2011		285,530	142,765	(242)	–	289,212	431,735

The accounting policies on pages 151 to 163 and the notes on pages 164 to 204 form an integral part of these financial statements.

	Note	Issued and fully paid ordinary shares of 50 sen each		Cash flow hedge reserve RM'000	Share based payment reserve RM'000	Retained earnings RM'000	Total attributable to owners RM'000
		Number of shares '000	Nominal value RM'000				
At 1 January 2010		285,530	142,765	-	-	296,520	439,285
Profit for the financial year ended 31 December 2010		-	-	-	-	731,111	731,111
Other comprehensive income:							
- changes in value of cash flow hedges	23	-	-	(1,832)	-	-	(1,832)
- defined benefit plan actuarial loss	25	-	-	-	-	(90)	(90)
- deferred tax on revalued land and buildings		-	-	-	-	3,911	3,911
- deferred tax on fair value changes on cash flow hedges	14	-	-	458	-	-	458
Total comprehensive income		-	-	(1,374)	-	734,932	733,558
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	-	-	-	3,633	-	3,633
Recharge of share based payment	31	-	-	-	(3,633)	-	(3,633)
Dividends for financial year ended 31 December 2009		-	-	-	-	-	-
- final		-	-	-	-	(177,029)	(177,029)
Dividends for financial year ended 31 December 2010		-	-	-	-	-	-
- first interim	8	-	-	-	-	(322,649)	(322,649)
- second interim	8	-	-	-	-	(182,739)	(182,739)
Total transaction with owners		-	-	-	-	(682,417)	(682,417)
At 31 December 2010		285,530	142,765	(1,374)	-	349,035	490,426

The accounting policies on pages 151 to 163 and the notes on pages 164 to 204 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	Issued and fully paid ordinary shares of 50 sen each		Cash flow hedge reserve RM'000	Share based payment reserve RM'000	Retained earnings RM'000	Total attributable to owners RM'000
		Number of shares '000	Nominal value RM'000				
At 1 January 2011		285,530	142,765	(444)	-	168,891	311,212
Profit for the financial year ended 31 December 2011		-	-	-	-	774,244	774,244
Other comprehensive income:							
- changes in fair value of cash flow hedges	23	-	-	588	-	-	588
- defined benefit plan actuarial gain	25	-	-	-	-	337	337
- deferred tax on fair value changes on cash flow hedges	14	-	-	(147)	-	-	(147)
Total comprehensive income		-	-	441	-	774,581	775,022
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	-	-	-	3,193	-	3,193
Recharge of share based payment	31	-	-	-	(3,193)	-	(3,193)
Dividends for financial year ended 31 December 2010							
- third interim	8	-	-	-	-	(179,884)	(179,884)
Dividends for financial year ended 31 December 2011							
- first interim	8	-	-	-	-	(171,318)	(171,318)
- second interim	8	-	-	-	-	(171,318)	(171,318)
- special dividend	8	-	-	-	-	(85,659)	(85,659)
- third interim	8	-	-	-	-	(171,318)	(171,318)
Total transaction with owners		-	-	-	-	(779,497)	(779,497)
At 31 December 2011		285,530	142,765	(3)	-	163,975	306,737

The accounting policies on pages 151 to 163 and the notes on pages 164 to 204 form an integral part of these financial statements.

	Note	Issued and fully paid ordinary shares of 50 sen each					
		Number of shares '000	Nominal value RM'000	Cash flow hedge reserve RM'000	Share based payment reserve RM'000	Retained earnings RM'000	Total attributable to owners RM'000
At 1 January 2010		285,530	142,765	-	-	114,958	257,723
Profit for the financial year ended 31 December 2010		-	-	-	-	736,381	736,381
Other comprehensive income:							
- changes in fair value of cash flow hedges	23	-	-	(592)	-	-	(592)
- defined benefit plan actuarial loss	25	-	-	-	-	(31)	(31)
- deferred tax on fair value changes on cash flow hedges	14	-	-	148	-	-	148
Total comprehensive income		-	-	(444)	-	736,350	735,906
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	-	-	-	2,350	-	2,350
Recharge of share based payment	31	-	-	-	(2,350)	-	(2,350)
Dividends for financial year ended 31 December 2009							
- final		-	-	-	-	(177,029)	(177,029)
Dividends for financial year ended 31 December 2010							
- first interim	8	-	-	-	-	(322,649)	(322,649)
- second interim	8	-	-	-	-	(182,739)	(182,739)
Total transaction with owners		-	-	-	-	(682,417)	(682,417)
At 31 December 2010		285,530	142,765	(444)	-	168,891	311,212

The accounting policies on pages 151 to 163 and the notes on pages 164 to 204 form an integral part of these financial statements.

CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	Group		Company	
		Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Operating activities					
Cash receipts from customers and related companies		3,974,095	3,875,399	11,424	16,166
Cash paid to suppliers, employees and related companies		(2,925,388)	(2,760,759)	(4,493)	(3,003)
Dividends received from subsidiaries		-	-	791,408	942,605
Cash from operations	26	1,048,707	1,114,640	798,339	955,768
Income tax paid		(240,716)	(238,716)	(2,109)	(703)
Net cash flow from operating activities		807,991	875,924	796,230	955,065
Investing activities					
Property, plant and equipment					
- additions		(80,774)	(60,050)	(1,780)	(1,793)
- disposals		21,404	73,599	323	168
Computer software					
- additions		(2,305)	(4,344)	(2,305)	(4,344)
Disposals of assets held for sale		-	3,400	-	-
Interest income received		10,501	9,136	4,272	13
Repayment (to)/from subsidiaries		-	-	(102,598)	18,675
Net cash flow (used in)/from investing activities		(51,174)	21,741	(102,088)	12,719
Financing activities					
Dividends paid to shareholders		(779,497)	(682,417)	(779,497)	(682,417)
Interest expense paid		(27,296)	(27,311)	(27,296)	(27,311)
Net cash flow used in financing activities		(806,793)	(709,728)	(806,793)	(709,728)
(Decrease)/Increase in cash and cash equivalents		(49,976)	187,937	(112,651)	258,056
Cash and cash equivalents as at 1 January		356,623	168,686	258,517	461
Cash and cash equivalents as at 31 December	19	306,647	356,623	145,866	258,517

The accounting policies on pages 151 to 163 and the notes on pages 164 to 204 form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

Index	Page
A. Basis of preparation	151-152
B. Changes in accounting policies	152-154
C. Significant accounting estimates and judgements	154-155
D. Revenue recognition	156
E. Property, plant and equipment	156
F. Investment property	157
G. Leases	157
H. Assets held for sale	157
I. Intangible assets	158
J. Investments in subsidiaries	158
K. Inventories	158
L. Receivables	158
M. Cash and cash equivalents	158
N. Employee benefits	159
O. Payables	160
P. Provisions	160
Q. Deferred income	160
R. Taxation	160
S. Foreign currencies	160-161
T. Financial assets	161-163
U. Borrowings	163
V. Share capital	163
W. Dividends	163
X. Segment reporting	163

A. BASIS OF PREPARATION

The financial statements of the Group and the Company are prepared in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia.

The financial statements of the Group and Company have been prepared under the historical cost convention, as modified by the revaluation of land and buildings unless otherwise indicated in this summary of significant accounting policies.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results could differ.

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 16 February 2012.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year. Subsidiaries are those corporations in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are all those entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the acquisition method of accounting.

The Group has taken advantage of the transitional provision provided by MASB 21, FRS 3 and FRS 3 (revised) to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective effective dates have not been restated to comply with these Standards.

Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The consideration transferred for acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

In a business combination achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss.

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the gain is recognised in profit or loss. Refer to accounting policy Note I (i) on goodwill.

A. BASIS OF PREPARATION (CONT'D.)

Change in accounting policy

The Group has changed its accounting policy on business combinations when it adopted the revised FRS 3 "Business combinations" and FRS 127 "Consolidated and separate financial statements".

Previously, contingent consideration in a business combination was recognised when it is probable that payment will be made. Acquisition-related costs were included as part of the cost of business combination. Any adjustment to the fair values of the subsidiary's identifiable assets, liabilities and contingent liabilities relating to previously held interests of the Group was accounted for as a revaluation.

The Group has applied the new policies prospectively to transactions occurring on or after 1 January 2011. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. This may indicate an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary is recognised in profit or loss attributable to the parent.

B. CHANGES IN ACCOUNTING POLICIES

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Group and Company's financial year beginning on or after 1 January 2011 are as follows:

- Revised FRS 1 "First-time adoption of financial reporting standards"
- Revised FRS 3 "Business combinations"
- Revised FRS 127 "Consolidated and separate financial statements"
- Amendment to FRS 2 "Share-based payment - Group cash-settled share-based payment transactions"
- Amendment to FRS 7 "Financial instruments: Disclosures - improving disclosures about financial instruments"
- Amendment to FRS 1 "First-time adoption of financial reporting standards"
- Amendment to FRS 132 "Financial instruments: Presentation – Classification of rights issues"
- IC Interpretation 4 "Determining whether an arrangement contains a lease"
- IC Interpretation 12 "Service concession arrangements"
- IC Interpretation 16 "Hedges of a net investment in a foreign operation"
- IC Interpretation 17 "Distribution of non-cash assets to owners"
- IC Interpretation 18 "Transfers of assets from customers"
- Improvements to FRSs (2010)

The adoption of these interpretations, amendments and revisions to existing standards mandatory for annual periods beginning on or after 1 January 2011 did not result in significant changes in the reported profit or equity or on the disclosures in the financial statements.

In the next financial year, the Group and Company will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). In adopting the new framework, the Group and Company will be applying MFRS 1 "First-time adoption of MFRS".

The Group and Company will apply the new standards, amendments to standards and interpretations in the following period:

B. CHANGES IN ACCOUNTING POLICIES (CONT'D.)**(i) Financial year beginning on/after 1 January 2012**

- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 January 2012) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets. As the amendment to the existing standard will only impact the presentation aspects of the financial statements, it is not expected to have an impact on earnings per share.

(ii) Financial year beginning on/after 1 January 2013

- MFRS 9 “Financial instruments - classification and measurement of financial assets and financial liabilities” (effective from 1 January 2013) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (“FVTPL”). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability’s credit risk directly in other comprehensive income (OCI). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

The Group is in the process of assessing the impact of the revised standard.

- MFRS 10 “Consolidated financial statements” (effective from 1 January 2013) changes the definition of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It establishes control as the basis for determining which entities are consolidated in the consolidated financial statements and sets out the accounting requirements for the preparation of consolidated financial statements. It replaces all the guidance on control and consolidation in MFRS 127 “Consolidated and separate financial statements” and IC Interpretation 112 “Consolidation – special purpose entities”.

The Group is in the process of assessing the impact of the revised standard.

- MFRS 12 “Disclosures of interests in other entities” (effective from 1 January 2013) sets out the required disclosures for entities reporting under the two new standards, MFRS 10 and MFRS 11, and replaces the disclosure requirements currently found in MFRS 128 “Investments in associates”. It requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

As the adoption of the standard will only impact the presentation aspects of the financial statements, it is not expected to have an impact on earnings per share.

B. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

- MFRS 13 "Fair value measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial instruments: Disclosures", but apply to all assets and liabilities measured at fair value, not just financial ones.

The Group is in the process of assessing the impact of the revised standard.

- The revised MFRS 127 "Separate financial statements" (effective from 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10.

The Group is in the process of assessing the impact of the revised standard.

- Amendment to MFRS 101 "Presentation of items of other comprehensive income" (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' (OCI) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

As the adoption of the standard will only impact the presentation aspects of the financial statements, it is not expected to have an impact on earnings per share.

- Amendment to MFRS 119 "Employee benefits" (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.

The Group is in the process of assessing the impact of the revised standard.

There are no other interpretations, amendments or revisions to existing standards that are not yet effective that would be expected to have a material impact on the financial statements of the Group or Company.

C. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated based on historical experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements used in preparing the financial statements that have a significant effect on the carrying amount of assets and liabilities are as follows:

(l) Impairment of goodwill

The carrying amount of goodwill is reviewed for impairment, annually as well as more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value-in-use of the cash-generating units to which goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill is disclosed in Note 12.

C. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)**(ii) Income Taxes**

Current tax expense is determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits. Significant estimation is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Deferred Tax

Deferred tax assets and liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax is disclosed in Note 14.

(iv) Impairment of Property, Plant and Equipment

Property, plant and equipment is reviewed for impairment losses whenever events or changes in circumstances indicate that carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and its value-in use.

Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the assets values will be performed. During the year, the Group has reversed the impairment losses in respect of a subsidiary's property plant and equipment in view of the conditions for impairment of the respective assets no longer exist.

(iv) Depreciation of Machinery and Equipment

Machinery and equipment are depreciated on a straight line basis over their estimated useful lives. The Group estimates the useful lives of these machinery and equipment to be within 10 to 14 years. Changes in the expected level of usage and technological developments may result in the change of economic useful lives and the residual values of these assets, effecting a revision of future depreciation charges.

(v) Provision of retirement benefit obligations

Provision of retirement benefit obligations is determined using actuarial valuation prepared by an independent actuary. The actuarial valuation involved making assumptions including expected turnover, mortality and disability experiences of the current scheme members, discount rate, rate of return scheme assets, salary increase rate and normal retirement age.

D. REVENUE RECOGNITION

Revenue earned from the sale of the Group's products is recognised upon passing of title to the customer, which generally coincides with their delivery and acceptance and after eliminating sales within the Group. Revenue from sale of cigarettes, pipe tobaccos and cigars is presented at the invoiced value of goods sold, including all government duties and excluding sales taxes and trade discounts.

Other revenue earned by the Group and Company are recognised on the following basis:

- Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.
- Dividend income is recognised when the right to receive payment is established.
- Revenue from services rendered is recognised as and when the services are performed.

E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are initially stated at cost. Freehold land is stated at its 1983 valuation and buildings are stated at their 1983 valuation less depreciation as the Directors have applied the transitional provisions of MASB Approved Accounting Standards No. 16 (Revised) Property, Plant and Equipment. Accordingly, these valuations have not been updated. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and Company and the costs of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Freehold land is not depreciated as it has an infinite life. Depreciation on capital work in progress commences when the assets are ready for their intended use. Depreciation is provided to their residual values on all other property, plant and equipment on a straight line basis over their estimated useful lives, which are as follows:

Leasehold land	–	15 to 45 years
Buildings	–	35 to 40 years
Machinery and equipment	–	10 to 14 years
Furniture and fittings (including computer equipment and peripherals)	–	various periods not exceeding 10 years
Motor vehicles	–	5 years

Small value items are fully depreciated in the year of purchase. During the year, the Group changed its depreciation policy for merchandising units from a 3-year straight line method to expensed immediately as incurred to align to the Group accounting policies of the ultimate holding company.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. If the residual value of an asset increases to an amount equal or greater than the asset's carrying amount, the asset's depreciation charge is nil unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the asset values will be performed.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in the income statement.

F. INVESTMENT PROPERTY

Investment property comprises non-owner occupied residence, office and warehousing space. Investment property is stated at cost less accumulated depreciation and impairment losses.

Investment property comprising buildings are depreciated to their residual values on a straight line basis over their estimated useful lives of 20 to 44 years.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or when the investment property meets the criteria to be reclassified as "Assets Held for Sale" in accordance with FRS 5.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the asset values will be performed.

G. LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Leasehold land and buildings under long term leases held for own use are classified as property, plant and equipment as they are finance leases, where substantially all the risks and rewards incidental to their ownership is transferred to the Group. The leasehold land and buildings are depreciated on a straight line basis over their lease terms.

H. ASSETS HELD FOR SALE

Property, plant and equipment and investment property are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. These assets held for sale cease to be depreciated as their economic benefits are no longer consumed.

On disposal of an asset held for sale, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period of the disposal.

If there are changes to a plan of sale, the asset held for sale will be reclassified as property, plant and equipment or investment property with its carrying amount at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognised had the asset not been classified as held for sale and its recoverable amount at the date of the change to the plan of sale.

I. INTANGIBLE ASSETS

(i) GOODWILL

Goodwill represents the excess of the cost of acquisition of subsidiaries over the fair value of the Group's share of the identifiable net assets at the date of acquisition.

The carrying amount of goodwill is reviewed for impairment, annually as well as more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(ii) COMPUTER SOFTWARE

Costs that are directly associated with identifiable and unique computer software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, and are not integral to other property, plant and equipment are recognised as intangible assets. These costs include the software development employee costs and an appropriate portion of relevant overheads. The computer software development costs recognised as assets are amortised upon completion of the computer software products on a straight line basis over their estimated useful lives of 3 years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

J. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are shown at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

On disposal of investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

K. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined principally on a first-in first-out basis and in the case of manufactured cigarettes, comprises cost of materials, labour and manufacturing overheads. Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and selling expenses.

L. RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

M. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, balances with licensed financial institutions, bank overdrafts and short term highly liquid investments with original maturities of three months or less.

N. EMPLOYEE BENEFITS

(I) Short term benefits

Wages, salaries, bonuses and other staff related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees. A provision is made for the estimated liability for employee entitlements to annual leave up to the reporting date. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(II) Defined contribution plan

The Group's contributions to the Employees Provident Fund are recognised as an expense in the income statement as incurred. Once the contributions have been paid, the Group has no further payment obligations.

(iii) Defined benefit plan

The Group operates a defined benefit plan for employees who joined the Group prior to 1 January 2006, the assets of which are held in a separate trustee-administered fund. This fund is funded by payments from the relevant Group companies. The Group's retirement obligation is determined based on a triennial actuarial valuation (with annual updates) where the amount of the benefit that eligible employees have earned in return for their service in the current and prior years is estimated.

The liability in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date, reduced by the fair value of plan assets.

The defined benefit obligation, calculated using the Projected Unit Credit Method, is determined by an independent actuary, considering the estimated future cash outflows.

Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions. Actuarial gains and losses are recognised in full in the period they arise through retained earnings.

(iv) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy and is without realistic possibility of withdrawal.

(v) Share-based payments

A number of employees of the Group participate in equity-settled share-based compensation plans offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company).

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed off over the vesting period, based on British American Tobacco p.l.c.'s estimate of awards that will eventually vest. Fair value is measured by the use of the Black-Scholes and Monte-Carlo pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations, forfeiture and historical experience.

The grant by British American Tobacco p.l.c. of options over its equity instruments to the employees of the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an expense in the income statement, with a corresponding credit to equity.

O. PAYABLES

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

P. PROVISIONS

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event exists at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated.

Q. DEFERRED INCOME

Deferred income relates to distribution rights fee payable up front by third party distributors to the Group for the right to distribute the Groups' products for a minimum contract period of 5 years. The distribution rights fee is recognised into income statement over the 5 years contractual period on a straight line basis. Deferred income are classified as current liabilities if they are earned within one year or less. If not, they are presented as non-current liabilities.

R. TAXATION

Current tax expense is determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits. Tax expense is the aggregate amount included in the determination of profit for the period in respect of current tax and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets, provisions for pensions and other post retirement benefits, allowance for doubtful debts and tax losses and unutilised capital allowances. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax is determined using tax rates enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

S. FOREIGN CURRENCIES

(i) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Group's and Company's functional and presentation currency.

(ii) Foreign currency transactions and balances

Foreign currency transactions in the Group are accounted for at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

S. FOREIGN CURRENCIES (CONT'D.)**(iii) Foreign entities**

Assets and liabilities of foreign subsidiaries are translated at closing rates for purposes of consolidation. Income statement items are translated at average rates during the financial year and resulting exchange differences are dealt with in equity for the financial year.

(iv) Closing rates

The principal closing rates used in translation of foreign currency amounts were as follows:

Foreign Currency	31.12.2011	31.12.2010
1 US Dollar	3.1700	3.0835
1 Pound Sterling	4.9265	4.8277
1 Euro	4.1150	4.1367

T. FINANCIAL ASSETS**Classification**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition:

- Available-for-sale investments: Available-for-sale investments are those non-derivative financial assets that cannot be classified as financial assets at fair value through profit or loss, loans and receivables or cash and cash equivalents;
- Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges;
- Loans and receivables: These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market; and
- Cash and cash equivalents: Cash and cash equivalents comprise cash in hand, balances with licensed financial institutions, bank overdrafts and short term highly liquid investments with original maturities of three months or less.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and cash and cash equivalents are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement in the period in which they arise.

Changes in the fair value of the “financial assets available-for-sale” category are recognised directly in other comprehensive income. When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

Dividend and interest income are included in the income statement when the Group’s right to receive payment is established.

Fair values for quoted investments are based on observable market prices.

T. FINANCIAL ASSETS (CONT'D.)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include significant financial difficulty of the obligor, a breach of contract, or it becomes probable that the obligor will enter bankruptcy or other financial reorganisation.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Derivative financial instruments and hedging activities

Derivatives are initially recognised, and subsequently measured, at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Fair value hedge: Hedges of the fair value of recognised assets or liabilities or a firm commitment;
- Cash flow hedge: Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- Net investment hedge: Hedges of a net investment in a foreign operation.

In order to qualify for hedge accounting, the Group is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed periodically to ensure that the hedge has remained, and is expected to remain, highly effective.

Changes in their fair values are recognised as follows:

- Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
- For derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the income statement in the same periods as the hedged item. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are recognised in the income statement in the same periods as the hedged item.
- Net investment hedges are accounted for similarly to cash flow hedges.
- For derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the income statement in the period in which they arise.

T. FINANCIAL ASSETS (CONT'D.)

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. When a hedged future transaction is no longer expected to occur, any related gains and losses, previously recognised in other comprehensive income, are immediately recognised in the income statement.

U. BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method, except for borrowing costs incurred for the construction of any qualifying asset.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

V. SHARE CAPITAL

Ordinary shares are classified as equity.

W. DIVIDENDS

Interim dividends are recognised as a liability in the period in which they are declared. Final dividends are recognised in the period approval of members is obtained.

X. SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group regards its Board of Directors as its chief operating decision maker, as the Board is responsible for allocating resources, assesses performance, and makes strategic decisions.

The Group is a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products in Malaysia, and this forms the focus of the Group's internal reporting systems. While the Group has clearly differentiated brands, segmentation within a wide portfolio of brands is not part of the regular internally reported financial information to the chief operating decision maker and it is not possible to segment the Group results by brand without a high degree of estimation.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company provides day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos and cigars.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

The Company deems British American Tobacco p.l.c., which is incorporated in England and Wales, to be its ultimate holding company.

The address of the registered office and principal place of business of the Company is as follows:

Virginia Park, Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan

2. REVENUE

	Group		Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Sale of cigarettes, pipe tobaccos and cigars	4,127,245	3,965,448	–	–
Dividend income from unquoted subsidiaries	–	–	791,408	768,312
Management fee received from subsidiaries	–	–	5,407	5,814
Fee for usage of property, plant and equipment received from subsidiaries	–	–	6,017	10,351
	4,127,245	3,965,448	802,832	784,477

3. PROFIT FROM OPERATIONS

	Group		Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Profit from operations is arrived at:				
After charging:				
Write off of subsidiary	-	-	-	500
Raw materials and consumables used	288,425	293,108	-	-
Excise payment	2,163,937	1,989,286	-	-
Auditors' remuneration:				
- statutory audit	230	183	78	60
- audit related fees	76	117	76	117
Property, plant and equipment:				
- depreciation (Note 9)	58,380	56,813	3,952	4,935
- loss on disposal	-	-	113	1,949
- impairment (Note 9)	-	5,139	-	-
Investment property				
- depreciation (Note 10)	76	18	-	-
- loss on disposal	122	-	-	-
Computer software (Note 11)				
- amortisation	1,899	5,805	1,899	5,805
- impairment	-	753	-	753
Rental of land and buildings	5,523	4,768	-	-
Inventories written off	2,132	-	-	-
Bad debts written off	412	471	-	-
Allowance for doubtful debts	1,998	-	-	-
Provision for litigation	-	1,665	-	1,665
Net foreign exchange loss	1,432	-	-	768
Staff costs (Note 5)	165,392	148,066	31,100	28,478

3. PROFIT FROM OPERATIONS (CONT'D.)

	Group		Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
And crediting:				
Property, plant and equipment:				
- gain on disposal	1,603	30,258	-	-
Inventories written back	-	201	-	-
Recovery of impairment costs	13,580	4,403	-	-
Reversal on provision for litigation	5,800	-	-	-
Writeback of allowance for doubtful debts	-	105	-	-
Interest income on loan to subsidiary	-	-	5,040	5,040
Interest income on deposits	10,425	9,344	4,174	225
Net foreign exchange gain	-	1,597	68	-

4. DIRECTORS' REMUNERATION

	Group		Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Fees	517	517	517	517
Other emoluments	9,073	7,288	3,909	5,318
	9,590	7,805	4,426	5,835

The estimated monetary value of benefits in kind provided to Directors of the Group and Company during the financial year amounted to RM3,175,271 (2010: RM417,811) and RM193,745 (2010: RM290,117) respectively.

Share-based payments made to certain Directors of the Group and Company (during their employment with the Group) in the financial year are by way of their participation in employee share schemes (Note 31) offered by British American Tobacco p.l.c.

Details of the movements of certain Directors' equity-settled share-based payment arrangements during the year ended 2011, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows, representing costs incurred by the Group and Company during the tenure of the Directors' service with the Group and Company.

4. DIRECTORS' REMUNERATION (CONT'D.)

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.11	Awarded in 2011	Vested in 2011	Other movements*	At 31.12.11
Executive Directors					
Deferred Share Bonus Scheme	13,147	10,556	(3,644)	2,942	23,001
International Share Reward Scheme	257	214	(118)	6	359
	13,404	10,770	(3,762)	2,948	23,360

Details of the movements of the Directors' participation in the equity-settled Long Term Incentive Plan and Share Option Scheme are as follows, representing costs incurred by the Group and Company during the tenure of the Directors' service with the Group and Company:

Grant price	At 1.1.11	Awarded in 2011	Vested in 2011	Lapsed in 2011	Other movements*	At 31.12.11
£5.98	7,392	–	(7,392)	–	–	–
£8.09	16,019	–	(5,163)	–	–	10,856
£10.37	9,244	–	–	–	–	9,244
£14.34	8,642	–	–	–	–	8,642
£15.41	13,695	–	(5,178)	–	–	8,517
£19.03	18,924	–	(15,990)	–	(434)	2,500
£15.79	28,484	–	(4,540)	(3,244)	380	21,080
£22.58	20,887	–	(1,505)	(3,977)	56	15,461
£23.77	–	16,952	–	–	–	16,952
	123,287	16,952	(39,768)	(7,221)	2	93,252

* Other movements relate to changes due to movement of Directors during the financial year.

5. STAFF COSTS

	Group		Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Wages, salaries and bonuses	120,054	118,315	23,816	23,603
Defined contribution plan	27,073	22,236	3,432	2,665
Voluntary redundancy package	12,349	1,477	288	277
Other staff related expenses	5,916	6,038	3,564	1,933
	165,392	148,066	31,100	28,478

The Group voluntarily provide additional 4% Employees Provident Fund (EPF) contributions over the statutory requirement for a significant number of existing employees who participate in a defined contribution scheme offered by the Group.

Included in staff cost is an amount for other emoluments as part of Directors' remuneration disclosed in Note 4 to the financial statements.

Staff costs recharged by the Company to the subsidiaries amounted to RM21,598,917 (2010: RM21,596,531).

During the year, the Group changed its distribution model from Company-owned distributorship to exclusive third party distributorship for 3 of its areas; Klang Valley, Johor Bahru and Penang. This decision resulted in organisational restructuring which includes voluntary separation schemes (VSS) and reorganisation of certain employees. The financial impact of this organisational restructuring has been recognised in the income statement.

6. TAX EXPENSE

The tax charge on the profit for the financial year consists of the following:

	Group		Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	242,984	238,646	1,403	922
- Foreign tax	12	24	-	-
Deferred tax (Note 14 (i))	(4,871)	3,559	(330)	4,502
<u>In respect of prior years</u>				
(Over)/Under provision in respect of prior years				
- Malaysian income tax	(1,472)	(14,159)	(39)	-
	236,653	228,070	1,034	5,424

6. TAX EXPENSE (CONT'D.)

The average effective tax rates of the Group and Company are reconciled to the statutory tax rate as follows:

	Group		Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Statutory tax rate	25%	25%	25%	25%
Expenses not deductible for tax purposes	1%	2%	1%	2%
Utilisation of reinvestment allowances	(1%)	(2%)	–	–
Income not subject to tax	–	–	(26%)	(26%)
Over provision in respect of prior years	–	(1%)	–	–
Average effective tax rate	25%	24%	–	1%

7. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the financial year by the number of ordinary shares in issue.

	Group	
	Year ended 31.12.11	Year ended 31.12.10
Profit for the financial year (RM'000)	719,615	731,111
Number of ordinary shares of 50 sen each in issue ('000)	285,530	285,530
Earnings per share (sen)	252.0	256.1

8. DIVIDENDS

Dividends paid, declared or proposed in respect of the financial year are as follows:

	Group and Company					
	Year ended 31.12.11			Year ended 31.12.10		
	Gross per share Sen	Net per share Sen	Amount of dividend RM'000	Gross per share Sen	Net per share Sen	Amount of dividend RM'000
First interim dividend	60.0	60.0	171,318	113.0	113.0	322,649
Second interim dividend	60.0	60.0	171,318	64.0	64.0	182,739
Special dividend	30.0	30.0	85,659	–	–	–
Third interim dividend	60.0	60.0	171,318	63.0	63.0	179,884
Fourth interim dividend	66.0	66.0	188,450	–	–	–
	276.0	276.0	788,063	240.0	240.0	685,272

The first, second and third interim dividends are paid and accounted for in shareholders' equity as an appropriation of retained earnings in the financial year they are declared.

The Directors declared a fourth interim dividend of 66 sen per share at the Board of Directors' meeting on 16 February 2012 amounting to RM188,449,800, in respect of the financial year ended 31 December 2011 which will be paid on 23 March 2012 to shareholders registered in the Company's Register of Members at the close of business on 8 March 2012. These financial statements do not reflect the fourth interim dividend which will be accounted for in the financial year ending 31 December 2012.

The directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2011.

9. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings RM'000	Machinery and Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Capital Work In Progress RM'000	Total RM'000
GROUP						
Net book value at						
1 January 2010	103,096	266,296	6,666	28,600	46,411	451,069
Additions	172	7,630	2,806	3,577	45,865	60,050
Disposals	(20,377)	(3,984)	(90)	(1,376)	(17,514)	(43,341)
Impairment	–	(5,139)	–	–	–	(5,139)
Reclassifications	163	33,119	26,978	–	(60,260)	–
Depreciation charge	(2,912)	(29,849)	(15,653)	(8,399)	–	(56,813)
Net book value at 31 December 2010	80,142	268,073	20,707	22,402	14,502	405,826
Additions	906	41,679	1,565	8,806	27,818	80,774
Disposals	(7)	(1,587)	(11,864)	(4,898)	–	(18,356)
Reversal of impairment	–	13,580	–	–	–	13,580
Reclassifications	66	14,877	11,424	–	(26,367)	–
Depreciation charge	(2,685)	(33,478)	(15,014)	(7,203)	–	(58,380)
Transfer from assets held for sale	888	–	–	–	–	888
Net book value at 31 December 2011	79,310	303,144	6,818	19,107	15,953	424,332
At 31 December 2010						
Cost / Valuation	151,026	500,581	170,738	53,197	14,502	890,044
Accumulated depreciation and impairment	(70,884)	(232,508)	(150,031)	(30,795)	–	(484,218)
Net book value	80,142	268,073	20,707	22,402	14,502	405,826
At 31 December 2011						
Cost / Valuation	152,988	540,494	166,960	42,927	15,953	919,322
Accumulated depreciation and impairment	(73,678)	(237,350)	(160,142)	(23,820)	–	(494,990)
Net book value	79,310	303,144	6,818	19,107	15,953	424,332

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Land and Buildings RM'000	Machinery and Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Capital Work In Progress RM'000	Total RM'000
COMPANY						
Net book value at						
1 January 2010	6,849	978	6,193	5,153	774	19,947
Additions	–	–	1,597	196	–	1,793
Disposals	(24)	(31)	(22)	(161)	–	(238)
Reclassifications	–	–	774	–	(774)	–
Depreciation charge	(214)	(67)	(3,612)	(1,042)	–	(4,935)
Net book value at 31 December 2010	6,611	880	4,930	4,146	–	16,567
Additions	–	–	1,492	288	–	1,780
Disposals	–	(60)	(2)	(374)	–	(436)
Depreciation charge	(250)	(56)	(2,785)	(861)	–	(3,952)
Net book value at 31 December 2011	6,361	764	3,635	3,199	–	13,959
At 31 December 2010						
Cost / Valuation	10,476	1,511	25,349	7,149	–	44,485
Accumulated depreciation	(3,865)	(631)	(20,419)	(3,003)	–	(27,918)
Net book value	6,611	880	4,930	4,146	–	16,567
At 31 December 2011						
Cost / Valuation	10,476	1,213	23,130	5,691	–	40,510
Accumulated depreciation	(4,115)	(449)	(19,495)	(2,492)	–	(26,551)
Net book value	6,361	764	3,635	3,199	–	13,959

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Freehold Land Cost RM'000	Leasehold Land Valuation RM'000	Buildings Cost RM'000	Total Land and Buildings RM'000
GROUP				
Net book value at January 2010	105	19,952	83,039	103,096
Additions	–	–	172	172
Reclassifications	–	–	163	163
Depreciation charge	–	(401)	(2,511)	(2,912)
Disposals	–	(1,214)	(19,163)	(20,377)
Net book value at 31 December 2010	105	18,337	61,700	80,142
Additions	–	–	906	906
Reclassifications	–	–	66	66
Depreciation charge	–	(368)	(2,317)	(2,685)
Disposals	–	–	(7)	(7)
Transfer from assets held for sale	–	–	888	888
Net book value at 31 December 2011	105	17,969	61,236	79,310
At 31 December 2010				
Cost / Valuation	105	27,521	123,400	151,026
Accumulated depreciation and impairment	–	(9,184)	(61,700)	(70,884)
Net book value	105	18,337	61,700	80,142
At 31 December 2011				
Cost / Valuation	105	27,521	125,362	152,988
Accumulated depreciation and impairment	–	(9,552)	(64,126)	(73,678)
Net book value	105	17,969	61,236	79,310

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Freehold Land Cost RM'000	Leasehold Land Valuation RM'000	Buildings Cost RM'000	Total Land and Buildings RM'000
COMPANY				
Net book value at 1 January 2010	105	1,013	5,731	6,849
Depreciation charge	–	(22)	(192)	(214)
Disposals	–	(24)	–	(24)
Net book value at 31 December 2010	105	967	5,539	6,611
Depreciation charge	–	(21)	(229)	(250)
Net book value at 31 December 2011	105	946	5,310	6,361
At 31 December 2010				
Cost / Valuation	105	1,435	8,936	10,476
Accumulated depreciation	–	(468)	(3,397)	(3,865)
Net book value	105	967	5,539	6,611
At 31 December 2011				
Cost / Valuation	105	1,435	8,936	10,476
Accumulated depreciation	–	(489)	(3,626)	(4,115)
Net book value	105	946	5,310	6,361

Certain land and buildings were revalued by the Directors on 1 July 1983 based upon independent professional valuation using fair market value on a current use basis. The net book value of revalued buildings of the Group and Company is nil (2010: nil).

Additions subsequent to this revaluation are stated at cost.

The net book value of revalued land of the Group and Company that would have been included in the financial statements, had these assets been carried at cost less accumulated depreciation is nil.

10. INVESTMENT PROPERTY

	Group	
	2011 RM'000	2010 RM'000
Net book value at 1 January	1,636	1,654
Disposal	(1,422)	–
Depreciation	(76)	(18)
Net book value at 31 December	138	1,636
Cost	162	1,718
Accumulated depreciation	(24)	(82)
Net book value	138	1,636
Fair value of investment property	138	1,636

The Group's property as at 31 December 2011 is at Pasir Puteh, Kelantan. The Group disposed the property in Wakaf Delima during the financial year for a consideration of RM1,300,000.

11. COMPUTER SOFTWARE

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Net book value at 1 January	4,336	6,550	4,336	6,550
Additions	2,305	4,344	2,305	4,344
Amortisation charge	(1,899)	(5,805)	(1,899)	(5,805)
Impairment	–	(753)	–	(753)
Net book value at 31 December	4,742	4,336	4,742	4,336
Cost	36,231	33,926	36,231	33,926
Accumulated amortisation and impairment	(31,489)	(29,590)	(31,489)	(29,590)
Net book value	4,742	4,336	4,742	4,336

12. GOODWILL

	Group	
	2011 RM'000	2010 RM'000
Net book value at 31 December	411,618	411,618

Goodwill arose from the acquisition of the business of Malaysian Tobacco Company Berhad (MTC), which represents the cash generating units, and represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the net assets of the subsidiary companies (i.e. Commercial Marketers and Distributors Sdn. Bhd. (CMD) for the marketing business and Tobacco Blenders and Manufacturers Sdn. Bhd. (TBM) for the tobacco manufacturing business) acquired on 2 November 1999, the date of acquisition.

The carrying amount of goodwill is reviewed for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculations. The key assumptions for the recoverable amount of all units are management's current estimates of net cash flows over a period of 5 years (2010: 5 years) based on historical growth rate, taking into account industry developments and at the pre-tax discount rate of 6.09% (2010: 6.46%). No impairment charges were recognised in 2011 (2010: Nil) and no significant difference in the recoverable amount is expected should the discounted cash flows change by 5% (2010: 5%).

13. SUBSIDIARIES

	Company	
	2011 RM'000	2010 RM'000
Unquoted investments, at cost	1,024,456	1,024,456
Impairment losses	(2,067)	(2,067)
	1,022,389	1,022,389

The subsidiaries, all of which are wholly-owned, are as follows:

Incorporated in Malaysia

Operating

Commercial Importers and Distributors Sdn. Bhd.
Commercial Marketers and Distributors Sdn. Bhd.
Rothmans Brands Sdn. Bhd.
The Leaf Tobacco Development Corporation of Malaya Sdn. Bhd.
Tobacco Importers and Manufacturers Sdn. Bhd.

Principal Activities

Investment holding
Marketing and importation of cigarettes, pipe tobaccos and cigars
Holding of trademarks
Purchase of tobacco leaf on behalf of a subsidiary
Manufacture and sale of cigarettes and other tobacco related products

Non-operating

Contemporary Force Sdn. Bhd.
Lucky Strike Originals Sdn. Bhd.
Tobacco Blenders and Manufacturers Sdn. Bhd.

Principal Activities

Dormant
Dormant
Dormant

Incorporated in Negara Brunei Darussalam

Operating

Commercial Marketers and Distributors Sdn. Bhd.*

Principal Activities

Provision of advertising and promotional services

* The financial statements were not audited by PricewaterhouseCoopers, Malaysia.

14. DEFERRED TAX

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deferred tax assets				
At 1 January	15,158	19,295	4,166	8,520
Credited/(Charged) to income statement (Note 14 (i))	4,944	(4,137)	330	(4,502)
(Charged)/Credited to statement of comprehensive income (Note 14 (ii))	-	-	(147)	148
At 31 December	20,102	15,158	4,349	4,166
Represented by:				
Excess of depreciation over capital allowances	2,631	2,309	3,412	2,309
Provisions and accruals	17,471	12,849	1,084	1,709
Cash flow hedge	-	-	(147)	148
	20,102	15,158	4,349	4,166
Deferred tax liabilities				
At 1 January	41,805	46,752	-	-
Charged / (Credited) to income statement (Note 14 (i))	73	(578)	-	-
Charged / (Credited) to statement of comprehensive income (Note 14 (ii))	378	(4,369)	-	-
As at 31 December	42,256	41,805	-	-
Represented by:				
Excess of capital allowances over depreciation	44,333	41,860	-	-
Revalued land and buildings	-	311	-	-
Cash flow hedge	(80)	(458)	-	-
Provisions and accruals	(1,997)	92	-	-
	42,256	41,805	-	-

14. DEFERRED TAX (CONT'D.)

The amounts above have been reconciled to the income statements and statements of changes in equity as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
(i) (Credited)/Charged to income statement				
(Credited)/Charged in respect of deferred tax assets	(4,944)	4,137	(330)	4,502
Charged/(Credited) in respect of deferred tax liabilities	73	(578)	–	–
Net (credit)/charge to income statement (Note 6)	(4,871)	3,559	(330)	4,502
(ii) Charged/(Credited) to statement of comprehensive income				
Charged/(Credited) in respect of deferred tax liabilities & assets	378	(4,369)	147	(148)
Net charge/(credit) to statement of comprehensive income	378	(4,369)	147	(148)

15. LOAN TO A SUBSIDIARY

On 17 August 2009, the Company issued a 5-year RM80,000,000 unsecured loan to its subsidiary, Commercial Marketers and Distributors Sdn. Bhd. bearing interest of 6.3% per annum receivable semi-annually. The loan is receivable in a lump sum in 2014. The fair value of the loan to subsidiary approximates the carrying amount of the loan.

Credit risk with respect to the loan to Commercial Marketers and Distributors Sdn. Bhd. is limited taking into account its financial position and historical results.

16. ASSETS HELD FOR SALE

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	888	4,288	–	1,950
Transfer to property, plant and equipment (Note 9)	(888)	–	–	–
Disposed during the year		(3,400)	–	(1,950)
At 31 December	–	888	–	–

The assets held for sale has been reclassified to property, plant and equipment in view there was no active buyer during the year.

17. INVENTORIES

	Group	
	2011 RM'000	2010 RM'000
At cost		
Raw materials	108,188	82,895
Work-in-progress	4,428	6,772
Finished goods	75,030	99,484
Consumable stores	5,313	4,421
	192,959	193,572

18. RECEIVABLES

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Trade receivables	118,746	92,099	-	-
Impairment for doubtful debts	(5,093)	(3,095)	-	-
Trade receivables (net)	113,653	89,004	-	-
Amounts due from related companies*	46,783	28,356	4,327	102,666
Other receivables	2,507	641	-	-
Deposits	1,100	1,623	271	342
Prepayments	42,882	59,865	1,754	1,493
	206,925	179,489	6,352	104,501

Credit terms of trade receivables range from 1 to 60 days (2010: 1 to 60 days).

As at 31 December 2011, trade receivables of RM74,515,000 (2010: RM48,043,000) were past due their contractual payment date but are considered to be recoverable. These relate to a number of external parties where there is no expectation of default. The age analysis of these trade receivables is as follows:

*Fellow subsidiaries through a common ultimate major shareholder, British American Tobacco p.l.c.

	Group	
	2011 RM'000	2010 RM'000
Past due within 1 month	48,820	25,434
Past due more than 1 month but within 1 year	25,695	22,609
	74,515	48,043

18. RECEIVABLES (CONT'D.)

Movements of the allowance for doubtful debts during the year are as follows:

	Group	
	2011 RM'000	2010 RM'000
At 1 January	3,095	3,200
Provision for receivables impairment	1,998	–
Unused amounts reversed	–	(105)
At 31 December	5,093	3,095

The creation and release of provision for impaired receivables have been included in “distribution and marketing costs” in the income statement.

The other classes within receivables do not contain impaired assets.

The Group’s amounts due from related companies arose mainly from export sales which have a credit term of 60 days (2010: 60 days) and prepayments for leaf purchases which are not subject to any terms of repayment. These amounts are unsecured and interest-free.

The Company’s amounts due from related companies arose mainly from payments made on behalf of certain related companies. These amounts are unsecured, interest-free and not subject to any terms of repayment.

Amounts due from related companies of the Group are mainly denominated in US Dollars. All other receivables of the Group and Company are mainly denominated in Ringgit Malaysia.

Approximately 48% of the Group’s trade receivables are derived from its sales to 8 of its key customers. The Group closely monitors collections from these customers. In addition, the Group’s historical experience in collection of trade receivables falls within the recorded allowances.

The maximum exposure to credit risk at the reporting date is the total carrying value of receivables disclosed above. The Group does not hold any collateral as security.

19. DEPOSITS, CASH AND BANK BALANCES

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deposits with licensed banks	289,606	275,020	140,000	210,000
Cash and bank balances	17,041	81,603	5,866	48,517
	306,647	356,623	145,866	258,517
The currency exposure profile of deposits, cash and bank balances is as follows:				
- US Dollar	28,297	6,533	5,432	487
- Pound Sterling	5,652	-	266	-
- Brunei Dollar	359	5,983	-	-
	34,308	12,516	5,698	487

	Group		Company	
	2011 %	2010 %	2011 %	2010 %
The weighted average interest rates of deposits with licensed banks that were effective during the year (per annum)	2.8%	2.4%	2.8%	2.6%

Deposits of the Group have an average maturity period of 30 days (2010: 30 days).

20. PAYABLES

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Trade payables	155,584	119,407	-	-
Trade accruals	19,575	18,428	-	-
Amount due to subsidiaries	-	-	276,369	491,012
Amount due to related companies	70,772	18,783	393	-
Other payables	115,364	157,590	42,596	35,086
	361,295	314,208	319,358	526,098

20. PAYABLES (CONT'D.)

The currency exposure profile of trade payables for currencies other than the Group and Company functional currency is as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
US Dollar	5,026	81	-	-
Pound Sterling	78	33	-	-
Euro	3,353	5,435	-	-
Others	432	68	-	-
	8,889	5,617	-	-

The currency exposure profile of amounts due to related companies is as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
US Dollar	19,467	91	-	-
Pound Sterling	49,980	37	-	-
Others	1,325	62	-	-
	70,772	190	-	-

All other amounts within payables are mostly denominated in Ringgit Malaysia.

Credit terms of trade payables and suppliers of property, plant and equipment granted to the Group vary from no credit to 120 days (2010: no credit to 120 days).

Amounts due to subsidiaries have no fixed terms of repayment, are unsecured and interest-free. However, the subsidiaries have indicated that the amounts due will not be recalled within the next 12 months.

Amounts due to related companies are repayable within credit terms granted of 60 days (2010: 60 days), are unsecured and interest-free.

21. DEFERRED INCOME

The Group changed its distribution model from company-owned distribution to exclusive third party distributorship during the year. Distribution rights fee is payable up front by the distributors to the Group in return for the rights granted to distribute the Group's products for a minimum contract period of 5 years. This income to the Group is recognised over the 5 years period on a straight line basis.

22. BORROWINGS (INTEREST BEARING)

(a) The Group's and Company's borrowings as at 31 December 2011 are as follows:

- (i) RM400,000,000 5-year unsecured Medium-Term Notes 2007/2012 with a coupon rate of 4.05% per annum, maturing on 21 September 2012 pursuant to an Issuance Programme of up to RM700 million nominal value Medium-Term Notes (MTNs Programme); and
- (ii) RM250,000,000 5-year unsecured Medium-Term Notes 2009/2014 with a coupon rate of 4.48% per annum, maturing on 15 August 2014 pursuant to an Issuance Programme of up to RM700 million nominal value Medium-Term Notes (MTNs Programme)

(b) (i) Maturity of the Group and Company borrowings is as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Total borrowings				
Medium-term notes	650,000	650,000	650,000	650,000
Maturity of borrowings:				
Within one year	400,000	–	400,000	–
More than 1 year and less than 2 years	–	400,000	–	400,000
More than 2 years and less than 5 years	250,000	250,000	250,000	250,000

(ii) Classification of the Group and Company borrowings is as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Unsecured				
Current				
Medium-term notes	400,000	–	400,000	–
Non current				
Medium-term notes	250,000	650,000	250,000	650,000

(c) The Group and Company's borrowings are denominated in Ringgit Malaysia.

(d) The fair value of borrowings are detailed in Note 30(b).

23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2011 Assets RM'000	2011 Liabilities RM'000	2011 Assets RM'000	2011 Liabilities RM'000
Forward foreign exchange contracts - cash flow hedges	-	322	-	4

	Group		Company	
	2010 Assets RM'000	2010 Liabilities RM'000	2010 Assets RM'000	2010 Liabilities RM'000
Forward foreign exchange contracts - cash flow hedges	-	1,832	-	592

The fair values of derivative financial instruments are determined based on the quoted market price of similar derivatives, as they are not traded on an active market. These derivatives are classified as Level 2 financial instruments in accordance with FRS 7 classification hierarchy.

The Group's cash flow hedges are principally in respect of future payment for leaf, wrapping materials, machinery and services over the next 12 months. The Company's cash flow hedges are principally in respect of future payments of services over the next 12 months. The timing of expected cash flows in respect of derivatives designated as cash flow hedges is expected to be comparable to the timing of when the hedged item will affect profit or loss, which are expected to occur at various dates during the next 12 months.

Gains and losses recognised in other comprehensive income on forward foreign exchange contracts are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months from the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset. There was no ineffective portion arising from derivative financial instruments during the year.

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D.)

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2011 were as follows:

Hedged item	Currency to be paid	RM'000 equivalent	Average contracted rate
<u>2011</u>			
<u>Group</u>			
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD8,330,000	US Dollar	25,693	1 USD = RM3.0844
GBP5,750,000	Pound Sterling	28,372	1 GBP = RM4.9342
EUR4,460,000	Euro	19,312	1 EUR = RM4.3302
<u>Company</u>			
Future payment for services over the next 12 months			
GBP 150,000	Pound Sterling	739	1 GBP = RM4.9248
<u>2010</u>			
<u>Group</u>			
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD9,000,000	US Dollar	28,993	1 USD = RM3.2215
GBP6,250,000	Pound Sterling	30,706	1 GBP = RM4.9130
EUR7,290,000	Euro	30,027	1 EUR = RM4.1189
<u>Company</u>			
Future payment for services over the next 12 months			
GBP6,250,000	Pound Sterling	30,706	1 GBP = RM4.9130

24. SHARE CAPITAL

	Group and Company	
	2011 RM'000	2010 RM'000
Authorised		
770,000,000 Ordinary shares of 50 sen each	385,000	385,000
Issued and fully paid		
285,530,000 Ordinary shares of 50 sen each	142,765	142,765

25. POST EMPLOYMENT BENEFIT OBLIGATIONS

Defined Benefit Plan

The Group operates a defined benefit plan for its eligible employees in Malaysia (who joined the Group prior to 1 January 2006), the assets of which are held in a separate trustee administered fund. The Company and certain subsidiaries in the Group make contributions to the British American Tobacco Malaysia Retirement Scheme, a tax approved fund independent of the Group.

The defined benefit plan is valued by an independent actuary using the Projected Unit Credit Method. The latest actuarial valuation that was conducted on 31 December 2011 showed that the value of the net assets held in the fund together with the book provisions in the Group's financial statements, adequately met the actuarial liabilities arising from the defined benefit plan as at 31 December 2011.

The amounts recognised in the balance sheet are determined as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Present value of defined benefit obligations	11,487	10,882	5,889	5,972
Fair value of plan assets	(6,976)	(6,765)	(3,565)	(3,618)
Net liability	4,511	4,117	2,324	2,354

The amounts recognised in the income statement under other operating expenses are as follows:

	Group		Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Current service cost	(629)	(679)	(295)	(292)
Interest cost	(692)	(703)	(382)	(352)
Expected return on plan assets	196	143	106	41
Total, included within staff cost	(1,125)	(1,239)	(571)	(603)

25. POST EMPLOYMENT BENEFIT OBLIGATIONS (CONT'D.)

Defined Benefit Plan (Cont'd.)

Movements in post-employment benefit obligations were as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	4,117	6,043	2,354	4,063
Charge for the year	1,125	1,239	571	603
Contributions paid	(587)	(646)	(264)	(263)
Benefits paid	(85)	(2,609)	–	–
Transfer from subsidiary	–	–	–	(2,080)
Actuarial (gain)/loss recognised	(59)	90	(337)	31
At 31 December	4,511	4,117	2,324	2,354

Changes in the present value of defined benefit obligations were as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	10,882	12,256	5,972	5,507
Service cost	629	679	295	292
Interest cost	692	703	382	352
Benefits paid	(648)	(2,842)	(216)	(209)
Liability transferred to subsidiary	–	–	(201)	–
Actuarial loss due to assumption change	287	–	93	–
Actuarial (gain)/loss due to actual experience	(355)	86	(436)	30
At 31 December	11,487	10,882	5,889	5,972

25. POST EMPLOYMENT BENEFIT OBLIGATIONS (CONT'D.)

Defined Benefit Plan (Cont'd.)

Changes in the fair value of plan assets were as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	6,765	6,213	3,618	1,444
Expected return on plan assets	196	143	106	41
Contributions by employer	587	646	264	263
Benefits paid	(563)	(233)	(216)	(209)
Assets transferred (to) / from a subsidiary	-	-	(201)	2,080
Actuarial loss on plan assets	(9)	(4)	(6)	(1)
At 31 December	6,976	6,765	3,565	3,618
Contribution payable in the next year	596	631	255	298

The developments of actuarial gains and losses as at 31 December were as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Actuarial loss from prior year	598	508	302	271
Actuarial (gain) / loss recognised in year	(59)	90	(337)	31
Cumulative actuarial loss recognised	539	598	(35)	302

Principal actuarial assumptions used at the balance sheet date in respect of the Group's and the Company's defined benefit plan were as follows:

	2011 %	2010 %
Discount rate	6.0	6.5
Expected return on plan assets	3.0	3.0
Expected rate of salary increases	6.0	6.0

The expected rate of return on scheme assets in 2011 is derived from an investment allocation of 20% into Malaysian Government bonds, and 80% into money market instruments yielding annual rates of investment returns of 4.5% and 2.5% respectively.

26. CASH FROM OPERATIONS

	Group		Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
Profit for the financial year	719,615	731,111	774,244	736,381
Adjustments for:				
Write off of subsidiary	-	-	-	500
Defined benefit plan charge (Note 25)	1,125	1,239	571	603
Interest income	(10,425)	(9,344)	(9,214)	(5,265)
Property, plant and equipment				
- depreciation	58,380	56,813	3,952	4,935
- impairment	-	5,139	-	-
- recovery of impairment	(13,580)	-	-	-
- (gain)/loss on disposal	(1,603)	(30,258)	113	1,949
Investment property				
- depreciation	76	18	-	-
- loss on disposal	122	-	-	-
Computer software				
- amortisation	1,899	5,805	1,899	5,805
- impairment	-	753	-	753
Bad debts written off	412	471	-	-
Allowance/(Writeback) for doubtful debts	1,998	(105)	-	-
Inventories written off/(written back)	2,132	(201)	-	-
(Reversal)/Provision for litigation	(5,800)	1,665	-	1,665
Interest expense	27,400	27,400	27,400	27,400
Tax expense	236,653	228,070	1,034	5,424
Changes in working capital:				
- inventories	(1,519)	20,887	-	-
- receivables	(29,922)	(14,936)	103,091	173,553
- payables	61,744	90,113	(104,751)	2,065
Cash from operations	1,048,707	1,114,640	798,339	955,768

27. CAPITAL COMMITMENTS

Capital expenditure not provided for in the financial statements are as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Property, plant and equipment:				
- Authorised and contracted for	13,373	13,543	-	29
- Authorised but not contracted for	432	16,793	432	5
	13,805	30,336	432	34

28. SIGNIFICANT RELATED PARTY DISCLOSURES

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions.

The Group's and Company's transactions are with member corporations of British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company).

(a) Group's transactions

	Group	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
(i) Sale of goods		
Sale of cigarettes and tobacco products to:		
- British-American Tobacco Company (HK) Ltd.	4,255	3,971
- Rothmans Far East B.V.	9,812	11,018
- British American Tobacco Marketing (Singapore) Pte. Ltd.	69,082	29,556
- B.A.T. China Ltd.	1,062	988
- British American Tobacco International Ltd.	18,107	4,835
- British American Tobacco Korea Manufacturing Ltd.	14,965	19,691
- India Tobacco Company	1,817	1,005
	119,100	71,064

28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

	Group	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
(ii) Purchase of goods		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
- British American Tobacco Marketing (Singapore) Pte. Ltd.	82	9,468
- British American Tobacco (Germany) GmbH	7	1,653
- British American Tobacco (GLP) Ltd.	66,800	57,046
- PT Export Leaf Indonesia	47,914	45,059
- British American Tobacco Cambodia Ltd.	-	3,863
- PT Bentoel Prima	-	1
- British American Tobacco (U.K. & Export) Ltd.	2,151	-
- B.A.T. Mexico SA De CV	-	31
	116,954	117,121
Purchase of cigarettes and tobacco products from:		
- British American Tobacco International Ltd.	296	141
- BAT Theodorus Niemeyer B.V.	1,462	1,467
- B.A.T. (U.K. & Export) Ltd.	-	49
- British American Tobacco Marketing (Singapore) Pte. Ltd.	-	190
	1,758	1,847
(iii) Procurement of services		
Procurement of information technology services from:		
- British American Shared Services Ltd.	15,353	16,945
- British American Tobacco Asia-Pacific Region Ltd.	-	434
	15,353	17,379

28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

	Group	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
(iv) Technical and advisory (includes share based payment charges)		
Payment of fees for technical and advisory support services to:		
- British American Tobacco (Investments) Ltd.	53,950	52,397
- British American Tobacco International Ltd.	1,552	1,643
- British American Tobacco Asia Pacific Treasury Pte. Ltd.	-	390
- British American Tobacco ASPAC Service Centre Sdn. Bhd.	9,472	8,156
- British American Tobacco Singapore Pte. Ltd.	425	-
- British American Tobacco Asia-Pacific Region Ltd.	4,303	5,461
	69,702	68,047
(v) Royalties		
Royalties paid/payable to:		
- Dunhill Tobacco of London Ltd.*	88,729	72,824
- Benson & Hedges (Overseas) Limited*	4,583	5,193
- British American Tobacco (Investments) Inc.	7,168	8,843
- The American-Cigarette Company (Overseas) Ltd.**	4,259	2,711
- St. Regis Tobacco Corporation Ltd.**	289	343
	105,028	89,914
(vi) Sale and purchase of equipment		
(Sale)/purchase of equipment (to)/from:		
- British American Tobacco Marketing (Singapore) Pte. Ltd.	-	7,075
- British American Tobacco Asia Pacific Region Ltd	-	1,328
- Pakistan Tobacco Company Limited	-	(249)
- British American Tobacco Bangladesh	-	(13,646)
- Souza Cruz SA	-	(1,029)
- PT Bentoel Prima	-	(124)
- British American Tobacco Australasia Limited	1,294	-
- British American Tobacco Denmark A/S	115	-
- British American Tobacco Mexico SA De CV	(11,425)	-
- British American Tobacco Tuntun Mamulleri Sanayi Ve Ticaret Anonim Sirketi	19,424	-
	9,408	(6,645)

28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

	Group	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
(vii) Provision of technical and advisory support services to:		
- B.A.T. China Ltd.	95	110
- British American Tobacco - Vinataba (JV) Ltd.	42	44
- British-American Tobacco Company (HK) Ltd.	114	140
- British American Tobacco Cambodia Ltd.	48	63
- British American Tobacco Services Limited, Taiwan Branch	89	93
- PT BAT Indonesia Tbk.	-	-
- Rothmans of Pall Mall Myanmar	128	2
- British American Tobacco (Vietnam) Ltd.	1,107	13
- British American Tobacco (Singapore) Pte. Ltd.	3	1,395
- British American Tobacco Marketing (Singapore) Pte. Ltd.	826	911
- British American Tobacco Japan, Ltd.	54	7
- British American Tobacco (Thailand) Ltd.	1	-
- Ceylon Tobacco Co. Ltd.	5	-
- British American Tobacco (PNG) Limited	240	4
- British American Tobacco ASPAC Service Centre Sdn. Bhd.	-	1,285
- British American Tobacco Bangladesh Limited	18	-
- British American Tobacco International Ltd.	69	11
	2,839	4,078

* Payments in respect of royalty agreements with these entities were made to British American Tobacco (UK & Export) Ltd.

** Payments in respect of royalty agreements with these entities were made to British American Tobacco (Brands) Inc. (previously made to British American Tobacco International Holdings (Switzerland) Ltd., Zug.)

28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

(b) Company's transactions

	Company	
	Year ended 31.12.11 RM'000	Year ended 31.12.10 RM'000
(i) Management fee		
Management fee received from:		
- Commercial Marketers and Distributors Sdn. Bhd.	4,880	5,180
- Tobacco Importers and Manufacturers Sdn. Bhd.	527	634
	5,407	5,814
(ii) Fee for usage of property, plant and equipment:		
Fee for usage of property, plant and equipment received from:		
- Commercial Marketers and Distributors Sdn. Bhd.	5,158	9,035
- Tobacco Importers and Manufacturers Sdn. Bhd.	859	1,316
	6,017	10,351
(iii) Procurement of services*		
Procurement of information technology services from:		
- British American Shared Services Ltd.	15,353	16,945
- British American Tobacco Asia-Pacific Region Ltd.	-	434
	15,353	17,379
(iv) Technical and advisory (includes shared based payment charges)*		
Payment of fees for technical and advisory support services to:		
- British American Tobacco (Investments) Ltd.	53,950	52,397
- British American Tobacco International Ltd.	1,552	1,643
- British American Tobacco Asia Pacific Treasury Pte. Ltd.	-	390
- British American Tobacco ASPAC Service Centre Sdn. Bhd.	9,472	8,156
- British American Tobacco Singapore Pte. Ltd.	425	-
- British American Tobacco Asia-Pacific Region Ltd.	4,303	5,461
	69,702	68,047

Key management personnel of the Group and Company are the Directors of which their compensation has been disclosed in Note 4 of the financial statements.

*These costs have been fully re-charged to certain subsidiaries during the year.

29. SEGMENT REPORTING

The entity is domiciled in Malaysia. The revenue from external customers in Malaysia is RM3,898,534,000 (2010: RM3,763,320,000), and the total revenue from external customers from other countries is RM228,711,000 (2010: RM202,128,000). The Group does not have any non-current assets that are located in countries other than Malaysia. There are also no revenue arising from transactions with a single external customer that comprises 10% or more of the Group's revenue for the years ended 31 December 2011 and 31 December 2010.

Segment analysis has not been prepared as the Group is a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products in Malaysia, and this forms the focus of the Group's internal reporting systems. While the Group has clearly differentiated brands, segmentation within a wide portfolio of brands is not part of the regular internally reported financial information to the chief operational decision maker and it is not possible to segment the Group results by brand without a high degree of estimation.

30. FINANCIAL RISK MANAGEMENT

(a) Financial Risk Factors

The Group and Company are exposed to financial risks arising from its business activities; mainly interest rate risks, price risk, currency exchange risks, credit risks and liquidity and cash flow risks. These risks are managed by the Group at Group level.

Straightforward derivative financial instruments are utilised by the Group to lower funding costs, to alter interest rate exposures or to achieve greater certainty of future costs. These instruments are entered into in accordance with objectives and policies approved by the Board of Directors that expressly forbid speculative transactions.

The policy restricts the use of derivative instruments to forward foreign exchange contracts, foreign currency and interest rate swaps, forward rate agreements, currency options and caps. In addition to policies, guidelines and exposure limits, a system of delegated authority limits and extensive independent reporting covers all major areas of the Group's treasury activities.

(i) Interest Rate Risk Management

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on earnings, cash flow and economic value of the Group. As at the balance sheet date, there were no open interest rate swap contracts. Borrowings issued at fixed rates expose the group to fair value interest rate risk. The Group has no cash flow interest rate risk as the Group has only fixed rate borrowings as disclosed in Note 22, and a possible 10% increase or decrease in interest rates on deposits will not result in any significant change in the Group's pre-tax profit.

(ii) Currency Exchange Risk Management

The Group is subject to exposures to currency exchange risk as a result of its purchases of certain raw materials, equipment and services in foreign currencies. The Group's primary currency exchange risk exposures are to the US dollar, Euro and British pound. The currency profile of the assets and liabilities of the Group are disclosed in the respective notes to the financial statements.

The objectives of the Group's foreign exchange policies are to allow the Group to manage exposures that arise from trading activities effectively within a framework of controls that does not expose the Group to unnecessary foreign exchange risks. The Group enters into forward foreign exchange contracts to hedge 50% - 100% of its exposure on foreign currency sales and payables and on cash flows to be used in anticipated transactions denominated in foreign currencies for the subsequent 12 months.

The Group considers a 10% strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 10% increase or decrease of functional currency against non-functional currencies would not result in significant changes in the Group's pre-tax profit.

30. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Financial Risk Factors (cont'd.)

(iii) Price Risk Management

The Group is exposed to price risk relating to leaf purchases, which are included in raw materials disclosed in Note 17. The Group reviews sourcing strategies as and when required, to manage any adverse exposures.

The Group considers a 10% change in prices of leaf purchases a possible change. The impact is calculated with reference to the leaf purchases made during the year held as at the year end, unless this is unrepresentative of the position during the year. A 10% increase or decrease in leaf purchases would not result in significant changes in pre-tax profit.

The Group operates under increasingly stringent regulatory regimes in accordance with the relevant regulations governing sale and manufacture of tobacco products. Such regulations are developed and driven by the Framework Convention of Tobacco Control. The overall trend of high and increasing levels of excise and taxes, including introduction of new taxes could impact the volumes of the legal industry whilst fuelling illicit trade. The Group has in place strategies to ensure that regulations developed on governing tobacco products are sensible and enforceable, as well as contingency plans to manage the impact of significant excise changes.

(iv) Credit Risk Management

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, setting of counterparty limits and monitoring procedures. The Group seeks to invest cash assets safely and profitably. Credit risks are minimised given the Group's policy of selecting only counterparties with high creditworthiness.

Approximately 48% of the Group's trade receivables are derived from its sales to 8 of its key customers. The Group closely monitors collections from these customers. In addition, the Group's historical experience in collection of trade receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in the Group's trade receivables.

The Group has no other significant concentrations of credit risk, notwithstanding that the majority of its deposits are placed with financial institutions in Malaysia. The likelihood of non-performance by these financial institutions is remote based on their high credit ratings.

The age analysis of trade receivables is disclosed in Note 18.

(v) Liquidity and Cash Flow Risks

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and finding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions so as to achieve overall cost effectiveness.

30. FINANCIAL RISK MANAGEMENT (CONT'D.)

The table below summarises the maturity profile of the Group's and the Company's liabilities based on contractual undiscounted repayment obligations.

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Maturity of borrowings:				
Within 1 year	416,200	–	416,200	–
More than 1 year and less than 2 years	–	432,400	–	432,400
More than 2 years and less than 5 years	283,600	294,800	283,600	294,800
Payables within 1 year	361,295	314,208	319,358	526,098
Derivative financial instruments within 1 year	322	1,832	4	592

(b) Fair Value Estimation

The fair value measurement hierarchy for financial instruments stated in the balance sheet is as follows:

- Level 1: Quoted price (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The Group measures its forward foreign exchange contracts (cash flow hedges) at fair values, as disclosed in Note 23. The fair values of forward foreign exchange contracts are determined based on the quoted market price of similar derivatives, as they are not traded on an active market. These derivatives are classified as Level 2 financial instruments in accordance with FRS 7 classification hierarchy.

The carrying amounts of and fair values of the Group's borrowings are as follows:

	Note	Group		Company	
		Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
At 31 December 2011					
Current borrowings					
RM400 million MTNs	22	400,000	402,240	400,000	402,240
Non-current borrowings					
RM250 million MTNs	22	250,000	255,550	250,000	255,550
At 31 December 2010					
Non-current borrowings					
RM400 million MTNs	22	400,000	403,971	400,000	403,971
RM250 million MTNs	22	250,000	256,548	250,000	256,548

The Group measures the fair values of its borrowings based on observable yield curves.

30. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Capital Management

The Group defines capital as net debt and equity.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group assesses its financial capacity by reference to cash flow and interest cover. Group policies include a set of financing principles including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-back are decided.

31. SHARE-BASED PAYMENTS

The Group operates a number of share-based payment arrangements:

Long-Term Incentive plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of ten years. Payout is subject to performance conditions based on earnings per share relative to inflation (50 per cent of grant) and total shareholder return, combining the share price and dividend performance of the Company by reference to two comparator groups (50 per cent of grant). Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. The LTIPs are granted in March each year. In 2011 the management board LTIP award was made in May.

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if participant leaves employment before the end of the three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled grants are granted in March each year.

Share Option scheme (ESOS)

Options exercisable three years from date of grant with a contractual life of ten years, subject to earnings per share performance condition relative to inflation. Participants are not entitled to receive dividends in the period prior to the exercise of the options. The granting of options under this scheme ceased with the last grant made in March 2004. The awards were equity settled.

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,000 in any year) under the equity-settled scheme are subject to a three year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Share-based payment expense

The amounts recognised in the income statement in respect of share-based payments were as follows:

31. SHARE-BASED PAYMENTS (CONT'D.)

Group	2011	2010
	Equity-settled in RM'000	Equity-settled in RM'000
LTIP (note a)	1,613	2,397
DSBS (note b)	2,802	1,226
SRS (note c)	24	10
Total recognised in the income statement	4,439	3,633

Company	2011	2010
	Equity-settled in RM'000	Equity-settled in RM'000
LTIP (note a)	1,313	1,604
DSBS (note b)	1,866	737
SRS (note c)	14	9
Total recognised in the income statement	3,193	2,350

31. SHARE-BASED PAYMENTS (CONT'D.)

(a) Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2011 and 31 December 2010, were as follows:

Group	2011	2010
	Equity-settled Number of options in thousands	Equity-settled Number of options in thousands
Outstanding at start of year	129	123
Granted during the period	30	32
Exercised during the period	(48)	(26)
Forfeited during the period	(7)	–
Outstanding at end of year	104	129
Exercisable at end of year	11	17

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £25.60 (2010: £22.69) for equity-settled options.

The outstanding shares for the year ended 31 December 2011 had a weighted average contractual life of 7.73 years (2010: 7.42 years) for the equity-settled scheme.

Company	2011	2010
	Equity-settled Number of options in thousands	Equity-settled Number of options in thousands
Outstanding at start of year	74	68
Granted during the period	25	21
Exercised during the period	(24)	(15)
Outstanding at end of year	75	74
Exercisable at end of year	–	–

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £24.15 (2010: £22.33) for equity-settled options.

The outstanding shares for the year ended 31 December 2011 had a weighted average contractual life of 8.1 years (2010: 7.8 years) for the equity-settled scheme.

31. SHARE-BASED PAYMENTS (CONT'D.)

(b) Deferred Share Bonus Scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2011 and 31 December 2010, were as follows:

Group	2011	2010
	Equity-settled Number of options in thousands	Equity-settled Number of options in thousands
Outstanding at start of year	67	76
Granted during the period	28	13
Exercised during the period	(26)	(22)
Forfeited during the period	(2)	–
Outstanding at end of year	67	67
Exercisable at end of year	–	–

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £24.52 (2010: £22.37) for equity-settled options.

The outstanding shares for the year ended 31 December 2011 had a weighted average contractual life of 1.15 years (2010: 1.08 years) for the equity-settled scheme.

Company	2011	2010
	Equity-settled Number of options in thousands	Equity-settled Number of options in thousands
Outstanding at start of year	36	37
Granted during the period	18	8
Exercised during the period	(11)	(9)
Forfeited during the period	(2)	–
Outstanding at end of year	41	36
Exercisable at end of year	–	–

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £24.60 (2010: £22.56) for equity-settled options.

The outstanding shares for the year ended 31 December 2011 had a weighted average contractual life of 1.20 years (2010: 1.12 years) for the equity-settled scheme.

31. SHARE-BASED PAYMENTS (CONT'D.)

(c) Other schemes

ESOS

Group

The ESOS scheme was last awarded in 2004 and the final outstanding awards must be exercised by March 2014. The number of outstanding equity-settled options at the end of the year were 9,709 (2010: 22,264).

Company

The ESOS scheme was last awarded in 2004 and the final outstanding awards must be exercised by March 2014. The number of outstanding equity-settled options at the end of the year were 2,538 (2010: 2,538).

SRS and ISRS

Group

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 3,142 (2010: 3,061).

Company

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 820 (2010: 793).

Valuation assumptions

Assumptions used in the Black-Scholes models to determine the fair value of share options at grant date were as follows:

Group and Company	2011		2010	
	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	25	25	25	25
Average expected term to exercise (years)	3.5	3.0	3.5	3.0
Risk-free rate (%)	2.0	1.8	2.1	1.8
Expected dividend yield (%)	4.8	4.8	4.4	4.4
Share price at date of grant (£)	23.77	23.77	22.58	22.58
Fair value at grant date (£)	15.60	20.58	15.62	19.78

31. SHARE-BASED PAYMENTS (CONT'D.)

(c) Other schemes (cont'd.)

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

	2011	2010
Group and Company	%	%
Average share price volatility FTSE 100 comparator group	40	38
Average share price volatility FMCG comparator group	26	25
Average correlation FTSE 100 comparator group	39	37
Average correlation FMCG comparator group	35	33

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the return index, (the share price index plus the dividend reinvested) over a five year period. The respective FMCG and FTSE 100 share price volatility and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This payout calculation is based on expectations published in analysts' forecasts.

32. BREAKDOWN OF REALISED AND UNREALISED PROFIT/(LOSS)

The following analysis of realised and unrealised retained earnings/(accumulated losses) at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

	Group		Company	
	Financial year ended 31.12.2011 RM'000	Financial year ended 31.12.2010 RM'000	Financial year ended 31.12.2011 RM'000	Financial year ended 31.12.2010 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries				
– Realised profits	494,238	523,619	162,731	166,474
– Unrealised (losses)/profits	(36,321)	(46,955)	1,244	2,417
Less: Consolidation adjustments	(168,705)	(127,629)	–	–
Total retained earnings	289,212	349,035	163,975	168,891

The unrealised portion within unappropriated profits (retained earnings) for the Group as at 31 December 2011 predominantly relates to net deferred tax liability of RM22,154,000 (2010: RM26,647,000) and provisions for non-material litigation of RM12,727,000 (2010: RM18,527,000).

The consolidation adjustments recognised for the Group mainly relate to accumulated goodwill amortisation recognised from years 2000 to 2005.

The unrealised portion within unappropriated profits (retained earnings) for the Company as at 31 December 2011 predominantly relates to net deferred tax asset of RM4,349,000 (2010: RM4,166,000) and provision for litigation which is pending settlement of RM1,665,000 for both years.

The disclosure of realised and unrealised profits / (losses) above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

ANALYSIS OF SHAREHOLDINGS AS AT 24 FEBRUARY 2012

Share Capital

Authorised Share Capital	: RM385,000,000 comprising 770,000,000 ordinary shares of RM0.50 each
Issued and Fully Paid-Up Share Capital	: RM142,765,000 comprising 285,530,000 ordinary shares of RM0.50 each
Voting Rights	: One vote per ordinary share

Distribution Of Shareholdings

(without aggregating the securities from different securities account belonging to the same Depositor)

Size of Shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of issued shares
1 - 99	586	13.165	9,591	0.003
100 - 1,000	2,116	47.539	978,960	0.342
1,001 - 10,000	1,225	27.521	4,794,906	1.679
10,001 - 100,000	383	8.604	11,749,466	4.114
100,001 - 14,276,499 *	139	3.122	108,853,777	38.123
14,276,500 AND ABOVE **	2	0.044	159,143,300	55.736
TOTAL :	4,451	100.000	285,530,000	100.000

Notes :

* LESS THAN 5% OF ISSUED SHARES

** 5% AND ABOVE OF ISSUED SHARES

Directors' Direct Interests In Shares In The Company

Name	Number of shares held	% of issued shares
Tan Sri Abu Talib bin Othman	51,000	0.02
Datuk Oh Chong Peng	1,000	0.00*
James Richard Suttie	1,500	0.00*
Dato' Chan Choon Ngai	1,000	0.00*

Directors' Indirect Interests In Shares In The Company

Name	Number of shares held	% of issued shares
Dato' Chan Choon Ngai	6,000	0.00*

Note :

* Less than 0.01%

Substantial Shareholders Based On The Register Of Substantial Shareholders

Name	Number of shares held	% of issued shares
British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.000
AmanahRaya Trustees Berhad – <i>Skim Amanah Saham Bumiputera</i>	17,272,100	6.049

Top 30 Securities Account Holders

(without aggregating the securities from different securities accounts belonging to the same Depositor)

No	Name	Number of shares held	% of issued shares
1	British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.000
2	Amanahraya Trustees Berhad – <i>Skim Amanah Saham Bumiputera</i>	16,378,300	5.736
3	Citigroup Nominees (Tempatan) Sdn Bhd – <i>Employees Provident Fund Board</i>	11,450,502	4.010
4	Valuecap Sdn Bhd	8,384,400	2.936
5	Kumpulan Wang Persaraan (Diperbadankan)	7,941,800	2.781
6	Cartaban Nominees (Asing) Sdn Bhd – <i>SSBT Fund 4545 For Lazard Emerging Markets Portfolio</i>	6,026,300	2.110
7	Amanahraya Trustees Berhad – <i>Amanah Saham Malaysia</i>	4,000,000	1.400
8	Malaysia Nominees (Tempatan) Sendirian Berhad – <i>Great Eastern Life Assurance (Malaysia) Berhad (Par 1)</i>	3,801,100	1.331
9	HSBC Nominees (Asing) Sdn Bhd – <i>BNP Paribas Secs SVS Lux For Aberdeen Global</i>	3,747,320	1.312
10	Cartaban Nominees (Asing) Sdn Bhd – <i>Exempt An For State Street Bank & Trust Company (West CLT OD67)</i>	3,573,385	1.251
11	HSBC Nominees (Asing) Sdn Bhd – <i>Exempt An For JPMorgan Chase Bank, National Association (U.S.A.)</i>	2,329,800	0.815
12	HSBC Nominees (Asing) Sdn Bhd – <i>Exempt An For JPMorgan Chase Bank, National Association (JPM Funds)</i>	2,270,200	0.795
13	HSBC Nominees (Asing) Sdn Bhd – <i>Exempt An For JPMorgan Chase Bank, National Association (U.K.)</i>	2,202,242	0.771
14	HSBC Nominees (Asing) Sdn Bhd – <i>BBH And Co Boston For Vanguard Emerging Markets Stock Index Fund</i>	2,096,645	0.734
15	Citigroup Nominees (Tempatan) Sdn Bhd – <i>Exempt An For American International Assurance Berhad</i>	2,089,800	0.731
16	HSBC Nominees (Asing) Sdn Bhd – <i>BNP Paribas Secs SVS Paris For Aberdeen Asia Pacific Fund</i>	1,750,900	0.613

No	Name	Number of shares held	% of issued shares
17	HSBC Nominees (Asing) Sdn Bhd – TNTC For Sanderson International Value Fund	1,598,400	0.559
18	HSBC Nominees (Asing) Sdn Bhd – Exempt An For The Bank Of New York Mellon (Mellon Acct)	1,409,311	0.493
19	HSBC Nominees (Asing) Sdn Bhd – Exempt An For JPMorgan Chase Bank, National Association (U.A.E.)	1,277,755	0.447
20	HSBC Nominees (Asing) Sdn Bhd – BBH And Co Boston For Blackrock Global Allocation Fund, Inc.	1,253,500	0.439
21	Citigroup Nominees (Asing) Sdn Bhd – CBNY For AGF Emerging Markets Fund	1,240,400	0.434
22	Cartaban Nominees (Asing) Sdn Bhd – Government Of Singapore Investment Corporation Pte Ltd For Government Of Singapore (C)	1,218,400	0.426
23	Cartaban Nominees (Asing) Sdn Bhd – Exempt An For RBC Dexia Investor Services Trust (Clients Account)	950,700	0.332
24	Cartaban Nominees (Asing) Sdn Bhd – State Street London Fund OD75 For Ishares Public Limited Company	948,000	0.332
25	Amanahraya Trustees Berhad – As 1Malaysia	894,300	0.313
26	HSBC Nominees (Asing) Sdn Bhd – Exempt An For BNP Paribas Securities Services (Jersey GBP)	889,800	0.311
27	Cartaban Nominees (Asing) Sdn Bhd – State Street Australia Fund 7FAF For Monetary Authority Of Singapore	877,000	0.307
28	Citigroup Nominees (Tempatan) Sdn Bhd – Exempt An For Eastspring Investments Berhad	874,900	0.306
29	HSBC Nominees (Asing) Sdn Bhd – TNTC For Government Of Singapore Investment Corporation Pte Ltd	804,800	0.281
30	Citigroup Nominees (Asing) Sdn Bhd – UBS Lux For UBS (Lux) Equity Fund-Asian Consumption	802,700	0.281
	Total	235,847,660	82.599

PARTICULARS OF PROPERTIES AS AT 29 FEBRUARY 2012

Location	Date of Purchase/ Last Revaluation	Usage	Approximate Age of Building (years)	Land/ Built-up Area (square metres)	Net Book Value (RM'000)
Freehold					
No. 36A, Jalan Lengkok Canning, Ipoh Garden, Ipoh, Perak	30.11.1989	shop and office	23	143.07	83
No. A79, Jalan Telok Sisek, Kuantan, Pahang	28.4.1994	shop and office	20	110.59	213
Leasehold					
Lots 122 and 124, Jalan Universiti, Petaling Jaya, Selangor (99 years lease expiring on 8.4.2062 and 29.9.2060 respectively)	30.9.1961	factory, office and store	50	46,905.44	67,830
Lots P.T. 683-685, 687-689, Mukim Panchor, District Kemumin, Kawasan Perindustrian Pengkalan Chepa II, Kota Bharu, Kelantan (66 years lease expiring 25.7.2048)	26.7.1982	industrial land, store and office	24	29,952.00	4,754
No. 2, Jalan Foochow, Kuching, Sarawak (999 years lease expiring 31.12.2923)	3.10.1991	shop and office	22	156.10	178
No. 120, Jalan Semangat, Petaling Jaya, Selangor (99 years lease expiring 12.7.2061)	24.5.1993	office and store	36	6,119.00	4,872
Lot 1, Block A, Hong Tong Centre, Miles 4, Penampang, Kota Kinabalu, Sabah (99 years lease expiring 31.12.2080)	30.9.1999	shop and office	18	136.56	408
No. 8, Jalan Melaka Raya 13, Taman Melaka Raya, Melaka (99 years lease expiring 7.7.2093)	30.3.1996	shop and office	17	143.00	280
GM9, Lot 1709, Semerak, Pasir Puteh, Kelantan (33 years lease expiring 23.9.2017)	24.9.1984	residence (investment property)	25	10,380.00	138
K.M. 5.5, Jalan Bukit Kayu Hitam, Changloon, Kedah (30 years lease expiring 6.7.2021)	7.7.1991	office and agricultural land	23	285,510.00	851

CORPORATE DIRECTORY

Head office

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

Virginia Park
Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : +60 (3) 7956 6899/7491 7100
Fax : +60 (3) 7955 8416

Factory

**TOBACCO IMPORTERS AND
MANUFACTURERS SDN. BERHAD**
(Company No. 4414-U)

Virginia Park
Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : +60 (3) 7956 6899/7491 7100
Fax : +60 (3) 7955 8416

Branch offices

**COMMERCIAL MARKETERS AND
DISTRIBUTORS SDN. BHD.**
(Company No. 42316-T)

Pulau Pinang
No. 50 Weld Quay
10300 Penang
Tel : +60 (4) 261 8840
Fax : +60 (4) 261 8799

Ipoh
36, Jalan Lengkok Canning
Ipoh Garden
31400 Ipoh, Perak
Tel : +60 (5) 547 7878/546 2187
Fax : +60 (5) 547 4268

Kuala Lumpur
Unit No. BB1-1, Jalan Shamelin Niaga 2
Shamelin Heights Business Park
Taman Shamelin Perkasa
56100 Kuala Lumpur
Tel : +60 (3) 9200 8371
Fax : +60 (3) 9200 8370

Selangor

No. 3, Jalan Industri PBP3
Taman Perindustrian Pusat Bandar
Puchong
47100 Puchong
Selangor
Tel : +60 (3) 5891 9888
Fax : +60 (3) 5891 9882

Melaka

12, Jalan Abadi 3, Taman Malim Jaya
75250 Melaka
Tel : +60 (6) 282 5435/284 6593
Fax : +60 (6) 283 5168

Johor Bahru

No. 4 Jalan Asas
Larkin Industrial Estate
80350 Johor Bahru, Johor
Tel : +60 (7) 232 4688
Fax : +60 (7) 238 6208

Kuantan

A79, Jalan Telok Sisek
25000 Kuantan, Pahang
Tel : +60 (9) 517 8373/517 7831
Fax : +60 (9) 517 7484

Kota Bharu

Lot PT 1453 & 1454, 1st Floor
Kawasan Perindustrian Pengkalan Chepa 2
Seksyen 39 Kemumin
16100 Kota Bharu, Kelantan
Tel. : +60 (9) 773 8831/773 8873
Fax. : +60 (9) 773 8968

Kota Kinabalu

Lot 1, Block A Hong Tong Centre
Mile 4, Penampang
P.O. Box 11236
88813 Kota Kinabalu, Sabah
Tel : +60 (88) 722 628/722 629
Fax : +60 (88) 722 630

Kuching

Lot 8943, Section 64, KTLD
No. 2, Jalan Foochow
93300 Kuching, Sarawak
Tel : +60 (82) 481 884/481 886
Fax : +60 (82) 335 490

Leaf office

**THE LEAF TOBACCO
DEVELOPMENT CORPORATION
OF MALAYA SDN. BHD.**
(Company No. 4998-P)

Kota Bharu

Lot No. 2952
Kawasan Perindustrian
Pengkalan Chepa II
Jalan Padang Tembak
16100 Kota Bharu
Kelantan
Tel : +60 (9) 774 7400/774 7434
Fax : +60 (9) 773 5855

COMMERCIAL MARKETERS AND DISTRIBUTORS SDN. BHD.

(Incorporated in Negara Brunei
Darussalam)
Unit 4, Block B
Lot 1150, EDR 2244
Latifuddin Complex
Jalan Tungku Link
Menglait, Gadong, BE 3619
Negara Brunei Darussalam
Tel : +(673) 245 2975
Fax : +(673) 245 2974

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-first Annual General Meeting of British American Tobacco (Malaysia) Berhad (BATM or the Company) will be held at Kristal Ballroom, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 10 April 2012 at 11.00 a.m. for the following purposes:

As ordinary business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2011 and the Reports of the Directors and Auditors thereon. **Ordinary Resolution 1**
2. To re-elect the following Directors who retire by rotation in accordance with Articles 97(1) and (2) of the Company's Articles of Association:
 - (i) Datuk Oh Chong Peng **Ordinary Resolution 2**
 - (ii) Dato' Ahmad Johari bin Tun Abdul Razak **Ordinary Resolution 3**
3. To re-appoint the following Directors who retire in accordance with Article 103 of the Company's Articles of Association:
 - (i) Datuk Zainun Aishah binti Ahmad **Ordinary Resolution 4**
 - (ii) Ms. Lee Oi Kuan **Ordinary Resolution 5**
4. To approve the increase of the limit of Non-Executive Directors' fees from RM800,000.00 to RM1,000,000.00. **Ordinary Resolution 6**
5. To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ending 31 December 2012 and to authorise the Directors to fix their remuneration. **Ordinary Resolution 7**

As special business

6. To consider and, if thought fit, to pass the following Ordinary Resolution:

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR BATM AND ITS SUBSIDIARIES TO ENTER INTO RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE WITH RELATED PARTIES

(PROPOSED RENEWAL OF THE RECURRENT RPTS MANDATE) **Ordinary Resolution 8**

"THAT, the Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 16 March 2012) granted by the shareholders of the Company pursuant to Paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad authorising the Company and/or on its subsidiaries (British American Tobacco Malaysia Group) to enter into recurrent related party transactions of a revenue or trading nature (Recurrent RPTs) of British American Tobacco Malaysia Group with Related Parties (as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad) as set out in Paragraph 2.2 and Appendix II of the Circular to Shareholders dated 16 March 2012 which are necessary for the British American Tobacco Malaysia Group's day-to-day operations, be and is hereby renewed provided that:

- (i) the transaction are in the ordinary course of business and on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and
- (ii) disclosure of the aggregate value of the transactions conducted during a financial year will be made in the annual report for the said financial year,

AND THAT the authority conferred by such renewed mandate shall continue to be in force until:

- (i) the conclusion of the next Annual General Meeting (AGM) of the Company following the AGM at which the Proposed Renewal of the Recurrent RPTs Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM, the mandate is again renewed;
- (ii) the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but must not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

(iii) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is earlier;

AND THAT the Directors of the Company be and hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the Proposed Renewal of the Recurrent RPTs Mandate.”

7. To consider and, if thought fit, to pass the following Special Resolution:

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

Special Resolution 9

“THAT the proposed deletions, alterations, modifications, variations and additions to the Articles of Association of the Company in the manner as set out in the Circular to Shareholders dated 16 March 2012 (Proposed Amendments) be and are hereby approved.

AND THAT the Directors and Secretary be and are hereby authorised to sign and execute all relevant documents, acts and things as may be required for and in connection with and to give effect to the Proposed Amendments with the full power to assent to any conditions, deletion, alteration, modifications, variations and/or amendments as may be required by the relevant authorities.”

8. To consider any other business of which due notice shall have been given.

By Order of the Board



CHAN MEI MAE
LS0009460
Secretary

Petaling Jaya
16 March 2012

Notes:

1. A proxy need not be a Member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified.
3. Where a Member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) but not more than two (2) proxies in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
4. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised.
5. If there is no indication as to how a Member wishes his/her vote to be cast, the proxy will vote or abstain from voting at his/her discretion. In the event a Member duly executes the Form of Proxy but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the meeting as his/her proxy.
6. The original Form of Proxy must be duly executed and deposited at the Company's Share Registrar at Tricor Investor Services Sdn Bhd at Level 17, The Gardens, North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than 48 hours before the time set for holding the meeting or any adjourned meeting thereof.
7. **Registration of Members/Proxies**
Registration of Members/Proxies attending the meeting will commence at 9.00 a.m. on the day of the meeting and will close at 11.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration. Only Members registered in the Register of Members and Record of Depositors as at **5.00 p.m. on 30 March 2012** shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their names at that time.
8. **Explanatory Notes on Special Business**
 - (a) **Recurrent Related Party Transactions Mandate**
The Ordinary Resolution 8, if passed, will enable the British American Tobacco Malaysia Group to enter into any of the recurrent related party transactions of a revenue or trading nature which are necessary for the British American Tobacco Malaysia Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company. Further information on the Proposed Renewal of the Recurrent RPTs Mandate is set out in the Circular to Shareholders dated 16 March 2012, which is despatched together with the Company's Abridged Annual Report 2011.
 - (b) **Proposed Amendments to the Articles of Association of the Company**
The Special Resolution 9, if passed, will enable the Company to comply with the recent amendments to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. Further information on the Proposed Amendments to the Articles of Association of the Company is set out in the Circular to Shareholders dated 16 March 2012, which is despatched together with the Company's Abridged Annual Report 2011.

Statement accompanying the Notice of Annual General Meeting

Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

1. Details of Datuk Zainun Aishah binti Ahmad seeking re-appointment at the Fifty-first Annual General Meeting are set out below:-

Name	Datuk Zainun Aishah binti Ahmad KMN, PMP, DPMP, JSM, PJN
Age	66
Nationality	Malaysian
Qualification	Honours Degree in Economics (University of Malaya)
Position on the Board of Directors	Independent Non-Executive Director
Date first appointed to the Board of Directors	1 March 2012
Number of Board of Directors' meeting attended in the financial year	N/A
Membership of Board Committees	Member of the Audit Committee
Occupation	Company Director
Working experience	<ul style="list-style-type: none"> • Economist with Malaysian Industrial Development Authority (MIDA) (1969). • Deputy Director-General of MIDA (1986-1995). • Director-General of MIDA (1995 to 2004). • Member of key Government National Committee/Council namely: <ul style="list-style-type: none"> (a) The Industrial Coordination Act Advisory Council. (b) The National Project Director for the formulation of Malaysia's first Industrial Master Plan. (c) The National Committee for the Coordination of the Agriculture Industry and the Defense Industry Council. • Director of Tenaga Nasional Berhad (1985 to 2004). • Director of Kulim Technology Park Corporation (1995 to 2004). • Director of Kelantan State Economic Development Corp (1985 to 2004). • Director of Dunham Bush Bhd (2004 to 2007). • Director of F3 Strategies Bhd (2005 to 2006). • Director of Malayan Banking Bhd (2005 to 2009).
Any other board directorships in public companies	<ul style="list-style-type: none"> • Microlink Solutions Bhd (Independent – Non-Executive Director). • Scomi Engineering Bhd [Independent – Non-Executive Director (Chairman)]. • Degem Bhd (Independent – Non-Executive Director). • Berjaya Media Bhd (Independent – Non-Executive Director). • Berjaya Food Bhd (Independent – Non-Executive Director). • Shell Refinery Company (Federation of Malaysia) Bhd (Independent – Non-Executive Director).
Interest in securities of British American Tobacco (Malaysia) Berhad and its subsidiaries	Nil
Any family relationship with director and/or major shareholder of British American Tobacco (Malaysia) Berhad or any companies that have entered into any transactions with British American Tobacco (Malaysia) Berhad or its subsidiaries	Nil
Any conflict of interest with British American Tobacco (Malaysia) Berhad	Nil
List of convictions for offences within the past 10 years other than traffic offences, if any	Nil

2. Details of Ms. Lee Oi Kuan seeking re-appointment at the Fifty-first Annual General Meeting are set out below:

Name	Lee Oi Kuan
Age	53
Nationality	Malaysian
Qualification	<ul style="list-style-type: none"> • Bachelor of Law (Hons) Degree, University of Malaya • Licenced Company Secretary, Companies Commission of Malaysia
Position on the Board of Directors	Non-Independent Executive Director
Date first appointed to the Board of Directors	1 March 2012
Number of Board of Directors' meeting attended in the financial year	N/A
Membership of Board Committees	Nil
Occupation	Company Director
Working experience	<ul style="list-style-type: none"> • Served at the Attorney-General's Chambers, Malaysia (1983-1993) in the Prosecution and Advisory and International Law Divisions • Legal Manager and Company Secretary of Hong Leong Industries Berhad (1993 to 2001) • Legal Manager and Company Secretary of Malaysian Pacific Industries Berhad (1993 to 2001) • Head of Legal and Company Secretary of British American Tobacco (Malaysia) Berhad (2001 to 2006) • Corporate and Legal Affairs Director of British American Tobacco (Malaysia) Berhad (2006 to present)
Any other board directorships in public companies	Nil
Interest in securities of British American Tobacco (Malaysia) Berhad and its subsidiaries	Nil
Any family relationship with director and/or major shareholder of British American Tobacco (Malaysia) Berhad or any companies that have entered into any transactions with British American Tobacco (Malaysia) Berhad or its subsidiaries	Nil
Any conflict of interest with British American Tobacco (Malaysia) Berhad	Nil
List of convictions for offences within the past 10 years other than traffic offences, if any	Nil

Administrative details for British American Tobacco Malaysia Fifty-First Annual General Meeting

Date : 10 April 2012

Time : 11.00 a.m.

Place : Kristal Ballroom, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan.

Registration

1. Registration will start at 9.00 a.m. at the entrance of Kristal Ballroom, Hilton Petaling Jaya.
2. Please read the signage to ascertain which registration table you should approach to register yourself for the meeting and join the queue accordingly.
3. Please produce your original Identity Card (IC) to the registration staff for verification. Please make sure you collect your IC thereafter.
4. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
5. You will be given a security sticker and no person will be allowed to enter the meeting room without the security sticker. There will be no replacement in the event that you lose or misplace the security sticker.
6. After registration, please leave the registration area immediately and proceed to Kristal Ballroom.
7. You are not allowed to register on behalf of another person even with the original IC of the other person.
8. The registration counter only handles verification and registration. You may proceed to the Help Desk for any clarification or queries.

Entitlement to attend and vote

9. Only Members registered in the Register of Members and Record of Depositors as at **5.00 p.m. on 30 March 2012** shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time.

Proxy

10. If you are a member of the Company at the time set out above, you are entitled to appoint not more than two (2) proxies to exercise all or any of your rights to attend, speak and vote at the Annual General Meeting.
11. Where a Member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) but not more than two (2) proxies in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
12. To appoint a proxy, the original Form of Proxy which is attached together with the Company's Abridged Annual Report 2011 must be completed and signed, sent and delivered to the Company's Share Registrar, Tricor Investor Services Sdn. Bhd. at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by **8 April 2012 at 11.00 a.m.**
13. In the case of a member which is a company, the Form of Proxy must be executed either under its seal or under the hand of any officer or attorney duly authorised.

Revocation of Proxy

14. If you wish to appoint a proxy, please note that a proxy may be revoked by:
- i. attendance of the appointer at the Annual General Meeting and exercising his/her voting rights at the Annual General Meeting personally will automatically revoke the proxy;
 - ii. notice of revocation of the Form of Proxy or the authority served by 8 April 2012 at 11.00 a.m.;
 - iii. appointing new proxy by depositing a new Form of Proxy in favour of another person by 8 April 2012 at 11.00 a.m; and
 - iv. transfer of shares by the appointer.

Corporate member

15. Any corporate member who wishes to appoint a representative instead of a proxy to attend this Annual General Meeting should lodge the certificate of appointment under the seal of the corporation, at the office of the Company's Share Registrar, Tricor Investor Services Sdn. Bhd. at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by 8 April 2012 at 11.00 a.m.

Annual Report 2011

16. The Annual Report 2011 is available on Bursa Malaysia's website at www.bursamalaysia.com under Company Announcements and also at the British American Tobacco Malaysia's website at www.batmalaysia.com

Enquiry

17. If you have general queries prior to the meeting, please contact the British American Tobacco Malaysia Legal and Secretarial Department at 603-7491 7100 or the following person during office hours:

Name : Ms. Lay Kiow
Share Registrar : Tricor Investor Services Sdn. Bhd.
Telephone number : 603-2264 3883

FORM OF PROXY

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No. 4372-M)
(Incorporated in Malaysia)



No. of Shares held	CDS Account No.

“A” I/We _____ (NRIC/Passport/Co. No.: _____)
(Name as per NRIC/Passport/Certificate of Incorporation in Capital Letters)

of _____
(Full Address)

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint _____

_____ (NRIC/Passport No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

and/or failing him/her _____ (NRIC/Passport No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

or failing him/her, the Chairman of the Meeting as my/our first proxy to attend and vote for me/us and on my/our behalf at the Fifty-first Annual General Meeting of the Company, to be held at Kristal Ballroom, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 10 April 2012 at 11.00 a.m., and at any adjournment thereof.

“B” If you wish to appoint a second proxy, this section must also be completed, otherwise it should be deleted.

I/We _____ (NRIC/Passport/Co. No.: _____)
(Name as per NRIC/Passport/Certificate of Incorporation in Capital Letters)

of _____
(Full Address)

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint _____

_____ (NRIC/Passport No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

and/or failing him/her _____ (NRIC/Passport No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

or failing him/her, the Chairman of the Meeting as my/our second proxy to attend and vote for me/us and on my/our behalf at the Fifty-first Annual General Meeting of the Company, to be held at Kristal Ballroom, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 10 April 2012 at 11.00 a.m., and at any adjournment thereof.

The proportions of my/our holding to be represented by my/our proxies are as follows:

	%
First Proxy “A”	_____
Second Proxy “B”	_____
	100%

My/our proxy/proxies are to vote either on a show of hands or on a poll as indicated below with an “X”:

Resolutions		First Proxy A		Second Proxy B	
		For	Against	For	Against
Ordinary Resolution 1	To receive the Audited Financial Statements for the financial year ended 31 December 2011 and the Reports of the Directors and Auditors thereon.				
Ordinary Resolution 2	Re-elect Datuk Oh Chong Peng who retires by rotation in accordance with Articles 97(1) and (2) of the Company’s Articles of Association.				
Ordinary Resolution 3	Re-elect Dato’ Ahmad Johari bin Tun Abdul Razak who retires by rotation in accordance with Articles 97(1) and (2) of the Company’s Articles of Association.				
Ordinary Resolution 4	Re-appoint Datuk Zainun Aishah binti Ahmad who retires in accordance with Article 103 of the Company’s Articles of Association.				
Ordinary Resolution 5	Re-appoint Ms. Lee Oi Kuan who retires in accordance with Article 103 of the Company’s Articles of Association.				
Ordinary Resolution 6	Approval of the increase of the limit of Non-Executive Directors’ fees from RM800,000.00 to RM1,000,000.00.				
Ordinary Resolution 7	Re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ending 31 December 2012 and to authorise the Directors to fix their remuneration.				
Ordinary Resolution 8	Proposed Renewal of Shareholders’ Mandate for British American Tobacco (Malaysia) Berhad and its Subsidiaries to enter into Recurrent Related Party Transactions of a revenue or trading nature with Related Parties.				
Special Resolution 9	Proposed Amendments to the Articles of Association of the Company.				

Dated this _____ day of _____ 2012.

Signature(s) of Member(s)/Common Seal

Notes:

- A proxy need not be a Member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified.
- Where a Member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) but not more than two (2) proxies in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
- The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised.
- If there is no indication as to how a Member wishes his/her vote to be cast, the proxy will vote or abstain from voting at his/her discretion. In the event a Member duly executes the Form of Proxy but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the meeting as his/her proxy.
- The original Form of Proxy must be duly executed and deposited at the Company’s Share Registrar at Tricor Investor Services Sdn Bhd at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the meeting or any adjourned meeting thereof.
- Registration of Members/Proxies**
Registration of Members/Proxies attending the meeting will commence at 9.00 a.m. on the day of the meeting and will close at 11.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration. Only Members registered in the Register of Members and Record of Depositors as at **5.00 p.m. on 30 March 2012** shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their names at that time.
- Explanatory Notes on Special Business**
(a) Recurrent Related Party Transactions Mandate
The Ordinary Resolution 8, if passed, will enable British American Tobacco (Malaysia) Berhad and its subsidiaries (British American Tobacco Malaysia Group) to enter into any of the recurrent related party transactions of a revenue or trading nature which are necessary for the British American Tobacco Malaysia Group’s day-to-day operations, subject to the transactions being in the ordinary course of business and on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company. Further information on the Proposed Renewal of the Recurrent RPTs Mandate is set out in the Circular to Shareholders dated 16 March 2012, which is despatched together with the Company’s Abridged Annual Report 2011.
(b) Proposed Amendments to the Articles of Association of the Company
The Special Resolution 9, if passed, will enable the Company to comply with the recent amendments to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. Further information on the Proposed Amendments to the Articles of Association of the Company is set out in the Circular to Shareholders dated 16 March 2012, which is despatched together with the Company’s Abridged Annual Report 2011.

Please fold here to seal

affix
postage
stamp

The Share Registrar
Tricor Investor Services Sdn Bhd
(Company No. 118401-V)
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia

Please fold here to seal