

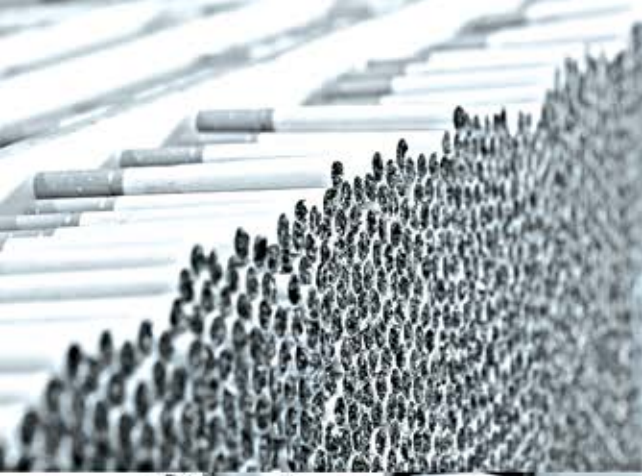


BRITISH AMERICAN
TOBACCO
MALAYSIA

A New Chapter



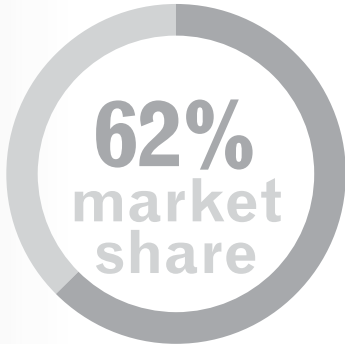




In 2012, British American Tobacco Malaysia celebrated 100 years of history in Malaysia. Over the years, the Group has grown together with the nation into one that manufactures and markets an unrivalled portfolio of highly successful international brands, and is ranked amongst the top 25 public listed entities in the country. With a hundred years of history behind us, we now set our sights on *The New Chapter* of our journey. Our vision for the future is to build a sustainable business that manages its operations and products responsibly, and continues to create value for our shareholders and stakeholders.



overview of British American Tobacco Malaysia



approximately



top



62

percent market share

25

in Bursa Malaysia

10

Revenue
4,517
(RM million)

Profit before tax
1,105
(RM million)

Net profit
823
(RM million)

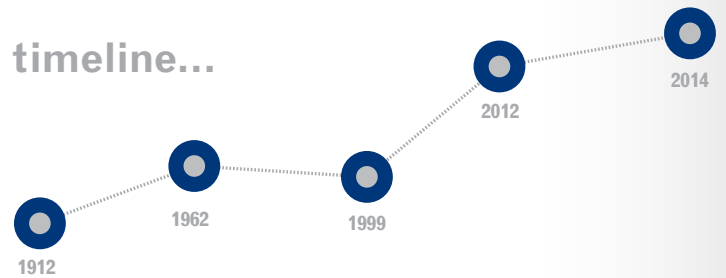


employs about

000

employees across the country

timeline...



over

100

years of history
in Malaysia

RESULTS AT A GLANCE...

Shareholder's
fund

508

(RM million)

Net returns on
shareholders'

fund

162

(%)

Net earnings per
share

288

(sen)

Net dividend per
share

282

(sen)



will be held at:

Citrine Ballroom,
One World Hotel,
Ground Floor, First Avenue,
Bandar Utama City Centre,
47800 Petaling Jaya,
Selangor Darul Ehsan on

Tuesday, 22 April 2014 at 11.00 a.m.

AGM Helpdesk:

Ms. Quah Khian Khoon
Tel: +60 (3)7491 7418
Fax: +60 (3)7491 3772
E-mail: Quah_Khian_Khoon@bat.com



www.batmalaysia.com

our vision

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.

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chairman's letter



DATUK MOHAMAD SALIM BIN FATEH DIN

Dear Shareholders,

A new chapter has begun. British American Tobacco Malaysia has turned the pages and set its sight on the next 100 years.

highlights

+3.7 percent

increase in total dividend payout compared to preceding financial year.

+3.5 percent

growth in revenue compared to preceding financial year.

Suffice to say, the Group is keen to continue the good work that it has accomplished over the past century, to continue to build a business that delivers strong value growth for its shareholders, and is committed to further strengthen its corporate governance, accountability and risk management. In addition, the Group will continue to enhance processes, develop its people, and further improve operational efficiency to ensure sustainable growth for the years ahead.

True to that tradition, the Group continues to drive its business strategy in a sustainable manner despite the many challenges, old and new, that it is constantly faced with. Last year was no exception, as the industry continued to be besieged by the ever encroaching illegal cigarette trade, increasing regulations and the steep rise in excise. Furthermore, in 2013 the Group undertook the difficult decision to close its leaf operations in Kota Bharu. The Group has been committed to supporting the tobacco growing and

curing community in Malaysia since the 1960s, despite the relatively higher unit cost of Malaysian leaf, and numerous challenges that the farmers faced in the form of floods and crop disease. We deeply appreciate the tobacco growing and curing community's commitment throughout these years and cherish our history and close relationship with the community over the past 50 years.

On behalf of the Board of Directors, I am pleased to present the Group's Annual Report and Financial Statement in the first year of its new century of operations in Malaysia for the financial year ended 31 December 2013.

PERFORMANCE REVIEW

The Group is proud to report another successful year with Net Profit increasing +3.2 percent to RM823 million. Despite the 5.8 percent decline in domestic and duty free volume, the price increases taken in 2013, together with an increase in contract

manufacturing volume for export, has collectively led to a positive +3.5 percent growth in revenue. Contract manufacturing cigarette volume increased by +7.6 percent, and semi-finished goods by almost +24 percent. Contract Manufacturing has developed to become an important component of our business, albeit at lower margins than the domestic market. It does however very effectively serve to support our fixed cost base.

The Group achieved a third successive year of share growth, gaining +1.0 percentage point in 2013. Not surprisingly DUNHILL, our leading brand, has yet again been the principle driver of share growth. Reaching for new heights in 2013, DUNHILL grew +1.3 percentage point corporate market share, with growth across nearly all variants. DUNHILL Ice was a key contributor with 0.4 percentage growth in the year. Much as we would like every initiative to be successful, performance of our latest variant, DUNHILL Kretek, has not met our expectations. However, the

rejuvenation of PETER STUYVESANT, through a new pack design and the addition of the *Freshness Seal*, was particularly timely in light of the steep excise increase, and has benefitted from some down trading from the premium segment.

Cost consciousness is deeply embedded in the Group's culture and our results speak for themselves. Year-on-year we have been achieving decreases in operating expenses, and 2013 was no different with a further decline of 7.7 percent. The principle drivers were attributed to lower marketing expenditure, reduced services fees from British American Tobacco p.l.c, lower management incentives, and the non-recurrence of 2012 expenses, such as our 100 year celebrations and the MyKasih contribution, together with some favourable foreign exchange effects. However, the Group did incur a one-time cost to cease leaf operations in 2013.

Profit before Tax grew 4.8 percent, a commendable achievement in light of some of the challenges experienced in 2013.

DIVIDENDS

The Board of Directors has recommended a fourth interim dividend of 78 sen per share, making the total net dividend payout for the financial year to be 282 sen per share. This represents an increase of 3.7 percent over 2012. The Group is committed to sustaining a high payout ratio in line with the expectation of shareholders.

OUTLOOK FOR 2014

Any further increase in excise is naturally a concern for the Group. It sees that increases in excise though intended to bolster the Government's revenue, will certainly fuel the illegal cigarette problem. It was particularly notable in 2013, that despite excise increases in both 2012 and 2013, the Group's excise and duty payments to the Government declined versus 2012. This is a strong indicator that any further increases will continue to drive excise and duty payments down given the loss of legal cigarette volumes to illegal cigarette trade.

Regardless of the uncertainties that lay ahead, as a Group, we will continue to trust our resilience built on a hundred years in Malaysia that is combined with the continuous support of our employees, business partners and relevant stakeholders to navigate through whatever challenges 2014 might hold and to deliver another good year for shareholders.

LEADERSHIP

As we ushered in the new chapter in our history, the Group also bid farewell to a well-admired and well-trusted general and welcomed a new leader at the helm of its business.

Datuk William Toh, British American Tobacco Malaysia's most illustrious Malaysian son, has decided to explore new pastures taking on a well-deserved retirement. Datuk William, the Group's first ever Malaysian Managing Director, has taken the Company to admirable successes in his tenure and will be missed by his family here in British American Tobacco.

In July 2013, we welcomed Mr. Stefano Clini as our new Managing Director. Mr. Clini is no newcomer to fast-paced high performance leadership roles. He comes to us with extensive leadership experience from HJ Heinz and Procter & Gamble in Europe and is well-heelled to guide the Group to even greater heights.

On behalf of the Group, I would like to thank Datuk William for his long list of contributions to the Group and to wish him a happy retirement. I also look forward to working closely with Mr. Clini as we take the Group into a new chapter of achievements.

APPRECIATION

On behalf of the Board, I wish to express our appreciation to the management and staff for their dedication and commitment in the performance of their duties during the year and to our shareholders, customers, distributors, investors, business partners and associates for their strong and continued support. I wish also to record my thanks to my fellow Directors for their advice and support.



Datuk Mohamad Salim bin Fateh Din
Chairman

management discussion and analysis



STEFANO CLINI

Dear Shareholders,

In 2012, British American Tobacco Malaysia led the industry by example when we embarked on a new reporting format, the Management Discussion and Analysis (MD&A), in line with new guidelines introduced by Bursa Malaysia.

The aim of the MD&A is providing shareholders with a better understanding of the business, operations and financial position of the Company.

highlights

+3.2 percent

net profit growth compared to preceding financial year.

62 percent

corporate market share for 2013, reflecting a +1.0 percentage point increase compared to preceding financial year.

Our MD&A includes an overview of the Group's 2013 performance, an overview of the business and operations, as well as a financial review of 2013 and our expectations for the business in 2014.

Shareholders will recognise that some of the topics shared in this MD&A are similar to what we have disclosed previously in our Annual Reports under the Managing Director's and Finance Director's Review.

2013 PERFORMANCE OVERVIEW

The year 2013 marked a start of a new chapter for British American Tobacco Malaysia as we embarked on the first year following our centennial celebrations in 2012. Our journey towards the next century started well with a 3.2 percent net profit growth. Furthermore, this landmark year saw our leading brand, DUNHILL reaching new heights with exceptional results across all variants. Riding on the brand's outstanding performance, the Company closed 2013 with a third consecutive year of share growth, growing +1.0 percentage point to hit 62 percent*.

DUNHILL Kretek which was launched in Q3 2013 as the first premium Kretek in the market, contributed +0.2 percentage points to DUNHILL's overall growth, whereas DUNHILL Ice accounted for +0.4 percentage points. We also introduced a freshness seal to PETER STUYVESANT in Q3, and upgraded PALL MALL Red and Blue with added capsule filters at the end of 2013.

Our 3.2 percent net profit growth was quite impressive in the face of an increasingly challenging business environment. Inflationary pressures, further fueled by a sharp cigarette excise hike in October 2013, further constricted consumers' disposable

income, resulting in a contraction of the legal market and a rise in illegal cigarette trade. Our pricing decisions have gone a long way to mitigate the volume impact, and collectively with the growth in contract manufacturing volume for export and lower operating expenses, have led to another year of profit growth.

The recent Wave 3 Illicit Cigarette Study which covered the period from October to December 2013** showed that illegal cigarette incidence in Malaysia has risen by +4.5 percentage points from the previous wave of 34.4 percent to 38.9 percent. This increase is chiefly driven by the growth in the illegal *John* brand variants which are being sold at approximately half the minimum price set by the Government. With criminal syndicates behind the illegal cigarette trade, this scourge continues to jeopardise the future of the legal industry, more so the security of the nation. In light of this, we are gratified that the law enforcement agencies have stepped up enforcement activities to tackle this problem head on, and we commend their efforts.

Sadly 2013 also saw the end of an era when we had to cease tobacco leaf growing operations in Malaysia. We have supported farmers and tobacco leaf growing for over 50 years in Malaysia. However, given the impact of shrinking demand due to uncompetitive leaf prices, low yields and climatic impacts, the tobacco leaf farmers have steered into a position where it was no longer sustainable and they chose to opt out of tobacco leaf cultivation in mid-2013.

Overall, despite the challenges faced, it was a solid performance for British American Tobacco Malaysia in 2013, resulting in another year of good returns for shareholders.

* *Note: With effect from 1 January 2013, all market shares are quoted for the overall legal cigarette market inclusive of Kretek cigarettes. In 2012 and prior years, the Company's share had been expressed as a percentage of only the legal white cigarette market.*

** *Wave 3, October to December 2013, Illicit Cigarette Study (ICS) commissioned by the Confederation of Malaysian Tobacco Manufacturers.*

BUSINESS & OPERATIONS PRODUCTS AND SERVICES

British American Tobacco Malaysia's business is primarily focused on the production and sales of cigarettes.

Our portfolio of leading brands include, DUNHILL, PALL MALL, PETER STUYVESANT, BENSON & HEDGES and KENT, amongst others.

Presently, we employ approximately 1,000 employees who are involved from manufacturing to the distribution of our products.

In addition to sales to the Malaysian domestic and duty free markets, British American Tobacco Malaysia undertakes contract manufacturing for British American Tobacco p.l.c companies, predominantly in the Asia Pacific region. The contract manufacturing is both for cigarettes and *semi-finished goods* i.e. processed tobacco ready for inclusion in cigarettes and filter rods. Approximately 70 percent of our primary manufacturing (leaf processing) and 45 percent of our secondary manufacturing (cigarette making) were used in 2013 for contract manufacturing.

OPERATING FACILITIES

The Group is headquartered in Section 19, Petaling Jaya, Selangor, on the same site as our manufacturing facility. Site manufacturing capacity is typically defined by the maximum capacity for the Primary Manufacturing Department which, in our case, is a three shift maximum of 32 billion stick equivalent.

The Group has 10 regional sales offices across Malaysia. In addition, part of our Petaling Jaya site is rented out and houses the Asia Pacific Regional Product Centre of British American Tobacco p.l.c, which provides research and development services to the Group and other British American Tobacco entities in the Asia Pacific area.

Malaysia is also the hub for the British American Tobacco p.l.c group in information technology (IT) and Finance. The Group Service Delivery Global Hub, which is one of three IT shared services centres for the British American Tobacco p.l.c group worldwide, is based in Technology Park Malaysia, Bukit Jalil. Also based in Technology Park Malaysia is British American Tobacco Aspac Service Centre Sdn. Bhd., which is the finance resource centre for the British American Tobacco p.l.c group in Asia Pacific.

DISTRIBUTION

Our comprehensive distribution network spans the length and breadth of the country, ensuring that our brands are available everywhere in Malaysia. Until 2011, British American Tobacco Malaysia operated a mixed distribution model with a combination of in-house direct distribution covering key urban centres, and third party distributors distributing beyond the aforementioned centres.

In 2011, British American Tobacco Malaysia moved solely to third party distributors for Peninsular Malaysia, completing this migration in 2012. Similarly, the Company completed consolidation of its distribution through a third party in East Malaysia in 2013.

OUR OPERATIONS IN MALAYSIA



**British American Tobacco
Malaysia Cigarette Distribution
Nationwide and Retailers**



**East Malaysia
distribution
points**



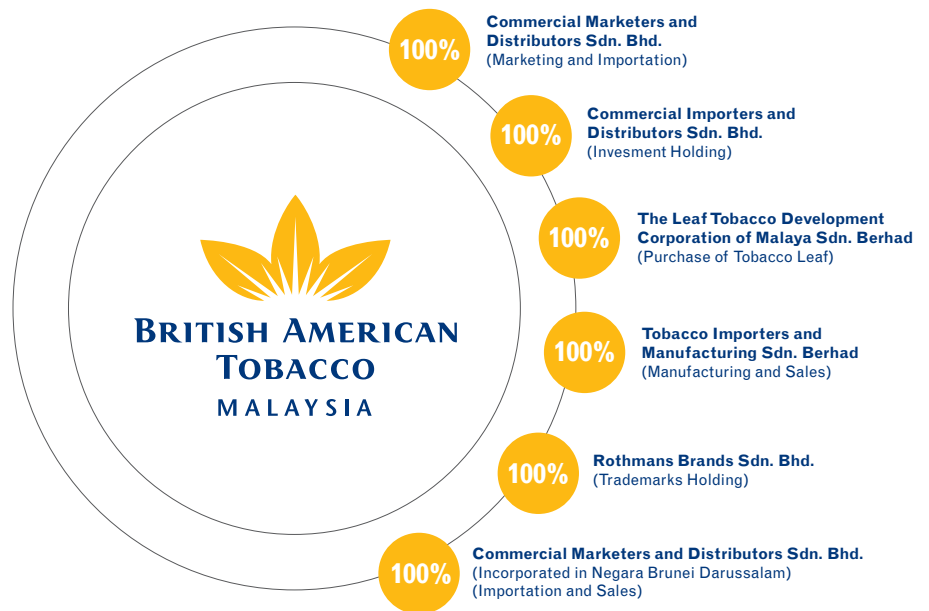
**Peninsular Malaysia
distribution
points**

**Total Retailers -
approximately 80,000**



CORPORATE STRUCTURE

The two principal operating companies of the Group are Tobacco Importers and Manufacturers Sdn. Berhad. (for manufacturing), and Commercial Marketers and Distributors Sdn. Bhd. (marketing, sales and importation). Other wholly owned operating companies include The Leaf Tobacco Development Corporation of Malaya Sdn. Berhad for purchasing leaf and Rothmans Brands Sdn. Bhd. as trademarks holding company and Tobacco Importers and Manufacturing Sdn. Berhad (incorporated in Negara Brunei Darussalam) for importation and sales of cigarettes in Brunei. The business in Brunei however has ceased in 2012 given the uncompetitive market environment caused by illegal cigarette trade. In 2013, two dormant entities subsidiaries of Commercial Marketers and Distributors Sdn. Bhd., Contemporary Force Sdn. Bhd. and Lucky Strike Originals Sdn. Bhd. were struck off.



OBJECTIVES & STRATEGIES

We share British American Tobacco p.l.c's vision to achieve leadership of the global tobacco industry, not just in volume and value, but also in the quality of our business. Contributing to this vision, we are proud to be the leading tobacco company in Malaysia, both in volume and value.

GROWTH

Our strategy to deliver our vision begins with growth and our aim to increase our market share, with a focus on our Global Drive Brands and our other international brands.

PRODUCTIVITY

We target continuous improvements in our cost base that will release funds to invest in our brands, helping us to grow our business and deliver higher returns for shareholders.

WINNING ORGANISATION

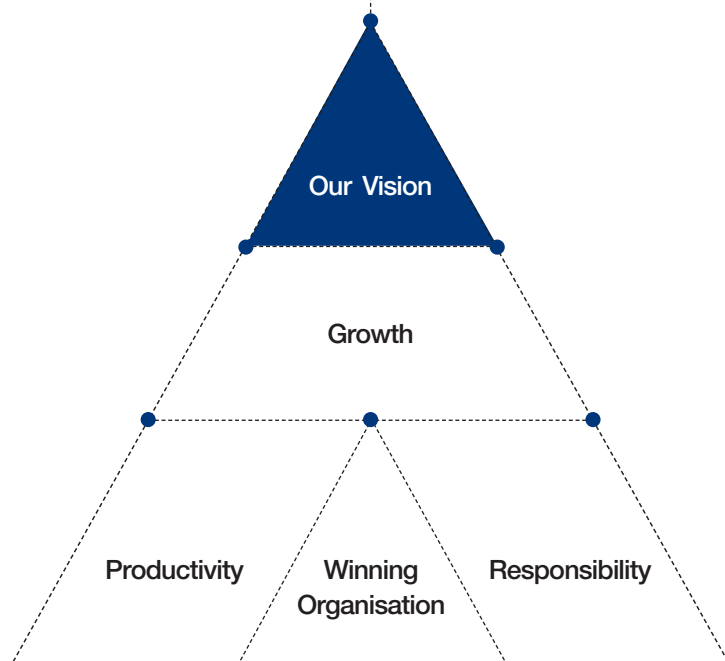
By being a winning organisation, we can ensure that we attract, develop and retain the best people we need to execute and deliver on our strategy.

RESPONSIBILITY

Our companies and people are required to act responsibly at all times and we seek to reduce the harm caused by our products and our environmental footprint.

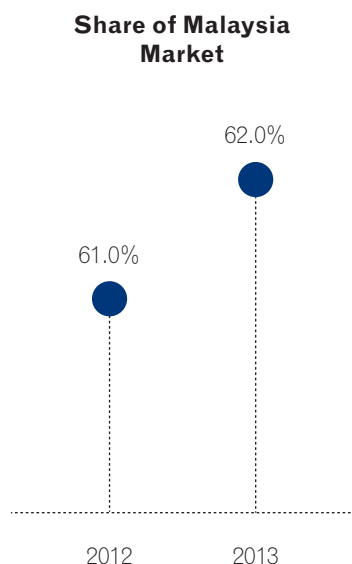
Today, British American Tobacco Malaysia is the clear market leader of the legal Malaysian tobacco industry with approximately 62 percent market share, and ranks amongst the top 25 companies on Bursa Malaysia Securities Berhad in terms of market capitalisation. We aim to maintain our leadership in the industry through increasing our share of the tobacco business and better satisfying

consumer demands 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.



REVIEW OF NON-FINANCIAL PERFORMANCE INDICATORS

(Note: * With effect from 1 January 2013, all market shares are quoted for the overall legal cigarette market inclusive of Kretek cigarettes. All comparatives have been rebased accordingly.)



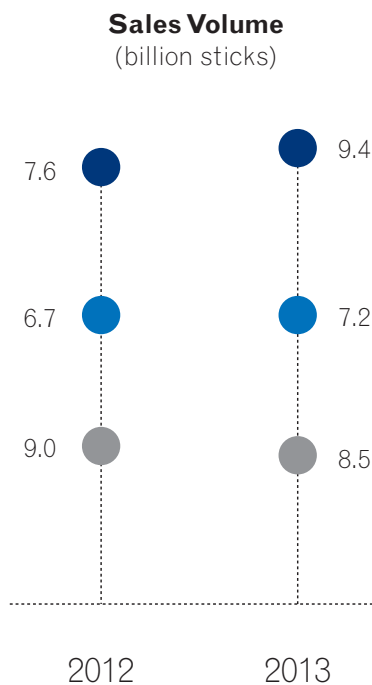
British American Tobacco Malaysia achieved its third consecutive year of share growth, gaining +1 percentage point in 2013. DUNHILL continues its outstanding performance growing +1.3 percentage points, with growth observed in nearly all variants. Notably, the performance of DUNHILL Ice that accounted for +0.4 percentage points of DUNHILL's growth. The last new variant to be launched, DUNHILL Kretek, achieved +0.2 percentage points share of market, although below expectation.

Following a packaging upgrade and addition of a *freshness seal* to PETER STUYVESANT in Q3 2013, the brand has been on a continuous growth trajectory. This has also been aided by some down trading following the sharp Q3 excise-driven price increase.

PALL MALL's packaging has similarly been upgraded, and additionally capsules added for the Red and Blue variants at the end of 2013. Whilst its share of market has still declined (-0.1 percentage points) the rate of decline is lower than in previous years. Other non-supported brands have all declined by -0.3 percentage points in 2013.

The Q3 excise-driven price increase had a big impact on domestic/duty free volume which declined 5.8 percent versus 2012. Notably, the last quarter declined 15 percent versus the same quarter in 2012.

The Group has continued to benefit from growth in contract manufacturing export volume. In 2013, contract manufacturing of cigarettes increased by +7.5 percent and semi-finished goods by +23.5 percent. In 2012, the Group replaced the CO₂ impregnators in its DIET (Dry Ice Expanded Tobacco) facility resulting in it being out of commission for a significant period. It was back to full operability in 2013 and hence contributed significantly to the increase in semi-finished goods for export.



- Export Contract Manufacturing - Semi Finished Goods
- Export Contract Manufacturing - Cigarettes
- Domestic/Duty Free

management discussion and analysis

review of financial results



ANDREAS MICHAEL
THOMPSON

PROFIT FROM OPERATIONS

RM1,126 million

+4.3%

(2012: 1,080 million)

REVENUE

RM4,517 million

+3.5%

(2012: 4,365 million)

NET PROFIT

RM823 million

+3.2%

(2012: 798 million)

OPERATING PROFIT MARGIN

24.9%

+0.2pp

(2012: 24.7%)

RETURN ON EQUITY

162%

-3.0pp

(2012: 165%)

EBITDA

RM1,183 million

+4.5%

(2012: 1,132 million)

EARNINGS PER SHARE

RM288.4 sen

+9.0 sen

(2012: 279.4 sen)

MARKET CAPITALISATION

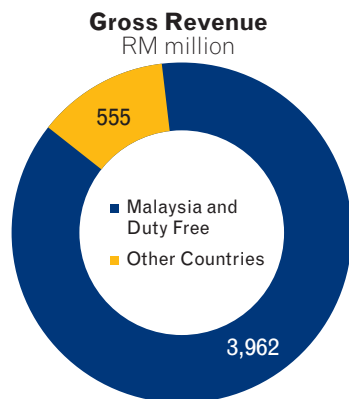
RM18.3 billion

+3.4%

(2012: 17.7 billion)

REVENUE

Revenue increased by +3.5 percent versus same period last year, this growth being fully attributed to the increase in contract manufacturing volume and its margins. Despite the domestic market price increases in June and October 2013, these were insufficient to offset the domestic market volume decline. Eliminating the effect of excise and sales tax from revenue (i.e. net revenue excluding excise and sales tax), the price increases did make a positive contribution versus 2012, albeit much smaller than the impact of contract manufacturing.



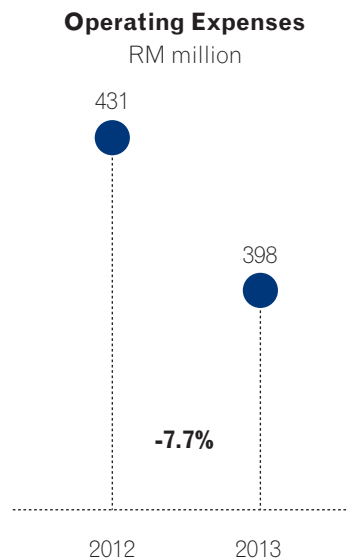
COST OF SALES

The increase in cost of sales resulted primarily from the higher contract manufacturing volume but also from the change to full contract manufacturing costing model effective June 2012. With the change in model, raw materials become a component of cost of sales where under the toll model they were excluded.

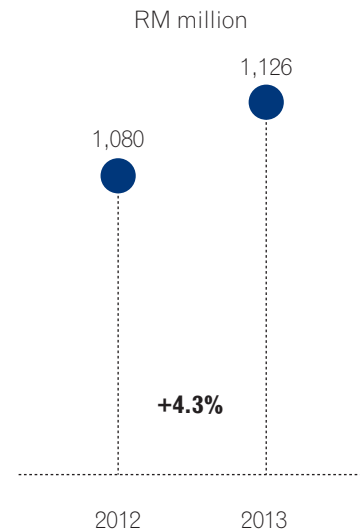
The Group's excise payment to the Government decreased 3.8 percent year-on-year. The decline in excise paid occurred in spite of the indirect increase in excise due to an uplift in transfer pricing in October 2012, and the further excise increase in October 2013. The decline was a result of decreases in domestic volume, which was not offset by the higher excise rates.

OPERATING EXPENSES

British American Tobacco Malaysia is well recognised for its ability to effectively manage costs and in 2013 a further 7.7 percent reduction in Operating Expenses was achieved. Notably, 2013 benefited from the absence of the 2012 afforestation impairment charge, foreign exchange loss and other non-recurring costs, which collectively totalled RM31 million. Additionally, in 2013, British American Tobacco p.l.c group services recharge was RM10 million lower. Offsetting these were restructuring costs associated with cessation of leaf operations in Malaysia of RM12 million, and settlement of a dispute with an export customer of RM9 million. Marketing costs were marginally lower in 2013, predominantly due to lower marketing support and lower staff incentives.



Profit From Operations



PROFIT FROM OPERATIONS

Profit from Operations increased by +4.3 percent compared with the previous year, the growth in profit being mainly attributed to export volume increase and operating cost savings, with price increases in the domestic market offsetting the impact of year-on-year domestic volume decline.

TAXATION

The average effective tax rate of the Group for the financial year ended 31 December 2013 was 25.5 percent mainly due to non-deductibility of interest expense following the Group's move to the single tier tax system. In 2012, the average effective tax rate was lower, only 24.3 percent mainly due to the catch up of deferred tax asset recognition arising from temporary timing difference of the tax base of assets and its carrying value in the financial statements.

DIVIDENDS

The Group continued its strong commitment to pay dividends at a level above 90 percent of earnings. Aiming to accelerate dividend payments to shareholders, the Group again declared and paid four quarterly interim dividends with no final dividend. Total payout for 2013 of 282 sen per share, was a 97.8 percent payout (2012: 97.4 percent) of earnings per share, representing a dividend growth of +3.7 percent as compared to 2012.

DEBT STRUCTURE

Debt levels and cash holding have been continually reduced together with improving interest effectiveness of the borrowing. In 2011, the Group has RM650 million of structural debt and this has reduced to RM510 million in 2013. Out of this, RM260 million of the debt is in the form of Revolving Credits (RC), which offers greater flexibility to mirror the movements in working capital than the previous Medium Term Notes (MTN), together with improved interest deductibility. In 2013, the Group once again obtained P1 and AAA rating for the existing commercial papers (CP) and Medium Term Notes (MTN), as reaffirmed by Rating Agency Malaysia.

WORKING CAPITAL AND LIQUIDITY

The closing cash and cash equivalents amounted to RM60 million, a decrease of RM19 million from year 2012. The decrease can largely be attributed to the net capital expenditure in 2013. In 2012, the higher outflow resulted from acquisition of inventories (toll to contract manufacturing) and repayment of borrowings.

The 2013 net current liability position arises due to the Medium Term Notes

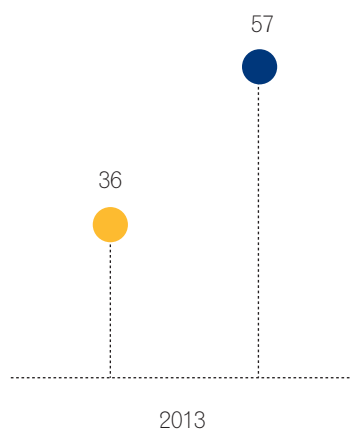
falling due within the year together with the use of short term Revolving Credits. Given the Group's P1 and AAA credit rating, together with its excellent cash flow, the Group is confident of its liquidity despite having a net current liability. This is supported by the five percent improvement (RM51 million) in Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA).

Working capital outflow in 2013 was RM83 million (2012: RM158 million), significantly lower than the previous

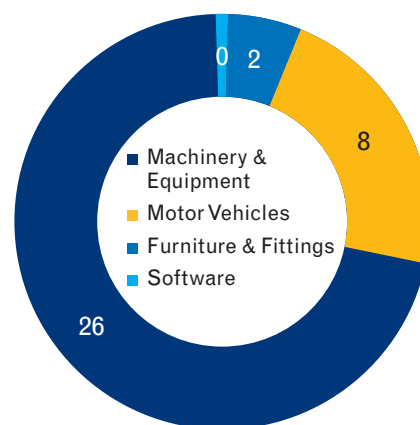
year, thereby resulting in a seven percent improvement in EBITDA cash conversion. The year 2012 was impacted by the acquisition of inventories associated with the conversion from toll to contract manufacturing. The 2013 outflow principally arose from lower trade payables and settlement of amounts due to related companies. The Group had a lower tax liability at RM70 million at the end of 2013 versus 2012 at RM86 million.

	12 months 2013 RM million	12 months 2012 RM million	Favourable %
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	1,183	1,132	5%
Profit from Operations	1,126	1,080	4%
Cash from Operations	1,105	979	13%
EBITDA Cash Conversion	93%	86%	7%
Decrease in cash and cash equivalents	-19	-228	92%

Capital Expenditure & Depreciation
RM million

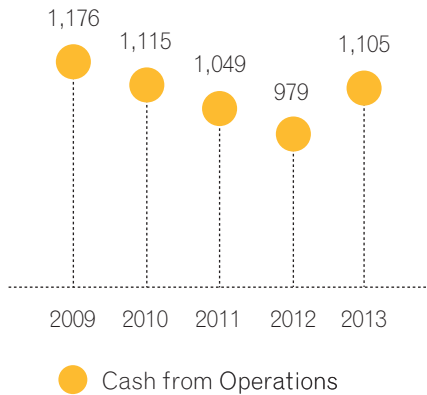


Capital Expenditure
RM million



- Capital Expenditure
- Depreciation/ Amortisation

Cash from Operations
(RM million)



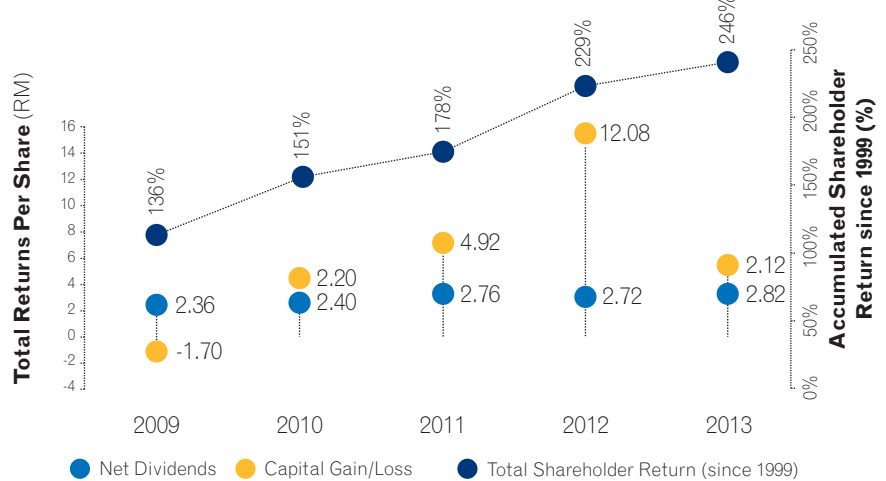
SHAREHOLDERS RETURN

In 2013, the Group's share price escalated to another level of record, hitting the highest share price of RM68.00 per share in May 2013.

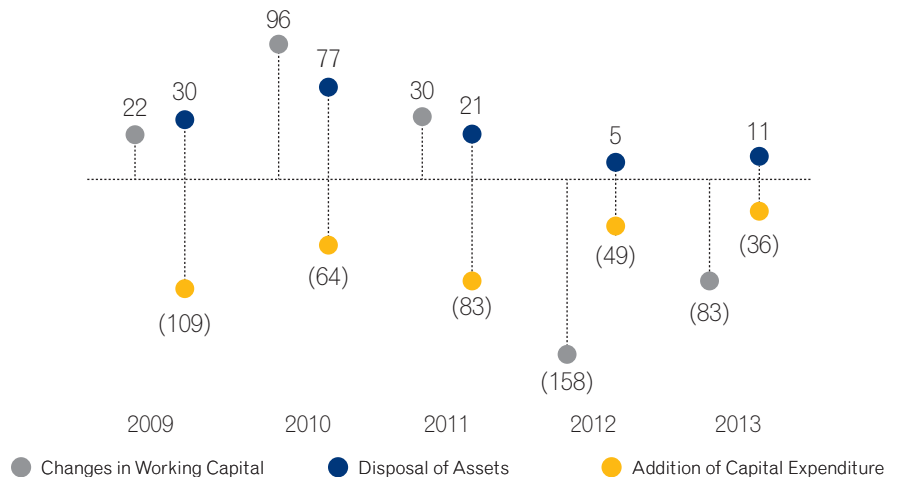
With the combination of the Group's excellent business strategy and performance, strong market leadership and management capabilities, British American Tobacco Malaysia's shareholders made a gain of RM4.94 per share, representing a total annual return of 8.0 percent, comprised of dividends for the year together with growth in the share price of 3.4 percent. Measured since merger in 1999, this represents an impressive 9.3 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 14 years since the merger. The Group's share price has been consistently ranked the highest on the Bursa Malaysia Main Board with 2013 market capitalisation exceeding RM18 billion as at end of year 2013, another record breaking year. The Group will continue its undisputed commitment in delivering long term sustainable shareholders value.

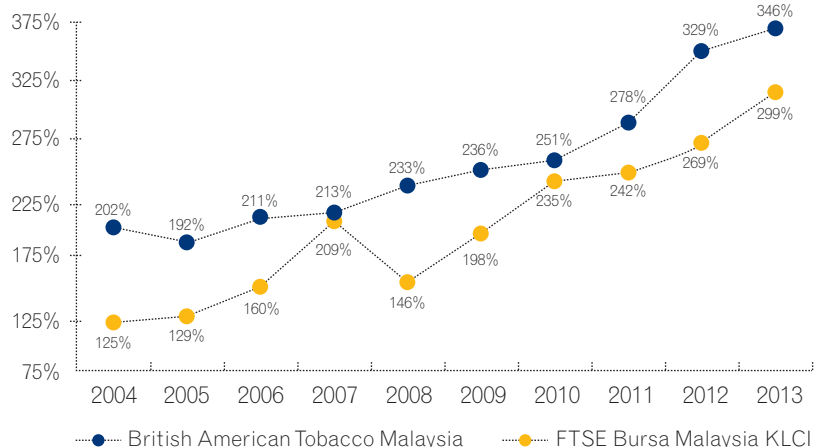
Total Shareholders' Return

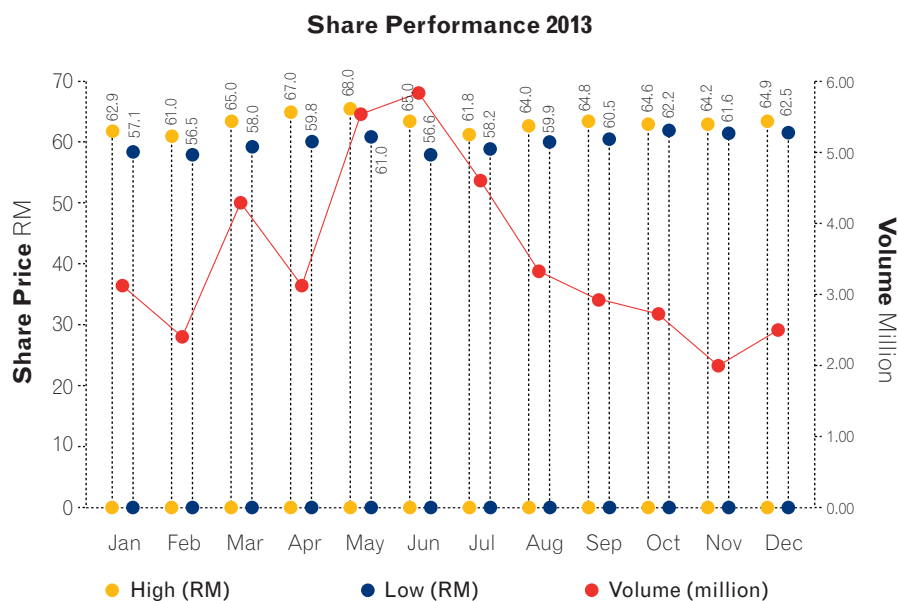


Key Cash Flow Components



British American Tobacco Malaysia Total Shareholders' Return Compared Against FTSE Bursa Malaysia Kuala Lumpur Composite Index from 2004 to 2013





Treasury

The Group's foreign currency exposure mainly comes from purchases of raw materials and contract manufacturing exports. The currency exposure is minimised by partially hedging the net exposure for the next 12 months and by increasing the hedging ratio as the time for settlement gets nearer. The permitted range on the hedge ratio within 12 months of transaction date is 50 percent to 95 percent.

This strategy is to avoid any ineffective hedges when the cash flow forecast changes before settlement date.

Risks

A comprehensive explanation on the Group's approach to risk management and the key risks to the Group is given in the Statement on Risk Management and Internal Control in this report.

Responsibility

British American Tobacco Malaysia is committed towards ensuring that sustainability is embedded throughout all our business practices in order to continue giving value to our stakeholders. In 2013, our framework for Sustainability continues to focus on creating value for our shareholders and stakeholders in four key areas; Community, Workplace, Environment and Marketplace.

The British American Tobacco Malaysia Foundation contributed approximately RM3.16 million in support of food aid programme for the underprivileged, by a non-profit organisation, the MyKasih Foundation in 2012. As of October 2013, more than half of the Foundation's contribution was utilised to help 3,061 families across Johor to purchase essential food items.

REVIEW OF OPERATING ACTIVITIES

Delivering a globally-integrated business through an Enterprise Resource Planning Solution

On 3 September 2012, the Group successfully piloted the implementation of British American Tobacco p.l.c's Enterprise Resource Planning (ERP) solution. A year on in 2013, the ERP system upgraded for Malaysia was successfully completed to implement new features to improve existing functionalities in line with the launch of the Global ERP system in other British American Tobacco operating centres. Throughout the year, intensive efforts were also channeled towards ensuring that the change was fully embraced and new ways of working embedded with the ERP system.

Regulatory

In 2013, the Ministry of Health introduced further regulatory requirements in the Control of Tobacco Products Regulations 2004. These new regulatory requirements included the prohibition on sale of tobacco product by promotion, an increase in Pictorial Health Warning (PHW) size on the front panel of cigarette pack and top panel for carton by 10 percent in addition of six new PHWs, reduction in emission levels for cigarette in two stages, and further enhancements to regulations on places where smoking is prohibited. These new regulatory requirements which were gazetted on 11 June 2013 through the Control of Tobacco Product (Amendment) Regulations 2013 took effect at different dates as gazetted by the Ministry of Health.

British American Tobacco Malaysia also places top priority on the occupational health and safety of employees. In 2013, we continued to drive effective health and safety management for a zero accident workplace. Various campaigns and initiatives focusing on promoting a safer and healthier workplace were rolled out throughout the year. These included programmes on defense driving and improving standard practice for machine operators, amongst others. We also continued to take proactive measures towards reducing our environmental impact by upgrading to more environment-friendly

machinery and amenities that reduced energy and water consumption, and waste production.

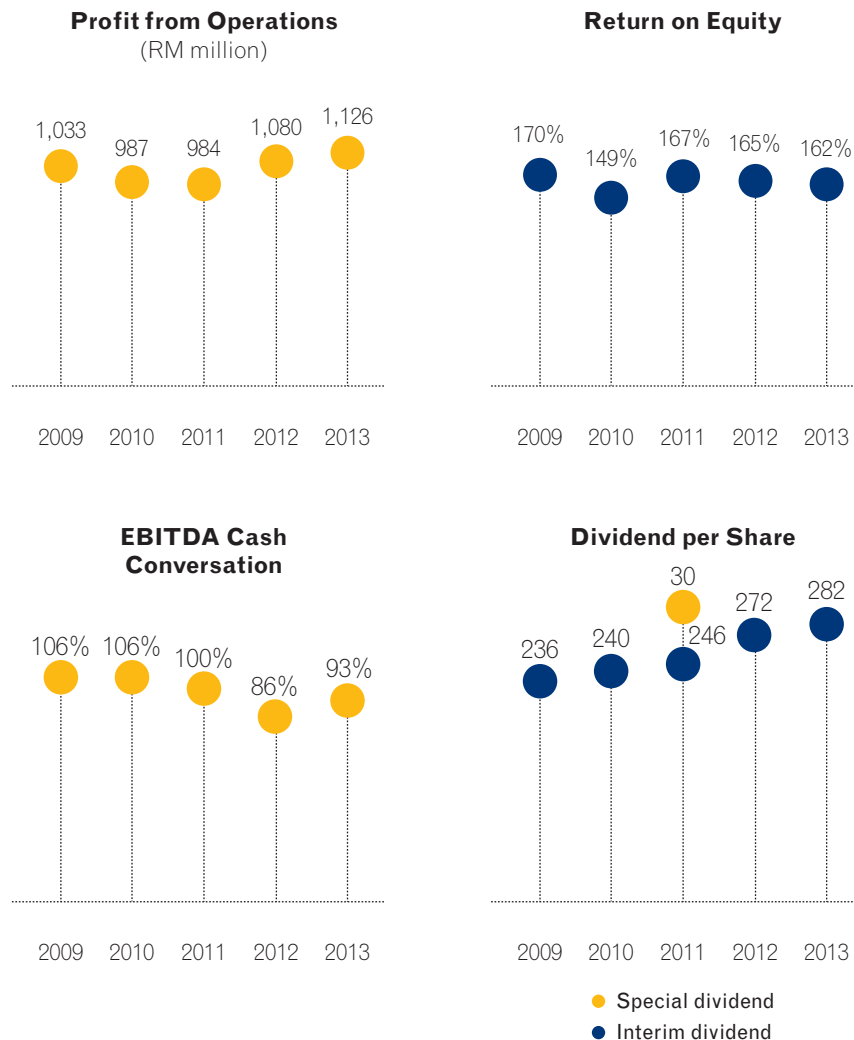
2014 OUTLOOK

Our sustained performance in 2013 has been achieved on the back of hard work and perseverance to deliver such results in an otherwise stagnant business environment. We foresee consistent challenges ahead in 2014, not least of which are consumers' woes from the difficult economic climate and fiscal policies, regulatory challenges and the spectre of illegal cigarettes hanging over the business.

Coming off the back of a steep cigarette excise tax increase in September 2013, we also foresee our domestic volumes declining at a higher rate compared to previous years.

We embark on a new chapter in British American Tobacco Malaysia's history with our principles intact on what matters most. Our vision for the next century is to build a sustainable business; one that manages the impact of its operations and products responsibly today, and prepares for a future in which it continues to create value for shareholders and stakeholders.

FIVE YEAR PERFORMANCE HISTORY



FIVE YEAR PERFORMANCE HIGHLIGHTS

2009 – Illegal cigarette incidence increased sharply by 11.8 percent to 37.5 percent, leading to a decline in total industry volumes by 11.2 percent.

2010/2011 – Government banned cigarettes pack size of less than 20 sticks in June 2010 and raised excise by RM30 per mille in October 2010, which further fueled down trading pressure. The Group lost RM85 million of profits in 2011 as a result of the full year impact of this ban.

2011 – Special dividend of RM0.30 per share to return excess cash to shareholders.

2012 – Sharp increase in contract manufacturing volume and the conversion from toll to contract manufacturing. The acquisition of inventories reducing cash conversion ratio in 2012.

2013 – Dividend payout ratio has increased from approximately 90 percent in 2009 to almost 98 percent in 2013.

corporate profile



OUR PORTFOLIO

includes well-established international names such as DUNHILL, KENT and PALL MALL



KENT

PALL MALL



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

Today, British American Tobacco Malaysia is the clear market leader of the Malaysian cigarette industry, with approximately 62.5 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.

After celebrating our centennial last year, British American Tobacco Malaysia now has a combined history of 100 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 1,000 employees who are involved in the full spectrum of the tobacco industry, from manufacturing to 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



派息77仙 英美烟草末季赚1.96亿 BAT FY12 net profit up 11%

【吉隆坡26日讯】由于营收及毛利率取得较好增长，英美烟草(BAT, 4162, 主新消费品组)截至2012年12月31日止第四季净利取得8.85%增长至1亿9千711万5千令吉。

该公司第四季营业额为10亿9千308万2千令吉，增长10.80%。

该公司建议派发每股77仙的第四季度中期股息。

全年净利润为7亿9千774万6千令吉，增长10.85%。全年的营业额为43亿6千478万6千令吉，增长5.75%。

该公司发文指出，2012年全年营业额增长约5.8%，主要是合约香烟制造量显著增长，以及进一步改善毛利率所致；全年净利及每股净利，主要是有效税率比前期没有显著变动，以及利息和折旧取得小幅改善。

谈及2013年财年业务展望，该公司表示感到乐观，特别是获得产品组合，及最近市场率的强劲表现支持。

PETALING JAYA: British American Tobacco (Malaysia) Bhd (BAT) posted a 10.9% jump in full year profits due to lower operating expense and volume and margin growth from the domestic market and contract manufacturing.

Net profit for the financial year ended Dec 31, 2012 (FY12) stood at RM967.9 million, compared with RM879.6 million for FY11. The group declared a fourth interim dividend of 77.00 sen per share.

Revenue was 7.9% higher at RM4.4 billion from RM4.1 billion for FY11. BAT saw a 0.24% growth in volume, contributed by the group's best selling brand Dunhill. The brand commanded a 47.3% share of the market last year.

In addition, BAT's contract manufacturing volume for the group grew significantly at 17% growth in volume for cigarettes and 66% growth in semi-finished goods.

The legal industry volume was largely stable in 2012, albeit industry licensed sales increased by 2.5% from 2011 as a result of forward selling from competitors, the group said in its filing with Bursa Malaysia yesterday.

Industry stability resulted from no excise increases for two consecutive years and tougher enforcement by government enforcement agencies on illicit cigarettes and a relatively stable pricing environment.

For the fourth quarter ended Dec 31, 2012, BAT made a net profit of RM462.7 million, an 8.9% increase from RM425.6 million a year ago. Meanwhile, its revenue was slightly higher at RM1.1 billion from RM461.3 million.



Excise hike 'welcome' for new BAT Malaysia head

British American Tobacco Malaysia Bhd (BATM) has welcomed the increase in excise duty on cigarettes and cigars from 10% to 12% effective from 1 July 2013.

Stefano Ciani, CEO of BATM, said the increase in excise duty is a positive development for the company as it allows for a more competitive market environment.

Ciani added that the company is confident in its ability to maintain its market share and profitability despite the increase in excise duty.

EXCERPTS FROM Dunhill's INTERVIEW WITH STEFANO CIANI

I want to help people become successful

Do you smoke?
 Ciani: No, I do not smoke. It is a common myth that if you work for a tobacco company you need to be a smoker which is definitely not the case in BAT.

At BAT, we believe that smoking is a decision that is to be made by adults only, involving full will the risks that are involved with it.

Our business is not about

BAT achieves net profit of RM211m in 2Q

BRITISH American Tobacco (M) Bhd (BAT) achieved a net profit of RM210.82 million on the back of a turnover RM1.16 billion for the second-quarter (2Q) ended June 30, 2013, from RM220.85 million on the back of a turnover of RM1.07 billion for the same period last year. The company registered a net earnings per share of 73.8 sen from 77.3 sen previously. Despite the good growth in profit, it has not translated into good volume as a decline in legal market consumption due to increase competition from illicit white cigarettes. The group has cautious outlook for the second-half of the year. The group has declared a second interim dividend of 68 sen per share.

► BRITISH AMERICAN TOBACCO (M) BHD

	2012	2011E	2011F	2010E
REVENUE (RM mil)	4,364.8	4,370.0	4,912.0	4,481.6
NET PROFIT (RM mil)	207	272.6	268.6	288.1
EPS (sen)	27.94	27.23	26.2	26.0
PER (x)	20.9	21.4	21.7	21.1

BAT set for good revenue earnings, lower operating cost

Recommendation:
 TARGET Price: RM46.00
 by Aflin Investment Bank Bhd (Feb 27)

Results stable

lower staff remuneration cost. BAT declared a fourth single-interim dividend of 77 sen per share, bringing YTD DPS declared to a hefty 272 sen/share. (YTD payout ratio: 87%, translating to a dividend yield of 4.6% following the recent 4% share price retacement).

4Q12 Profit Up 5%
 While domestic sales volumes declined by 0.7% on a QoQ basis owing to seasonal factors (HQ is typically the weakest quarter impacted by excise duty hike) BAT managed to register a +6% YoY growth in core net profit due to a lower effective tax rate of 20% vis-à-vis 2011's 20%.

Dunhill's Share Gains
 BAT's flagship premium brand, Dunhill continued to gain its market share, which saw FY12 market share growing by 2.5% points.

Thanks to the relaunch of Dunhill Switch in April 2012 and improved packaging, the efforts has lifted Dunhill's market share to its new record high of 48.7%.

This has helped to offset the softening market share of its value-for-money sector, namely Full Mail (FY12: 41%-points) and Near Stayseant (YTD: 0.1%-points). As a result, BAT's 2012's overall market share has improved to 62.6% from 62% in 2011.

Maintain 'Reduce'
 With earnings within expectation, we make no changes to our FY13-FY14 earnings forecast, and introduce our FY15 net profit forecast of RM98.1m (+2.5% YoY).

While we are positive on the decline (-1.6%-points to 34.5% in illicit trade, we are maintaining our 'Reduce' recommendation on BAT.

WINNERS OF THE EDGE BILLION RINGGIT CLUB CORPORATE AWARDS 2013

VALUE CREATOR	COMPANIES WITH MORE THAN RM10 BILLION MARKET CAPITALISATION	CONSUMER PRODUCTS SECTOR	INDUSTRIAL PRODUCTS SECTOR	PROPERTY AND REIT SECTORS	BEST CSR INITIATIVES
MALAYSIA'S OUTSTANDING CEOs Datuk Seri Abdul Wahid Omar Former President & Chief Executive Officer of Malaysian Banking Bhd Tan Sri Lee Koo Hin Chairman & CEO	MOST PROFITABLE COMPANY British American Tobacco Malaysia Bhd HIGHEST PROFIT GROWTH COMPANY Malayan Banking Bhd BEST PERFORMING STOCK DIGI Com Bhd	MOST PROFITABLE COMPANY British American Tobacco Malaysia Bhd HIGHEST PROFIT GROWTH COMPANY Uluw Holdings Bhd BEST PERFORMING STOCK Dutch Lady Milk Industries Bhd	MOST PROFITABLE COMPANY Hartalega Holdings Bhd HIGHEST PROFIT GROWTH COMPANY Cahaya Mata Sarawak Bhd BEST PERFORMING STOCK Telex Corporation Bhd	MOST PROFITABLE COMPANY KLCC Property Holdings Bhd HIGHEST PROFIT GROWTH COMPANY Muh-Sing Group Bhd BEST PERFORMING STOCK KLCC Property Holdings Bhd	FIRST PLACE CIMB Group Holdings Bhd SECOND PLACE Necle (Malaysia) Bhd THIRD PLACE United Plantations Bhd

awards and achievements



In British American Tobacco Malaysia, we have always strived to ensure our business objectives are achieved in a responsible manner,

In 2013, the local and international recognition that we have received are a testament to our high governance standards, exemplary shareholder value, and strong dividend payment.

1. Ranked sixth globally and first in Malaysia for Environment, Social and Governance

British American Tobacco Malaysia is ranked sixth globally and first in Malaysia for environment, social and governance performance in an analysis of food, beverage and tobacco companies conducted by Sustainalytics, a global responsible investment research firm.

2. Winner for Reporting in the Annual Report category for ACCA Malaysia Sustainability Reporting Awards (MaSRA) 2013

Recognition for disclosure of sustainability initiatives in the Company's Annual Report, with particular commendation on Global Reporting Initiative Indicators disclosures, as well as for its strong governance structure and corporate responsibility framework.

3. Highest Return on Equity in the Consumer Product Sector for the Edge Billion Ringgit Club Awards 2013

Recognition for the fourth consecutive year for the Company

in achieving the highest return on equity in consumer products as evaluated by The Edge.

4. Highest Return on Equity in the Big Cap Companies category for the Edge Billion Ringgit Club Awards 2013

Recognition for the Company in achieving the highest return on equity among companies with more than RM10 billion market capitalisation for the third consecutive year as evaluated by The Edge.

5. Gold Award for Investor Relations for The Asset Corporate Awards 2013

Recognition for the Company's commitment to good investor relations.

6. Top Three Companies in Malaysia for Most Committed to a Strong Dividend Policy

Recognition for the thirteenth consecutive year for the Company's commitment to strong dividend payment in the 2013 FinanceAsia Awards Poll.

past awards & achievements

2012

1. Industry Excellence Award in the Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2012
2. Silver Award in the Best Designed Annual Report Category for National Annual Corporate Report Awards (NACRA) 2012
3. High Recognition for 2012 FinanceAsia Awards Poll
 - First place for Most Committed to a Strong Dividend Policy
 - Fifth place for Best Corporate Governance
 - Sixth place for Best Managed Company
4. Highest Return on Equity in the Consumer Product Category for The Edge Billion Ringgit Club 2012
5. Highest Return on Equity among Companies with more than RM10 billion market capitalisation for The Edge Billion Ringgit Club 2012

2011

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

4. Industry Excellence Award in the Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2011
5. Top 10 Companies in Malaysia for Sustainability Disclosure for Asian Sustainability Rating
6. Inaugural winner of SVA Exemplary Award for KPMG/The Edge Shareholder Value Awards 2011
7. High recognition for 2011 FinanceAsia Awards Poll
 - Third place for Most Committed to a Strong Dividend Policy
 - Third place for Best Corporate Governance
 - Fourth place for Best Investor Relations
8. Gold Award for Environmental Responsibility and Investor Relations in The Asset Corporate Awards 2011
9. Notable Achievement in Environmental Performance for Prime Minister's Hibiscus Award 2010/2011
10. Winner for Reporting in an Annual Report category for ACCA Malaysia Sustainability Reporting Awards (MaSRA) 2011

2010

1. Industry Excellence Award in the Consumer Products Category for Malaysian Corporate Governance Index 2010
2. Distinction Award for Malaysian Corporate Governance Index 2010
3. The Edge Billion Ringgit Club (BRC) Corporate Awards 2010

4. Industry Excellence Award under Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2010
5. Silver Award for Best Designed Annual Report in the National Annual Corporate Report Awards (NACRA) 2010
6. Top 20 Companies in Asia for Asian Sustainability Rating
7. Overall Award Winner in KPMG/The Edge Shareholder Value Award 2010
8. Winner for Consumer Markets Category in KPMG/The Edge Shareholder Value Award 2010
9. High recognition in all categories for 2009 FinanceAsia Awards Poll
 - Second place for Most Committed to a Strong Dividend Policy
 - Third place for Best Corporate Governance
 - Third place for Best Corporate Social Responsibility
 - Fourth place for Best Investor Relations
 - Fourth place for Best Managed Company
10. Gold Award for Excellence in Investor Relations in The Asset Corporate Awards 2009
11. Gold Award for Environmental Responsibility and Investor Relations in The Asset Corporate Awards 2010

2013 corporate events highlights

JANUARY



FEBRUARY



MARCH



APRIL



MAY



JUNE



JULY



AUGUST



SEPTEMBER



OCTOBER



NOVEMBER



DECEMBER



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

JANUARY

- Recognised in the 2013 FinanceAsia awards poll under the category for Most Committed to a Strong Dividend Policy.
- Launched DUNHILL Ice.

FEBRUARY

- Held Kick Off meeting at PJ Hilton.
- Conducted financial analyst briefing on Q4 2012 financial results.

MARCH

- Published the British American Tobacco Malaysia Annual Report 2012.
- Recognised by The Asset Magazine for strong investor relations in the food and beverage sector.
- Held Company Family Day at Genting Theme Park.

APRIL

- Held fifty-second Annual General Meeting.
- Conducted financial analyst briefing on Q1 2013 financial results.

MAY

- Conducted Company Treasure Hunt.

JUNE

- Upgraded PALL MALL Menthol range.

JULY

- Conducted financial analyst briefing on Q2 2013 financial results.
- Launched new packs for PETER STUYVESANT with a new *freshness seal*.

AUGUST

- Held Media and Analyst Appreciation Night.
- Launched DUNHILL Kretek.

SEPTEMBER

- Recognised by The Edge for achieving the Highest Return on Equity in the Consumer Product category and Highest Return on Equity among companies with more than RM10 billion market capitalisation.
- Conducted Recruitment Day at British American Tobacco Malaysia.

OCTOBER

- Conducted financial analyst briefing on Q3 2013 financial results.
- Ranked sixth in the world and first in Malaysia for Environment, Social and Governance performance within the food, beverage and tobacco industry, in a global study on sustainability by Sustainalytics.

NOVEMBER

- Awarded the Higher Education Starter Kit to tobacco farming community.
- Held Company Annual Dinner, which also honoured long-serving and retiring employees.
- Recognised by ACCA for outstanding sustainability disclosure reporting within an annual report.

DECEMBER

- Awarded scholarships to scholars pursuing higher education.
- Upgraded PALL MALL Red and Blue with capsule filter offering.
- Launched DUNHILL Limited Edition Packs.



LEADERSHIP

We are aligned with British American Tobacco's vision to achieve leadership of the global tobacco industry in order to create long-term shareholder value.



corporate information

BOARD OF DIRECTORS

Datuk Mohamad Salim bin

Fateh Din

DPMS, DSAP, DSPN, JP, PJN
Independent Non-Executive Director
(Chairman)

Stefano Clini

Non-Independent Executive Director
(Managing Director)

Datuk Oh Chong Peng

PJN, JSM
Independent Non-Executive Director

James Richard Suttie

Non-Independent Non-Executive
Director

Andreas Michael Thompson

Non-Independent Executive Director

Dato' Chan Choon Ngai

DSNS
Non-Independent Non-Executive
Director

Dato' Ahmad Johari bin Tun

Abdul Razak
DCMP, DSIS, DSAP
Independent Non-Executive Director

Datuk Zainun Aishah binti Ahmad

KMN, PMP, DPMP, JSM, PJN
Independent Non-Executive Director

Christine Lee Oi Kuan

Non-Independent Executive Director

Secretary

David Chiam Joy Yeow
(LS0009734)
Tel: +60 (3)7491 7324
Fax: +60 (3)7491 3772
E-mail: david_chiam@bat.com

Registered Office

Virginia Park, Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan
Tel: +60 (3)7956 6899/+60 (3)7491 7100
Fax: +60 (3)7955 8416
Email: 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

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

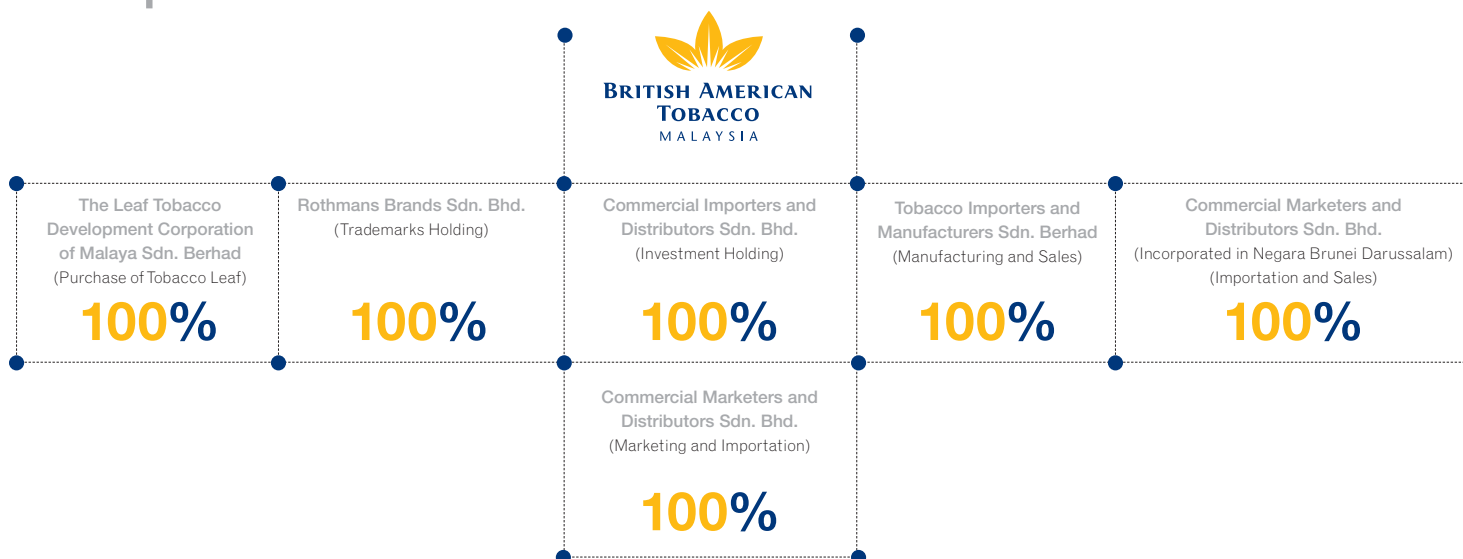
Principal Bankers

Citibank Berhad
(Company No. 297089-M)
HSBC Bank Malaysia Berhad
(Company No. 127776-A)
Malayan Banking Berhad
(Company No. 3813-K)
The Royal Bank of Scotland Berhad
(Company No. 301932-A)

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



profile of directors

01



Datuk Mohamad Salim bin Fateh Din

DPMS, DSAP, DSPN, JP, PJJN
(Independent Non-Executive Director)
Chairman
Malaysian, Age 57 years

02



Stefano Clini

(Non-Independent Executive Director)
Managing Director
Italian, Age 47 years

01

Datuk Mohamad Salim bin Fateh Din has been appointed Chairman of British American Tobacco (Malaysia) Berhad on 11 April 2012. He has also been appointed as the Chairman of the Remuneration and Nomination Committees.

Datuk Mohamad Salim through Gapurna Sdn. Bhd. and its group of companies, owns and manages construction, property investment and property development businesses. Some of the hallmark projects undertaken by Datuk Mohamad Salim included the 348 Sentral at KL Sentral, and the ongoing PJ Sentral Garden City, both hailed as industry benchmarks geared towards the highest standards of the Green Building Index (GBI) as well as Leadership in Energy & Environmental Design (LEED). Other notable foray of Datuk Mohamad Salim was the successful re-engineering of the design of the Sepang distribution centre for retailer Giant. He is also known as a pioneer who customised and built the "super store" concept petrol stations for leading oil companies in Malaysia.

Datuk Mohamad Salim is currently the Group Managing Director of Malaysian Resources Corporation Berhad and also the Managing Director of Gapurna Sdn Bhd and sits on the boards of its group of companies. He is also the Chairman of Jutaria Gemilang Sdn Bhd, a joint venture vehicle with Giant Group as the flagship to undertake the convenience store concept; and the Chairman of the Malaysia-Pakistan Business Council. For his unwavering contribution to the bilateral trade opportunities between Malaysia and Pakistan, he was awarded by the Government of Pakistan a Medal of Excellence or Tamgha-i-Imtiaz. He is also a long-serving member of the Board of Trustees at the Yayasan Pendidikan Cheras.

Datuk Mohamad Salim attended all of the four Board Meetings in the financial year ended 31 December 2013.

Datuk Mohamad Salim 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, other than as set out in Paragraph 2.2 and Appendix II of the circular to shareholders dated 27 March 2014. He has had no convictions for any offences within the past ten years.

02

Stefano Clini was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 May 2013 and officially appointed as Managing Director of the Group on 1 July 2013.

Stefano began his career in Procter & Gamble and held various senior leadership roles in the company during his 15 years there. His career in Procter & Gamble saw him holding different positions in marketing, first in Italy, then Belgium, Switzerland and Turkey.

He subsequently joined Heinz Italia S.p.A as President and Chief Executive Officer in October 2005 before assuming the role at HJ Heinz as President, Global Infant & Nutrition in May 2010. He held that role for 3 years before joining the BAT Group in 2013.

Stefano holds a Degree in Business and Economics from Libera Università Internazionale Degli Studi Sociali, Italy.

Stefano attended two Board Meetings (since his appointment) in the financial year ended 31 December 2013.

Stefano 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 ten years.

03



Datuk Oh Chong Peng

PJN, JSM

(Independent Non-Executive Director)

Malaysian, Age 69 years

03

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 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 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 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 four Board Meetings which were held in the financial year ended 31 December 2013.

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 interest in any business arrangement involving the Company. He has had no convictions for any offences within the past ten years.

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Andreas Michael Thompson

(Non-Independent Executive Director)
Finance Director
British, Age 45 years

04

Andreas 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).

05



Dato' Chan Choon Ngai

DSNS
(Non-Independent Non-Executive Director)
Malaysian, Age 59 years

05

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.

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

Andreas Thompson attended all of the four Board Meetings in the financial year ended 31 December 2013.

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 ten years.

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 (BDS) function in addition to his 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, overseeing both Operations and BDS. He was re-designated as Non-Independent Non-Executive Director of British American Tobacco (Malaysia) Berhad on 1 January 2013 following the expiry of his contract of service as Operations Director of the Company on 31 December 2012.

Dato' Chan attended all of the four Board Meetings which were held in the financial year ended 31 December 2013.

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 ten years.

06



Dato' Ahmad Johari bin Tun Abdul Razak

DPCM, DSIS, DSAP
(Independent Non-Executive Director)
Malaysian, Age 59 years

07



James Richard Suttie

(Non-Independent Non-Executive Director)
British, Age 67 years

06

Dato' Ahmad Johari Razak 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 (Malaysia) Sdn Bhd and Daiman Development Berhad and a director of Hong Leong Industries 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 of the Company and he attended all of the four Board Meetings in the financial year ended 31 December 2013.

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 ten years.

07

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. 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 four Board Meetings which were held in the financial year ended 31 December 2013.

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 ten years.

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Datuk Zainun Aishah Binti Ahmad

KMN, PMP, DPMP, JSM, PJN
(Independent Non-Executive Director)
Malaysian, Age 68 years

08

Datuk Zainun Aishah was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 March 2012.

Datuk Zainun graduated with a Bachelor of Economics degree from University of Malaya. She began her career with Malaysian Industrial Development Authority ("MIDA"), the Malaysian government's principal agency for the promotion and coordination of industrial development in the country where she worked for 35 years. In her years of service, Datuk Zainun held various key positions in MIDA as well as in some of the country's strategic councils, notably her pivotal role as the National Project Director in the formulation of the first Malaysian Industrial Master Plan. She was the Director-General of MIDA for 9 years and Deputy Director-General for 11 years.

She was previously a Director of Tenaga Nasional Berhad and Malayan Banking Berhad. Currently, she is a Director of Degem Berhad, Scomi Engineering Berhad, Shell Refinery Company (Federation of Malaya) Berhad and Berjaya Food Berhad. Datuk Zainun also sits as Chairman of Pernec Corporation Berhad, a public company.

Datuk Zainun is a member of the Audit Committee of the Company. Datuk Zainun attended all of the four Board Meetings in the financial year ended 31 December 2013.

Datuk Zainun 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. She has had no convictions for any offences within the past 10 years.

09

Christine Lee Oi Kuan was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 March 2012.

She was appointed to the Top Team, now known as Leadership 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.

Christine Lee attended all of the four Board Meetings in the financial year ended 31 December 2013.

Christine Lee 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. She has had no convictions for any offences within the past 10 years.

09



Christine Lee Oi Kuan

(Non-Independent Executive Director)
Corporate and Legal Affairs Director
Malaysian, Age 55 years

profile of leadership team members

Stefano Clini

Managing Director
Italian, Age 47 years

01

For details of Stefano Clini's profile, please refer to page 26 of this Annual Report.

Marcelo Alvarenga Guimaraes

Marketing Director
Brazilian, Age 42 years

02

Marcelo Alvarenga Guimaraes was appointed Marketing Director of British American Tobacco (Malaysia) Berhad on 1 January 2013. He joined BAT's entity in Brazil, Souza Cruz as a Management Trainee in 1995 and has held various positions in Marketing.

In 2002, he joined the Regional Team in LACAR and was subsequently seconded to BATCCA (BAT Caribbean and Central America) and then to Nobleza Piccardo (BAT's entity in Argentina, also overlooking Paraguay and Uruguay). He returned to Souza Cruz in 2007, becoming Head of Brands in 2008.

In 2010, Marcelo moved to British American Tobacco p.l.c as Marketing Sustainability and Innovation Strategy Manager in Central Marketing and after that joined the Strategy and Planning Team, playing a key role in the Global Resource Allocation and the Re-articulation of the Global Strategy.

Marcelo holds a BSc in Economics from Pontificia Universidade Catolica of Rio de Janeiro, Brazil, MBA from Manchester Business School, UK and Master of Business Knowledge Management from Coppe/Universidade Federal do Rio de Janeiro, Brazil.

Murali Thanabalan

Human Resources Director
Malaysian, Age 52 years

03

Murali Thanabalan joined the Company in July 1997 as Compensation and Benefits Manager.

Post the merger of Rothmans of Pall Mall (Malaysia) Berhad and Malaysian Tobacco Company Berhad in 1999, Murali was appointed Rewards Manager of British American Tobacco (Malaysia) Berhad with the key focus of integrating the rewards platform. He then ventured out to pursue other interests in 2000 before rejoining the Company the following year. Thereafter he was seconded to British American Tobacco Nigeria as Rewards Manager in 2002, where he then became the Rewards Manager for West and Central Africa before succeeding as Human Resources Director for British American Tobacco Nigeria.

Murali then moved to Kenya as Area Head of Human Resources of Sub Saharan Africa before returning in the same capacity to South Asia Area in 2010. On 1 March 2012, Murali assumed the role of Human Resources Director of British American Tobacco (Malaysia) Berhad.

Murali holds a Bachelor of Arts degree from the National University of Singapore.





04

Andreas Michael Thompson

Non-Independent Executive Director
Finance Director
British, Age 45 years

For details of Andreas Thompson's profile, please refer to page 28 of this Annual Report.



05

Joel Solomon A/L Enock Solomon

Operations Director
Malaysian, Age 39 years

Joel Solomon A/L Enock Solomon was appointed Operations Director of British American Tobacco (Malaysia) Berhad on 1 January 2013. He joined the Company in 1999 as a management trainee and thereafter held various positions in operations including supply chain management and material development, procurement and factory operations. He was promoted to senior management in 2004, in-charge of Primary Manufacturing and subsequently Secondary Manufacturing.

In 2007, Joel moved into the role of Supply Planning Manager for British American Tobacco (Malaysia) Berhad covering a wider scope of end-to-end planning as well as defining the supply footprint for Malaysia. He was thereafter moved to a project role in January 2009, to shape the Company's supply chain and seconded to Singapore in May 2009 to assume the role of Regional Production Planning Manager which involved the setting up of the regional planning hub as well as the process, governance and organisation of the hub itself. He was promoted to Regional Supply Planning Manager in 2011 to head both production planning and distribution planning where his role involved reshaping of the supply models, introduced new supply models as well as paved way for the regional footprint redesign.

He holds an Engineering Degree from the University of Malaya.



06

Christine Lee Oi Kuan

Non-Independent Executive Director
Corporate and Legal Affairs Director
Malaysian, Age 55 years

For details of Christine Lee's profile, please refer to page 30 of this Annual Report.



07

Azlan Ibrahim

Head of Business Development Services
Malaysian, Age 54 years

Azlan joined British American Tobacco (Malaysia) Berhad in June 1987 as a marketing management trainee, after completing his education from the University of Southern Illinois, USA. He underwent a 9 months training period where he was then sent to Pahang to be the Acting Area Sales Manager from 1988 to 1989. He was then confirmed as the Area Sales Manager in 1989. Thereafter, Azlan was transferred to Kota Bharu to look after the Kelantan and Terengganu markets. In 1993, he was made the Regional Sales Manager for the Northern Region.

Azlan was promoted to the role of Sales Manager in 1994 and during the pre-merger period, he was assigned to the role of National Sales Manager for Rothmans. Post-merger, he became the Regional Trade and Distribution Manager until 2001.

In 2002, after 15 years in Marketing, Azlan was made the Business Development Manager of the Company. In 2003, he became the Head of Business Development and in 2011, he was given the responsibility to also be in-charge of Security and changed his position to Head of Business Development Services.



● **governance**

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
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standards of business conduct

Our Group's employees are governed by the Standards of Business Conduct (Standards) which form an integral part of our Group's corporate governance. It is a fundamental policy of the Group and the Standards require all employees to observe and comply with the laws and regulations applicable to them as well as operate in accordance with high standards of business integrity. Employees must exercise honesty, objectivity and diligence in doing their work and must ensure that the Standards are never compromised for the sake of results. As such, the Standards continue to underpin our commitment to high standards of corporate responsibility.

The Standards are designed to:

- (a) help employees who are faced with making difficult judgements in the course of doing their work and ensure that all 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; and
- (c) give reassurance to the Group's stakeholders, with whom the Group comes into business contact.

The areas covered by the Standards are:

- (i) Whistleblowing
- (ii) Conflicts of Interest
- (iii) Bribery and Corruption
- (iv) Entertainment and Gifts
- (v) Political Contributions
- (vi) Charitable Contributions
- (vii) Accurate Accounting and Record Keeping
- (viii) Protection of Corporate Assets
- (ix) Confidentiality and Information Security
- (x) Insider Dealing and Market Abuse
- (xi) Competition Law and Anti-Trust Laws
- (xii) Money Laundering and Anti-Terrorism
- (xiii) Trade in Products
- (xiv) Sanctions

To ensure compliance, all management employees, including the Board of Directors are required to declare their compliance with the Standards and disclose any conflicts of interest on a yearly basis. Conflicts of interest to be declared in the compliance are in relation to whether the employee and/or immediate family have an interest in or association with the operations of the companies/business which may lead to a conflict of interest. Immediate family here includes parents, spouse, children, brothers and sisters as well as step and adoptive relations.

Datuk Mohamad Salim bin Fateh Din, the Chairman of the Board had declared his interest in the proposed transaction with Commercial Marketers and Distributors (a wholly-owned subsidiary of the Company) for the renting of space to site cigarette dispensing units in all G-Ekspres convenience stores, to be entered into by Jutaria Gemilang Sdn Bhd (JGSB), a company which is indirectly owned by the Chairman through Gapurna Sdn Bhd (Gapurna). Gapurna holds 70% interest in JGSB and the Chairman in turn holds 98.25% interest in Gapurna. The Chairman had abstained from the deliberations and voting on this matter.

The obligation to comply with the Standards also extends to the Group's suppliers and service providers and is essential in ensuring high standards of business ethics amongst all suppliers and service providers of the Group, including the suppliers' or service providers' related companies. The applicable provisions in the Standards are incorporated in the agreements 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 which the relevant supplier or service provider have been made aware of, may lead to immediate termination of the agreement with the said supplier or service provider.

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 these Standards by the Group and its employees. Employees have a duty to report incidences of non-compliance with the Standards and any other incidences of wrongdoing at work.

The Standards is made available to our employees and Board of Directors on the Company's intranet (Interact website) and the Company's corporate website at www.batmalaysia.com.

statement on corporate governance

"For us, good governance is about managing the business effectively and responsibly and in a way which is honest, transparent and shows accountability"

*Richard Burrows,
Chairman of British American Tobacco p.l.c*

The Company and its Board of Directors (Board) recognises the importance of corporate governance which contributes to the intrinsic value of an organisation. The Board firmly believes that the integrity and commitment of its Board and employees, supported by a comprehensive framework of policies and internal controls, will serve to strengthen the Company's sustainability, organisational effectiveness and drive a high-performance culture within the organisation.

This Statement on Corporate Governance (Statement) aims to provide insights to the shareholders and investors into the corporate governance practices of the Company.

CORPORATE GOVERNANCE FRAMEWORK

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

- (i) Malaysian Code on Corporate Governance (Revised 2012) (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, 2nd Edition (CG Guide)
- (iv) Corporate Disclosure Guide by Bursa Securities (CD Guide)
- (v) Malaysia-Asean Corporate Governance Scorecard 2013 by Minority Shareholder Watchdog Group (MSWG)
- (vi) British American Tobacco p.l.c's Code of Corporate Governance
- (vii) Standards of Business Conduct of the Company
- (viii) Statement of Business Principles of the Company (Business Principles)
- (ix) Statement of Delegated Authorities of the Company

The Board also continuously reviews its corporate governance framework to ensure its relevance, effectiveness and sustainability in addressing future business environment challenges.

The Company is also guided by the Business Principles that cover key matters that underpin Corporate Responsibility (CR) 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.

The Company also has in place the Statement of Delegated Authorities, which 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, PROCEDURES AND CODES

The Company also has in place internal policies, guidelines, procedures and codes in support of the Company's corporate governance framework set out in the BATM Code. Some of the key policies, guidelines, procedures and code are outlined below:

1. Competition Compliance Guidelines – outlines the general principles and standards of behaviour in relation to competition laws that employees are required to follow and comply as good business practice.
2. Policy on Indirect Procurement – 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 Company's business requirements.
3. International Marketing Principles – a framework to govern all aspects of tobacco marketing.
4. Guidelines on Dawn Raid – sets out the procedures to be adhered to when there is a raid by relevant authorities so that the necessary cooperation can be provided.
5. Guidelines on Employee Engagement – to govern employees' engagement and consultation on matters which are of interest to employees such as the employment status and key employment terms.
6. Code of Practice on Sexual Harassment (BATM Sexual Harassment Code) – to ensure that all employees are treated with respect and dignity regardless of gender and to outline that any form of sexual harassment, which disrupts or interferes with the work performance and dignity of another will not be tolerated.
7. Guidelines on Managing Cases Involving Employees and Law Enforcement Authorities.
8. Policy on Medical Board Out (MBO).
9. Employment Principles.
10. Policy on Environment, Health and Safety.
11. Procedures on Credit for trade debtors and intercompany balances.

The abovementioned policies, guidelines, procedures and codes are made available to all our employees and Directors on the Company's intranet.

The Company is dedicated and committed to managing its business responsibly amidst a challenging environment for the tobacco industry and the awards and achievements that the Company has received are testimony of such dedication and commitment. For details of these awards and achievements, please refer to pages 20 to 21 of this Annual Report.

This Statement together with the Statement on Risk Management and Internal Control sets out the manner in which the Company had complied with the principles and recommendations of the Malaysia Code and BATM Code throughout the financial year ended 31 December 2013.

BOARD OF DIRECTORS

Board of Directors' composition

The Board is collectively responsible for the Company's vision and strategic direction and governance. The Board comprises a good balance of Executive and Non-Executive Directors and the 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 composition of the members of the Board reflects a good mix of experience, backgrounds, skills, gender and qualifications and the members are all professionals of high calibre and integrity, possessing in-depth knowledge and experience of the tobacco business which are vital to the sustainability and growth of the business.

The Board had appointed a new Managing Director, Mr. Stefano Clini on 1 July 2013 following the retirement of the previous Managing Director, Datuk William Toh Ah Wah on 30 June 2013.

As at the date of this Statement, the Board consists of nine members, six of which are Non-Executive Directors (including the Chairman) and the remaining three are Executive Directors. Four out of the six Non-Executive Directors are Independent Non-Executive Directors. Please refer to 26 to 30 for details of the Directors on the Board, their profiles and their respective memberships.

Principle responsibilities of the Board

<ul style="list-style-type: none"> • Responsible for the long term strategy of the Company and setting the goals and the direction of the Company. • Directs the Company's risk assessment and ensures implementation of appropriate systems to manage these risks. • Reviewing and adopting strategic plans for the Company, succession planning including appointing, training, fixing the compensation and where appropriate, replacing senior management and financial and operational management. • Provides the leadership necessary to enable the Company's business objectives to be met within the framework of internal controls as described in this Statement. • Other key duties for the Board includes declaring dividends, approving financial statements and accounting policies of the Company, reviewing the adequacy and integrity of the Company's internal control systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines. 	<ul style="list-style-type: none"> • Pursuant to the Company's Statement of Delegated Authorities, the Board is also tasked to decide on the following business transactions and activities: <ul style="list-style-type: none"> – 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.
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Individual roles of the Board

Chairman	<ul style="list-style-type: none"> • Provides leadership to the Board; • Ensures that the Board and its Committees function effectively; • Facilitates contribution of the Directors; • Set the agenda for all Board meetings; and • Ensures effective shareholder engagement and safeguard shareholder interests.
Managing Director	<ul style="list-style-type: none"> • Responsible for the overall performance of the Company; • Stewardship of the Company's direction and the day-to-day management of the Company; and • Manages the business of the Company consistent with all relevant code, policies, standards, guidelines, procedures and practices of the Company and in accordance with any specific plans, instructions and directions of the Board.
Executive Directors	<ul style="list-style-type: none"> • Responsible for the day-to-day management of financial and operational matters in accordance with the strategic direction established by the Board.
Non-Executive Directors	<ul style="list-style-type: none"> • Responsible for scrutinising the performance of the Board and the management and also act as caretakers of the minority shareholders; and • 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 judgment objectively and act in the best interest of the Company, its shareholders and minority shareholders.
Independent Directors	<ul style="list-style-type: none"> • Responsible for providing unbiased and independent views, advice and judgment, which take into account the interests of the Company and all its stakeholders including shareholders and employees.

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 Standards of Business Conduct, Business Principles and Statement of Delegated Authorities.

LEADERSHIP TEAM

The Board is duly assisted by the senior management of the Company, namely the Leadership Team. The Leadership Team consists of senior employees 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) Head of Business Development Services

For details of each Leadership Team member, please refer to pages 31 to 33 of this Annual Report.

The responsibilities and authorities of the Leadership Team are clearly defined in the Company's Corporate Authority Limit, which is read with the Statement of Delegated Authorities.

The Leadership Team is tasked with the responsibility of developing, coordinating and implementing business and corporate strategies for approval of the Board, implementing the policies and decisions of the Board and overseeing the operations of the Company. The relevant member of the Leadership Team will also be invited to attend Board meetings to advise and furnish the Board 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 decision.

COMPANY SECRETARY

All Directors have access to the advice and the services of the Company Secretary. The Company Secretary is responsible for providing support and appropriate guidance to the Board on policies and procedures, rules and regulations and relevant laws in regard to the Company as well as the best practices on governance. The Company

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

Additionally, 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, circulars from Bursa Malaysia Securities Berhad, legal and regulatory developments and impact, if any, to the Company and its business.

BOARD AND BOARD COMMITTEE MEETINGS

The composition of the Board Committees as at 31 December 2013 and the attendance of the Directors at the Board and Board Committees meetings held in 2013 are as follows:

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	CSR Committee	Executive Compensation Committee
Datuk Mohamad Salim bin Fateh Din (Chairman) <i>Independent Non-Executive Director</i>	4/4	N/A – Not an Audit Committee member	2/2	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Datuk Oh Chong Peng <i>Independent Non-Executive Director</i>	4/4	4/4	2/2	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Dato' Ahmad Johari bin Tun Abdul Razak <i>Independent Non-Executive Director</i>	4/4	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	CSR Committee	Executive Compensation Committee
Datuk Zainun Aishah binti Ahmad <i>Independent Non-Executive Director</i>	4/4	4/4	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	N/A – Not a CSR Committee member	1/1
James Richard Suttie <i>Non-Independent Non-Executive Director</i>	4/4	4/4	2/2	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Dato' Chan Choon Ngai <i>Non-Independent Non-Executive Director</i>	4/4	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Datuk William Toh Ah Wah ¹ <i>(Managing Director)</i> <i>Non-Independent Executive Director</i>	2/2	N/A – Not an Audit Committee member	2/2	N/A – Not a Nomination Committee member	N/A	1/1
Stefano Clini ² <i>(Managing Director)</i> <i>Non-Independent Executive Director</i>	2/2	N/A – Not an Audit Committee member	N/A	N/A – Not a Nomination Committee member	1/1	N/A
Andreas Michael Thompson <i>(Finance Director)</i> <i>Non-Independent Executive Director</i>	4/4	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	2/2	1/1
Christine Lee Oi Kuan <i>(Corporate and Legal Affairs Director)</i> <i>Non-Independent Executive Director</i>	4/4	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	2/2	N/A – Not an Executive Compensation Committee member

¹ Datuk William Toh Ah Wah retired as Managing Director of the Company effective 30 June 2013.

² Stefano Clini was appointed as Non-Independent Non-Executive Director of the Company with effect from 1 May 2013 and subsequently appointed as Managing Director of the Company with effect from 1 July 2013.

The Board schedules four meetings in a year to consider all matters relating to the overall control, business performance and strategy of the Company.

The Board has a regular schedule of matters which are in the agenda and reviewed during the course of the year. These are 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. All Board and Board Committee meeting dates are pre-scheduled at the end of the year for the following year.

In 2013, amongst the key issues presented for consideration by the Board were:

- Managing Director's Quarterly Reports.
- Quarterly Unaudited Consolidated Results.
- Company's Audited Financial Statements.
- Recurrent Related Parties Transactions.
- Appointment of new Managing Director.
- All announcements released to Bursa Malaysia Securities Berhad.
- Company's Corporate Social Responsibilities activities.
- Company's Enterprise Risk Management Programme.
- Directors' Performance Evaluation.
- Company's Annual Report (which includes the Statement on Corporate Governance, Statement on Risk Management and Internal Control, Audit Committee Report and Corporate Social Responsibility Committee's Report).

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 also circulated to all Directors for their review and confirmation. Additionally, the Directors may request for clarification or raise comments on the minutes prior to confirmation of the minutes. Management, employees or external advisors are invited to attend Board and Board Committees meetings to advise the Board and Board Committees members and provide the Board with relevant information or updates, as and when is required by the Board.

Where any decisions are required expeditiously or urgently from the Board between the scheduled meetings, special Board meetings are convened by the Company Secretary with sufficient notice, after consultation with the Chairman. The agenda for Board meetings is set by the Chairman in consultation with the Managing Director and the Company Secretary. Where appropriate, decisions may be taken by way of Directors' Circular Resolution between scheduled and special meetings. In 2013, eight resolutions were approved by the Directors via Circular Resolutions which covered among others, finance matters such as the change of bank signatories and the revision of banking facilities.

BOARD COMMITTEES AND SUB-COMMITTEES

The Company has three main Board Committees; the Audit Committee, Nomination Committee and Remuneration Committee, to which the Board 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 and the Executive Compensation Committee reports in to the Remuneration Committee.

The sub-committees members are made up of Leadership 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. The roles and responsibilities of the Board Committees are described in detail below.

Board Committees

1. Audit Committee

As at the date of this Statement, the Audit Committee comprises of three Directors. All members of the Audit Committee are Non-Executive Directors, where two of the three members are Independent Non-Executive Directors. All members of the Audit Committee are financially literate as defined by the Malaysian Code.

The Chairman of the Audit Committee, 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

- 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.
- Met with senior management and the internal and external auditor to review the effectiveness of internal controls and business risk management and receive reports from the Group's Regional Audit Committee.

- Reviewed compliance with the Standards of Business Conduct and the procedures in place within the Company for the management of its business policies.
- Responsible for approving audit, recurring audit related and non-audit services undertaken by the external auditor and in carrying out their duties, the Audit Committee ensures that the independence and objectivity of the external auditor are not compromised.

The Audit Committee had reviewed and discussed the Audited Financial Statements as at 31 December 2013 audited by Messrs. PricewaterhouseCoopers Malaysia and recommended to the Board on 18 February 2014, that the Audited Financial Statements as at 31 December 2013 be included in the Company's Annual Report 2013. The Board had on 19 February 2014 approved the aforesaid Audited Financial Statements for inclusion in the Company's Annual Report 2013 and to be filed with the Bursa Malaysia Securities Berhad and Securities Commission.

(b) Meetings

- The meetings of the Audit Committee are attended by the Managing Director, Finance Director, a representative from British American Tobacco p.l.c Group Internal Audit and representatives of the external auditor. The Audit Committee met four times during 2013.
- No member of the Audit Committee, save and except the Chairman of the Audit Committee, received any payments in 2013 from the Company 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 2013, please refer to pages 59 to 64 of this Annual Report.

2. Nomination Committee

The Nomination Committee comprises exclusively of Non-Executive Directors, where three of the four members are Independent Non-Executive Directors. The Chairman of the Nomination Committee is Datuk Mohamad Salim bin Fateh Din, Independent Non-Executive Director of the Company.

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 required skills, expertise, attributes and core competencies from its members.
- 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 2013.

3. Remuneration Committee

The Remuneration Committee consists of 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 Chairman of the Remuneration Committee is Datuk Mohamad Salim bin Fateh Din, Independent Non-Executive Director of the Company.

The remuneration packages of Executive Directors and Leadership Team are put forth to the Remuneration Committee for deliberation and decisions. In addition, the Managing Director, (who is one of the four Directors in the Remuneration Committee) 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. 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 Leadership Team.

For other employees of the Company, their remuneration packages are overseen by the Executive Compensation Committee. The Chairman of the Executive Compensation Committee is Datuk Zainun Aishah binti Ahmad, Independent Non-Executive Director of the Company. The Executive Compensation Committee ensures that remuneration packages are such as to enable the Company to recruit and retain talented and dedicated employees of the necessary skills and 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 Leadership Team.
- To recommend to the Board on all elements of remuneration and compensation payments of the Executive Directors and members of the Leadership Team.
- To review and approve the annual bonus and salary increments of the Executive Directors and members of the Leadership 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 a 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 Remuneration Committee shall report to the Board and the minutes of the Remuneration Committee Meeting will be tabled and noted by the Board.

In 2013, the Remuneration Committee met twice. Amongst the items deliberated by the Remuneration Committee in 2013 were the annual bonus and salary increment for the Executive Directors and Leadership Team and remuneration package of the new Managing Director.

Sub-Committees

1. Executive Compensation Committee (ECC)

Composition of members	Roles and responsibilities	Operating procedures
<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>Perform, with respect to all employees (except members of the Leadership Team) of the Company, the following functions:</p> <ul style="list-style-type: none"> • 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 Company which are reviewed and approved by the relevant Head of Functions with the Human Resources Director: <ol style="list-style-type: none"> (i) ensure that the Group remuneration systems offer the opportunity of excellent reward for excellent performance. (ii) examine reward packages as a whole, seeking overall competitiveness rather than item-by-item comparability based on the market and affordability. (iii) 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) 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 Company in practice has to recruit within the business environment. (v) 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. (vi) 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. • review and approve the mandate for collective agreement. • review, approve and amend as the case may be, the design and terms of the executive shares scheme. • review and approve voluntary separation scheme. • note job grades of Grades 36 to 38. 	<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, 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 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 2013, the ECC met once to review and deliberate on matters such as budgets for increment, increment guidelines, bonus payments and benefits.</p>

2. Corporate Social Responsibility (CSR)

Composition of members	Roles and responsibilities	Operating procedures
Company's Leadership Team with the Corporate Affairs Manager as the Secretary of the CSR Committee.	<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 Business Principles. 	<ul style="list-style-type: none"> • To meet at least twice annually. • British American Tobacco p.l.c Group Internal Audit are invited to attend the CSR Committee meeting and be heard on any corporate responsibility matters which affects the Company. <p>In 2013, the CSR Committee met twice to deliberate on among others, the review of the Company's current sustainability framework and strategy and the update on the Company's 2013 sustainability initiatives.</p> <p>For details of the corporate responsibility activities, please refer to pages 82 to 97 of this Annual Report.</p>

3. Risk Management Team (RMT)

Composition of members	Roles and responsibilities	Operating procedures
<p>(a) Finance Director (Chairman of RMT)</p> <p>(b) Senior managers from all functions of the Company</p>	<ul style="list-style-type: none"> • Protect the Company'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 Leadership Team and Audit Committee on the Company's Enterprise Risk Management programme. • Review and recommend to the Leadership Team and Audit Committee the key risks for the Company. • Review and update the Leadership Team and Audit Committee on the ongoing status of the key risk response measures. • Review and update the Leadership Team and Audit Committee on the status of the Business Continuity Plans. 	<ul style="list-style-type: none"> • To meet at least twice annually. • British American Tobacco p.l.c Group Internal Audit participates in the RMT meetings as an advisor on the effectiveness of the risk management process. British American Tobacco p.l.c Group Internal Audit also reviews 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 2013 to deliberate on among others, the risk mitigation plans and the review of the Risk Register.</p> <p>For details of the Company's Enterprise Risk Management activities in 2013, please refer to pages 69 of the Annual Report.</p>

Appointment process

The Board appoints its members through a formal process as set out in Article 103 of the Company's Articles of Association (Articles). 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 reappointment to the Board and Board Committees.

The Nomination Committee is empowered to identify and recommend new appointments to the Board. In discharging this duty, the Nomination Committee will assess the suitability of an individual to be appointed to the Board by taking into account the individual's skills, knowledge, expertise and experience, professionalism and integrity. The Nomination Committee shall also ensure that the procedures for appointing new Directors are transparent, 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 background; and
- (d) other factors that promote diversity of views and experience.

However, Article 95(2) of the Company's Articles states that at any point of time, the total number of Directors shall not be less than two and not more than fifteen.

The Board had appointed a new Managing Director, Mr. Stefano Clini on 1 July 2013 following the retirement of the previous Managing Director, Datuk William Toh Ah Wah on 30 June 2013.

Directors may only hold up to 5 directorships in public listed companies.

The changes at the 2013 Annual General Meeting are as follows:

Name	Designation	Nature of changes at the 2013 Annual General Meeting
Datuk William Toh Ah Wah	Non-Independent Executive Director (Managing Director)	Re-elected
James Richard Suttie	Non-Independent Non-Executive Director	Re-elected
Andreas Michael Thompson	Non-Independent Executive Director (Finance Director)	Re-elected
Datuk Mohamad Salim bin Fateh Din	Independent Non-Executive Director (Chairman)	Re-elected
Datuk Oh Chong Peng	Independent Non-Executive Director	Re-elected

Re-election process

The Company does not have term limits for both Executive Directors and Independent Directors but the Board does review its evaluation process annually and in terms of the tenure for Independent Directors, the Board believes that valuable contribution can be obtained from Directors who have, over a period of time, developed valuable insight of the Company and its business. Their continued contribution provides benefit to the Board and the Company as a whole. The Company is confident and firmly believes that individuals chosen and appointed to the Board are all individuals of high calibre and integrity and can be tasked to discharge their duties and responsibilities independently and effectively notwithstanding their tenure on the Board.

Notwithstanding the above, Directors of the Company are regularly re-appointed at regular intervals in accordance with the Company's Articles and good corporate governance practice. Independent Directors who have been on the Board for a cumulative period of more than nine years will be recommended by the Board for re-election annually at the Annual General Meeting after evaluating the performance of the individual Independent Director.

Articles 97(1) and (2) of the Company's 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, the Director's past attendance at meetings, participation and contribution to the activities of the Board will be duly considered by the Nomination Committee.

Retiring Directors can offer themselves for re-election. Three are due to retire pursuant to Articles 97(1) and (2) at this Annual General Meeting and will be recommended for re-election by the Board pursuant to the Articles.

Dato' Chan Choon Ngai, Datuk Zainun Aishah binti Ahmad and Ms. Lee Oi Kuan are due to retire by rotation in accordance with Articles 97(1) and (2) at this Annual General Meeting.

Dato' Chan Choon Ngai, Non-Independent Non-Executive Director of the Company is recommended for re-election by the Board pursuant to Articles 97(1) and (2) at this Annual General Meeting. The Company believes that Dato' Chan Choon Ngai is able to exercise his professional judgment and draw upon his extensive knowledge in tobacco manufacturing and its operations to continue to serve the Company and recommends his re-election for his continuous invaluable contributions to the Company.

Datuk Zainun Aishah binti Ahmad, Independent Non-Executive Director of the Company is recommended for re-election by the Board pursuant to Articles 97(1) and (2) at this Annual General Meeting. Datuk Zainun's extensive experience in various companies suit the Company's required mix of skills and Board diversity and the Board believes that Datuk Zainun's contribution to the Company is of great importance and essential to the Board mix, therefore recommending that she be re-elected at the forthcoming Annual General Meeting.

Ms. Lee Oi Kuan, Corporate and Legal Affairs Director of the Company is recommended for re-election by the Board pursuant to Articles 97(1) and (2) at this Annual General Meeting. The Board opined that her exemplary dedication to her responsibilities is incalculable and essential to the Board mix and recommends her re-election for her continuous invaluable contributions to the Company.

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. Mr. Stefano Clini is due to retire pursuant to

Article 103 and be subjected to re-election at this Annual General Meeting.

The Company would like to continue to retain Datuk Oh Chong Peng, (who has served as an Independent Director of the Company for more than nine years) on its Board as an Independent Non-Executive Director and to hold office until the conclusion of the next Annual General Meeting. The Nomination Committee and the Board are confident and firmly believe in Datuk Oh's continuous invaluable contributions to the Company and that Datuk Oh can be tasked to discharge his duties and responsibilities independently and with integrity notwithstanding his tenure on the Board. As part of good corporate governance, Datuk Oh Chong Peng has offered himself for re-election at the Annual General Meeting on 22 April 2014.

The abovenamed Directors who are due for re-election at the forthcoming Annual General Meeting on 22 April 2014, as evaluated by the Nomination Committee and approved by the Board, have met the Board's expectations and continued to perform in an exemplary manner as demonstrated by their contributions to the Board's deliberations.

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

DIRECTOR'S REMUNERATION

The Company's remuneration policy for Directors is tailored to provide a remuneration package needed to recruit, retain and motivate individuals of the necessary calibre and quality that is required to manage the business of the Company.

For the Executive Directors of the Company, corporate and individual performance are rewarded through the use of an integrated pay benefits and bonus structure and reflects the competitive nature of the Company's operations in order to contribute to the Winning Organisation strategy of the Company. 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 Directors comprises the following elements:

Basic salary	<ul style="list-style-type: none"> The basic salaries for the Executive Directors are recommended by the Remuneration Committee to the Board for approval.
Benefits-in-kind**	<ul style="list-style-type: none"> 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 Company.
Other Emoluments*	<ul style="list-style-type: none"> 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.

Directors	Fees (RM)	Salaries (RM)	Other emoluments* (RM)	Benefits-in-kind** (RM)	Total (RM)
Datuk Mohamad Salim bin Fateh Din <i>Independent Non-Executive Director (Chairman)</i>	345,000	NIL	166,802	NIL	511,802
Datuk Oh Chong Peng <i>Independent Non-Executive Director</i>	100,000	NIL	27,000	NIL	127,000
Dato' Ahmad Johari bin Tun Abdul Razak <i>Independent Non-Executive Director</i>	100,000	NIL	1,000	NIL	101,000
Datuk Zainun Aishah binti Ahmad <i>Independent Non-Executive Director</i>	100,000	NIL	4,000	NIL	104,000
James Richard Suttie <i>Non-Independent Non-Executive Director</i>	100,000	NIL	7,000	NIL	107,000
Datuk William Toh Ah Wah ³ <i>Non-Independent Executive Director (Managing Director)</i>	NIL	1,341,354	1,547,469	4,573,326	7,462,149
Stefano Clini ⁴ <i>Non-Independent Executive Director (Managing Director)</i>	NIL	778,627	1,967,684	473,563	3,219,874
Andreas Michael Thompson <i>Non-Independent Executive Director (Finance Director)</i>	NIL	737,630	791,850	597,746	2,127,226
Dato' Chan Choon Ngai <i>Non-Independent Non-Executive Director</i>	100,000	NIL	1,792,708	NIL	1,892,708
Christine Lee Oi Kuan <i>Non-Independent Executive Director (Corporate and Legal Affairs Director)</i>	NIL	820,673	517,996	151,282	1,489,951

³ Datuk William Toh Ah Wah retired as Managing Director of the Company with effect from 30 June 2013.

⁴ Stefano Clini was appointed as Non-Independent Non-Executive Director of the Company with effect from 1 May 2013 and subsequently appointed as Managing Director of the Company with effect from 1 July 2013.

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.

BOARD PERFORMANCE/EFFECTIVENESS EVALUATION

The performance and effectiveness of the Board were assessed in 2013 using evaluation survey questionnaires to evaluate 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. Thereafter, the evaluation survey questionnaires 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 performance and effectiveness evaluation is used constructively as a mechanism to improve Board effectiveness. It further aims to highlight areas of strength and areas where improvements can be made and also acts as a benchmark against which to measure initiatives that will increase Board effectiveness and ultimately, organisational performance.

The evaluation survey questionnaire is divided into five sections on the following key areas:

1. Board Composition and Competencies
2. Board Responsibility
3. Board and Board Committee Meetings
4. Board Communication
5. Board Effectiveness

A summarised report was presented to the Board on 19 February 2014 to enable the Board to identify areas for improvement. The Board's performance and effectiveness evaluation in 2013 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 Company's direction, strategy, planning and budgeting process and their level of contribution to these matters. All Directors confirmed that they are well informed on the vision, strategy and corporate performance of the Company. All Directors also confirmed that the Board meetings are constructive and are conducted in a manner that allows for open and constructive communication, encourages focused discussions, critical questioning and the expression of various viewpoints.

Further, all Directors agreed they have sufficient access to the Chairman and 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 findings of the Board performance and effectiveness evaluation for 2013 were fairly consistent with the 2012 findings, indicating that the Board had performed effectively for 2013.

DIRECTORS' TRAINING

Upon joining the Board, all newly appointed Directors receive an induction programme on all areas of the Company'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.

The Directors will continue to undergo other relevant training programmes, seminars and conferences to gain insight into the state of the economy as well as the latest regulatory and developments relevant to the Company's business. 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 2013 attended training programmes in areas of leadership, corporate governance, risk management, finance, regulatory developments and corporate social responsibility.

Particulars of training programmes attended by the Directors as at 31 December 2013 are as follows:

Directors	Training Programme
Datuk Mohamad Salim bin Fateh Din	1. Directors CEP Training 2013 ⁵
Datuk Oh Chong Peng	1. Board Chairman Series: The Role of the Board Chairman ⁶ 2. Overview of Upstream Petroleum Activities ⁷ 3. Managing Asia's New Competitive Games ⁸ 4. Nominating Committee Program ⁹ 5. Directors CEP Training 2013 ¹⁰
Dato' Ahmad Johari bin Tun Abdul Razak	1. Risk Management and Internal Control ¹¹ 2. Directors CEP Training 2013 ¹²
James Richard Suttie	1. Directors CEP Training 2013 ¹³
Stefano Clini	1. Mandatory Accreditation Programme for Directors of Public Listed Companies ¹⁴ 2. Directors CEP Training 2013 ¹⁵
Andreas Michael Thompson	1. Directors CEP Training 2013 ¹⁶
Datuk Zainun Aishah binti Ahmad	1. Nominating Committee Program ¹⁷ 2. Risk Management Forum ¹⁸ 3. Directors CEP Training 2013 ¹⁹
Christine Lee Oi Kuan	1. Malaysian Institute of Corporate Governance National Company Secretary Conference 2. Directors CEP Training 2013 ²⁰

⁵ One day in-house workshop on the importance of Government relations to the business, the importance of the wider stakeholder environment, practical application of Government relations design and strategy, lessons and best practices and managing Asia's new competitive games.

⁶ One day in-house workshop jointly organised by ICLIF and Bursa Malaysia Securities Berhad on the roles and responsibilities of a Board Chairman.

⁷ One day in-house workshop conducted by Mozinda on the petroleum upstream activities.

⁸ One day continuing professional development program organised by the Asian Academy for Corporate Administration on the managing of Asia's new competitive games.

⁹ Program conducted by ICLIF on governance and related issues on how the nominating committee should function and the technical issues impacting areas under the purview of the committees.

¹⁰ Please refer to footnote no.5 above.

¹¹ One day seminar conducted by Ernst & Young on risk management and internal control.

¹² Please refer to footnote no.5 above.

¹³ Please refer to footnote no.5 above.

¹⁴ Two days Mandatory Accreditation Programme conducted by Bursa Malaysia Securities Berhad on overall rules and regulations governing public listed companies.

¹⁵ Please refer to footnote no.5 above.

¹⁶ Please refer to footnote no.5 above.

¹⁷ Please refer to footnote no.9 above.

¹⁸ One day in-house Risk Management Forum conducted by PNB Investment Institute on embracing risks for long term corporate success in boosting risk governance.

¹⁹ Please refer to footnote no.5 above.

²⁰ Please refer to footnote no.5 above.

SUPPLY OF INFORMATION AND ACCESS TO INDEPENDENT ADVICE

Access to Management

The Board has direct access to the Senior Management and has unrestricted as well as immediate access to information relating to the Company's business affairs. 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 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 also 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.

Company Secretary

All Directors have access to the advice and services of the Company Secretary. The Board and Board Committees receive up-to-date information for review 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.

Access to Independent Advisers

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 Company'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.

RELATIONSHIP WITH STAKEHOLDERS

The Company is aware that a key element of good corporate governance is the effective communication and dissemination of clear, relevant and comprehensive information which is timely and readily accessible by the Company's stakeholders.

SHAREHOLDERS

The Company 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 Company'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 and the Company Secretary will provide feedback and responses to shareholders' queries and where any information may be regarded as undisclosed material information about the Company such information will not be made available to a shareholder unless already in the public domain through disclosure.

Annual General Meeting (AGM)

The Company recognises that good corporate governance requires active participation of shareholders in the decision making process at the Company's AGM. The Company's AGM remains the principal forum for dialogue and communication between the shareholders and the Board. At the AGM, shareholders participate in the deliberations of the resolutions being proposed or on the Company's operations in general. Shareholders are encouraged at each AGM to ask questions about the resolutions being proposed and the operations of the Company and communicate their expectations and concerns. Questions posed are, where possible, answered in detail either at the AGM itself or thereafter where the shareholders will be contacted and provided with the answers. At every AGM, a helpdesk will also be set up as a contact point for the shareholders.

Shareholder attendance at the AGM continued to be high as evidenced by the presence of 604 shareholders at

the 52nd AGM of the Company held on 17 April 2013 at the Hilton Hotel in Petaling Jaya, Selangor. All resolutions were approved and all Directors and 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.

Feedback on questions raised by the Minority Shareholder Watchdog Group (MSWG) prior to the AGM is shared with all shareholders during the AGM, where critical issues or queries in relation to the Company's business are adequately addressed.

Among the questions and topics of discussion raised by the shareholders during the 52nd AGM of the Company are on issues such as the estimated percentage of revenue loss due to illegal cigarettes trade and the necessary mitigation actions taken by the Company, the laws governing tobacco products in neighbouring countries as well as whether the Company is conducting any market research on e-cigarettes. These issues were adequately addressed and answered by the Board during the AGM, as the Company believes in maintaining an open platform during the AGM.

A press conference was held immediately after the AGM where the Managing Director, Finance Director and Operations Director advised the media on the resolutions approved by the shareholders and clarified issues and answered questions posed by the media to the Company.

The 2014 AGM will be held on 22 April 2014 at One World Hotel in Petaling Jaya, Selangor. The Notice of AGM and the Form of Proxy are enclosed with the Abridged Annual Report 2013. The results of all resolutions proposed will be available on the Company's and the Bursa Malaysia Securities Berhad's website after the closure of business on 22 April 2014.

Annual Report

The Company believes that the Annual Report is a key channel of communication between the Company and the shareholders and embody the characteristics laid down by Bursa Malaysia Securities Berhad ensuring disclosure beyond the requirements of the Listing Requirements in promoting better governance. The contents of the Annual Report are continuously enhanced to take into account developments, amongst others, in corporate governance.

The Board also 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 Risk Management and Internal Control, Corporate Social Responsibility Committee's Report, Standards of Business Conduct and Audit Committee Report form part of the Annual Report 2013. 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 Company'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 2013	27 March 2014	30 June 2014	86
Annual Report 2012	21 March 2013	30 June 2013	80

Release of Quarterly Financial Results

2013 Quarterly Results	Date of Issue/ Release	Bursa Securities Deadline	Number of days after end of quarter
First Quarter	23 April 2013	31 May 2013	23
Second Quarter	25 July 2013	31 August 2013	25
Third Quarter	17 October 2013	30 November 2013	17
Fourth Quarter	19 February 2014	28 February 2014	50

INVESTOR RELATIONS**(i) 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 Company 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 Company. This is further testimony to the Company's continued commitment to transparency.

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

In 2013, the Company held four quarterly briefings, 17 direct one-on-one meetings, two road-shows and hosted nine teleconferences with fund managers, institutional investors and investment analysts.

(ii) Company website

To further enhance transparency to all shareholders and stakeholders of the Company, the Company has established a website at www.batmalaysia.com. Shareholders can access 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 Company such as the Company's policies and standards, sustainability 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.

(iii) 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:

**Datuk Oh Chong Peng
Senior Independent
Non-Executive Director**

Contact Details
Telephone number:
+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:

**Andreas Michael Thompson
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

EMPLOYEES

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

The Guiding Principles are premised on four values. They are as follows:

- Strength from diversity
- Open minded
- Freedom through responsibility
- Enterprising spirit

These principles embodies the Company's culture, the personality of the organisation and also serves as a guidance to the Company's employees on behaviour.

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 Company should be run in terms of responsibility.

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 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. Any potential conflict of interest which does not involve a member of the local Leadership Team or an employee of Grade 37 or above, will not have to be reported to the Regional Audit Committee provided that it was:

- (i) properly declared by the employee concerned at the appropriate time;
- (ii) reviewed at the appropriate management level and deemed acceptable; and
- (iii) not otherwise inconsistent with the requirements of the Standards of the Business Conduct. In 2013, there had been 14 declarations of conflict of interest made by employees of the Company. Details of the Company's Value Systems are available at the Company's website at www.batmalaysia.com.

CONSUMERS

Guided by the Principle of Responsible Product Stewardship, the Company's products and brands are developed, manufactured and marketed in a responsible manner.

SUPPLIERS AND SERVICE PROVIDERS

The Standards of Business Conduct which binds the Group's employees, are similarly binding on the Group's suppliers and service providers (where applicable) in ensuring high standards of business ethics amongst all suppliers and service providers of the Group, including the suppliers' or service providers' related companies. The applicable 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 said supplier or service provider.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board ensures that shareholders are presented with a clear, balanced and meaningful assessment of the Company's financial performance and prospects through the audited financial statements and quarterly announcement of results. The Audit Committee assists the Board to oversee the Company's financial reporting processes and the quality of its financial reporting by reviewing the information to be disclosed, to ensure completeness, accuracy and adequacy prior to release to Bursa Securities and Securities Commission.

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

The Directors have provided assurance that financial statements prepared for each financial year which have been made out in accordance with the provisions of the Act and applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flows of the Group and Company for the financial year. 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 are satisfied with the preparation of the financial statements of the Company's position and prospects in the Directors' Report at pages 123 to 127 and the Financial Statements from pages 131 to 189 of this Annual Report.

Internal control

The establishment of an appropriate control framework as well as the reviewing of its effectiveness and integrity is evidence of the Board's overall responsibility for the Company's system of internal controls. 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 the Statement on Risk Management and Internal Control, please refer to pages 65 to 72 of this Annual Report.

ETHICAL, INTEGRITY AND COMPLIANCE FRAMEWORK

Anti-Corruption

(i) Anti-Corruption Toolkit

The Standards of Business Conduct requires all employees to act with the highest standards of business integrity and strict compliance to it is of significant importance to the Company. The Anti-Corruption Toolkit (Toolkit) identifies the key controls that the Company is to have in place in order to support the strict compliance with the Standards of Business Conduct. The Toolkit further identifies the relevant requirements of the Standards of Business Conduct and provides additional guidance, training materials and useful documents as well as templates, in order to facilitate compliance with the Standards of Business Conduct and to support the Company in implementing the relevant procedures and controls.

The Toolkit is divided into the following sections:

- (a) Bribery and Corruption
- (b) Suppliers and Service Providers

- (c) Entertainment and Gifts
- (d) Political Contributions
- (e) Charitable Contributions
- (f) Whistleblowing
- (g) Risk Assessment
- (h) Compliance and Monitoring

Each of the abovementioned sections are structured to provide a statement of the key requirements of the Standards of Business Conduct in the relevant area and a list of controls that are expected to support compliance, additional guidance on the implementation of such controls and additional materials which the Company may find useful in developing and rolling out relevant policies and procedures in training the employees of the Company.

(ii) Corporate Integrity Pledge

In 2010, the Malaysian Institute of Integrity initiated the Corporate Integrity Pledge drive amongst companies in Malaysia, the objective of which is to make a unilateral commitment to uphold principles of anti-corruption in business dealings and to aid companies in recognising the importance of anti-corruption measures in being a competitive business and operating in increasingly competitive and globalised markets.

The Pledge is as a result of collaboration amongst the following:

- Bursa Malaysia Securities Berhad
- Companies Commission of Malaysia
- Malaysian Institute of Integrity
- Malaysian Anti-Corruption Commission & NKRA Corruption Monitoring & Coordination Division
- Securities Commission Malaysia

- Transparency International Malaysia and the Performance Management and Delivery Unit (PEMANDU), Prime Minister's Office

The Company reinforces its commitment to a high level of accountability and transparency by signing the Malaysian Corporate Integrity Pledge (Pledge) on 19 February 2014. This indicates the Company's commitment in upholding the anti-corruption principles for companies in Malaysia.

By signing the Pledge, the Company is now listed in the register of signatories that is carried on the website of the Malaysian Integrity Institute and the full list of signatories to the Pledge can be accessed through the website of Bursa Malaysia Securities Berhad.

Whistle-blowing policy

The Company has adopted a whistle-blowing policy which serves as an early warning system to assist the Company in detecting wrongdoings and taking early corrective action. It is the Board's belief that having a whistle-blowing procedure in place will increase investors' confidence in the Company and is in line with the Company's sound corporate governance practices.

The whistle-blowing policy is one of the key provisions in the Standards of Business Conduct and was established in 2004 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.

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 Company and non-employee who is a business partner/ service provider of the Company 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 Leadership Team (EVT). The EVT is tasked to effectively drive and evaluate the investigation of any reported incident and 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 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 and breach of Standards incidences

With the presence of the whistle-blowing procedure, Incident Procedures and stringent control measures, the Company detected seven incidents involving areas such as theft and the gross losses suffered by the Company arising from the incidents reported in 2013 were approximately RM77,687.62. Four employees were dismissed from the Company's employment as a result of their misconduct. This is an improvement from 2012 where 18 incidents were reported and the gross losses suffered by the Company arising from those incidents were approximately RM547,700.00.

A comparison for 2012 and 2013 on the number incidents reported and gross losses suffered can be seen as follows:

2012	2013
Number of incidents: 18	Number of incidents: 7
Gross losses: RM547,700.00	Gross losses: RM77,687.62

Competition Compliance

To promote good business ethics in doing business, the Company had launched the Competition Compliance Guidelines in January 2009 to ensure that the Company's practices will be in compliant to competition laws, when such competition laws are introduced in Malaysia.

The Guidelines sets out the general principles and standards of behaviour in relation to competition laws that employees are required to follow and comply as good business practice. This is also in tandem with the passing of the Competition Act 2010 which came into force in January 2012.

Furthermore, as part of the Company's Competition Law Compliance Programme, training programmes have been conducted for our employees to instill awareness on the principles of Competition Law. The Competition Compliance Guidelines is made available to all employees via the Company's intranet.

Personal Data Protection

The Personal Data Protection Act 2010 (PDPA), which was passed by the Malaysian Parliament in 2010, has come into force in Malaysia effective from 15 November 2013. The PDPA seeks to regulate the processing of personal data by data users in commercial transactions and to safeguard the interests of data subjects. The PDPA also furthers the notion that an individual has the right to ensure that his personal information is accurate and is being used fairly in accordance with the law.

Prior to the coming into force of the PDPA, the Company has put in place the requisite privacy notices for all job applicants as well as embarked on a companywide process to have all employees sign a personal data notice and consent form in order to be compliant with the PDPA.

Related party transactions

An internal compliance framework exists to ensure that the Company 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. The Directors further acknowledge that by declaring their interests in any transaction they are to abstain from deliberation and voting on the relevant resolutions at the Board or 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 Company will be circulated to the Directors and management of the Company 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 the British American Tobacco p.l.c Group Internal Audit 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 British American Tobacco p.l.c Group Internal Audit to carry out investigation pertaining to the discrepancies or queries.

The Recurrent Related Party Transactions entered into by the Company with its related parties in 2013 were:

- purchase and sale of cigarettes and tobacco products,
- purchase of leaf, cigarette packaging and wrapping 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,
- purchase and sale of equipment; and
- rental of space to place cigarette dispensing units for the sale of cigarettes in all G-Ekspres convenience stores.

Commercial Marketers and Distributors Sdn Bhd (CMD), a wholly-owned subsidiary of the Company had entered into a related party transaction with Jutaria Gemilang Sdn Bhd (JGSB) in relation to the rental of space to place cigarette dispensing units for the sale of cigarettes in all G-Ekspres convenience stores (Proposed Transaction). JGSB is duly licensed with the Ministry of Domestic Trade, Co-operatives and Consumerism to operate convenience stores in Malaysia. JGSB is indirectly owned by Datuk Mohamad Salim bin Fateh Din, the Chairman of the Board. The Chairman had declared his interest in the proposed transaction with CMD for the renting of space to site cigarette dispensing units in all G-Ekspres convenience stores, to be entered into by JGSB, a company which is indirectly owned by him through Gapurna Sdn Bhd (Gapurna). Gapurna holds 70% interest in JGSB and Datuk Salim in turn holds 98.25% interest in Gapurna. The Chairman had abstained from the deliberations and voting on this matter.

For details of these transactions, please refer to pages 177 to 180 of this Annual Report.

Relationship with External Auditor

The Board via the Audit Committee maintains a formal and transparent professional relationship with the Group's auditors, both internal and external. The role of the Audit Committee in relation to the auditors is described in the Audit Committee Report set out on page 59 to page 64 of this Annual Report. The Audit Committee discusses with the external auditor 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 auditor 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 auditor. 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 auditor 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 auditor twice in 2013 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 the external auditor and review and evaluate factors relating to the independence of the external auditor and assist them in preserving its 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 2013.

This Statement is made in accordance with the circular resolution of Board dated 19 February 2014.

audit committee report

**Datuk Oh Chong Peng**

Chairman
(Independent Non-Executive Director)

James Richard Suttie

(Non-Independent Non-Executive
Director)

Datuk Zainun Aishah binti Ahmad

(Independent Non-Executive Director)

MEMBERSHIP AND ATTENDANCE

The Audit Committee comprised the following members and details of attendance of each member at the Audit Committee meetings during 2013 are as follows:

Composition of Audit Committee	Number of Audit Committee Meetings		Percent
	Held	Attended	
Datuk Oh Chong Peng Chairman <i>(Independent Non-Executive Director)</i>	4	4	100
James Richard Suttie <i>(Non-Independent Non-Executive Director)</i>	4	4	100
Datuk Zainun Aishah binti Ahmad <i>(Independent Non-Executive Director)</i>	4	4	100

The Audit Committee Report provides an insight on the Audit Committee's functions for the Group in 2013.

The Managing Director, Finance Director, a representative from British American Tobacco p.l.c Group Internal Audit and representatives of the external auditor 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 are all 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

- (a) have passed the examinations specified in Part I of the First Schedule of the Accountants Act, 1967; or
- (b) is a member of one of the associations of accountants specified in Part II of the said schedule; or
- (c) has a degree/masters/doctorate in accounting or finance and at least three years' post qualification experience in accounting or finance; or
- (d) 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
- (e) 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 terms of office and performance of the members are reviewed 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

The quorum shall be two members, both of whom are to be 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 auditor without the Executive Directors and management being present. This year, the Audit Committee met twice with the external auditor without the Executive Directors and management being present.

Other than in circumstances which the Chairman considers inappropriate, the Finance Director, a representative from British American Tobacco p.l.c Group Internal Audit and a representative of the external auditor attend 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 to provide further information or details on matters that are being discussed and deliberated.

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 external parties 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 or her duties, he or she 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 auditor 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 applicable Financial Reporting Standards and other legal and regulatory requirements; and
 - the 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 may raise 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 services and summary of the activities for inclusion in the Annual Report; and
- 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 Risk Management Framework 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; and
- To recommend to the Board steps to improve the system of internal control derived from the findings of the internal and external auditor 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:
 - to review the internal audit plans and to be satisfied as to their consistency with the Risk Management Framework used and adequacy of coverage;
 - to be satisfied that Internal Audit has the competency and qualifications to enable Internal Audit to complete its mandates and approved audit plans;
 - to review status reports from Internal Audit and

ensure that appropriate actions have been taken to implement the audit recommendations.

- to recommend any broader reviews deemed necessary as a consequence of the issues or concerns identified;
- to ensure Internal Audit has full, free and unrestricted access to all activities, records, property and personnel necessary to perform its duties; and
- to request and review any special audit which it deems necessary.

(f) External audit

- To review the external auditor audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and co-ordination of the external auditor. The Audit Committee will consider a consolidated opinion on the quality of external auditing at one of its meetings;
- To review with the external auditor the Statement on Risk Management and 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 auditor;
- To review and evaluate factors related to the independence of the external auditor and assist them in preserving their independence;
- To be advised of significant use of the external auditor in performing non-audit services within the Group, considering both the types of services rendered and the fees, such that its position as auditor is not deemed to be compromised; and
- To review the external auditor's 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 DURING THE YEAR

In 2013, the Audit Committee carried out its responsibilities and duties in accordance with the terms of reference of the Audit Committee and carried out the following activities:

Financial Reporting

- a. Reviewed the quarterly and annual 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 of Directors for approval, and concluded that the financial statements presented a true and fair view of the Company's financial performance.
- b. Reviewed the proposed dividend pay-out for the financial year.

Internal Control

- a. Reviewed the Group's 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 auditor.
- c. Received updates on breaches of the Standards of Business Conduct and whistle blowing incidents.
- d. Reviewed the Immediately Reportable Incident (IRI) on the breakdown in the operating procedure related to the handling of tax stamps for the Philippines export market. The matter resulted from the failure of employees of the Company in following the procedures in the reconciliation of the tax stamps. Measures were put in place to enhance the controls surrounding the management of tax stamps, which include, the tightening of the reconciliation and counting procedures, implementation of performance measures and reviews against the new procedures, and re-defining accountabilities. This was the only control matter that had a financial impact of RM2.5 million on the financial performance of the Company in 2013.
- e. Reviewed the Immediately Reportable Incident (IRI) on the non-conformance with procurement practices. Investigation was successfully undertaken and concluded. There was no financial loss suffered by the Company from the non-conformance.

Internal Audit

- a. Reviewed internal audit plans as to their consistency with the Risk Management Framework used and adequacy of coverage.
- b. Reviewed status reports from internal audit to ensure that appropriate actions had been taken to implement the audit recommendations.
- c. Reviewed and enhanced the internal control processes. Where appropriate, the Audit Committee will instruct to rectify and improve the internal control processes based on internal audit's recommendations and suggestions for improvements.

External Audit

- a. Reviewed with the external auditor the Company's Statement on Risk Management and Internal Control before recommending the same for inclusion in the Company's 2013 Annual Report.
- b. Reviewed with the external auditor the Group's quarterly and annual financial statements with the Finance Director and Managing Director, focusing on findings arising from audits, particularly 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 auditor's audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and co-ordination of the external auditor.
- d. Reviewed the external auditor's 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. Exercised its right to hold meetings with the external auditor without the presence of the Executive Directors or management. These private sessions helps to reinforce the independence of the external audit function of the Company.
- f. Reviewed the overall performance of the external auditor and upon satisfactory assessment, recommended the fee payable for the Board's approval.

Related Party Transactions

- a. Reviewed reports of related party transactions and possible conflict of interest transactions 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.
- b. Periodically reviewed recurrent related party transactions to ensure that they are undertaken on an arm's length basis and on normal commercial terms.
- c. Reviewed the estimated recurrent related party transaction mandate for the ensuing year and recommended to the Board to seek shareholders mandate at the upcoming Annual General Meeting of the Company.
- d. Reviewed the contract with Jutaria Gemilang Sdn Bhd (JGSB), owner of G-Ekspres Convenience Stores, for the rental of space to site of cigarette dispensing units in all G-Ekspres convenience stores for the sale of tobacco products, a transaction which is related to Datuk Mohamad Salim bin Fateh Din, the Chairman of the Board, and recommended to the Board for approval. JGSB is indirectly owned by the Chairman of the Board. Gapurna Sdn Bhd holds 70% interest in JGSB and Datuk Salim in turn holds 98.25% of Gapurna Sdn Bhd.

Ethical and Integrity Areas

- a. Deliberated on reports on Whistle Blowing and Standards of Business Conduct Breach Incidents.
- b. Deliberated on the security and safety matters and loss reports.
- c. Deliberated on the Environmental Health and Safety review reports.

Annual Reporting

- a. Reviewed disclosure statements on the Statement on Corporate Governance, Audit Committee Report, Standards of Business Conduct Statement, Statement on Risk Management and Internal Control and Corporate Social Responsibility Committee Report for the financial year ended 31 December 2012 for inclusion in the Annual Report 2012 and recommended their adoption by the Board.

INTERNAL AUDIT

The role of Internal Audit for the Group is fulfilled through the Global Audit function of British American Tobacco p.l.c (British American Tobacco p.l.c Group Internal Audit). This approach ensures a high level of independence and gives access to more skilled and specialised resources than would otherwise be available within the Group.

The Head of Internal Audit is a Certified Public Accountant in Singapore.

Within British American Tobacco p.l.c Group Internal Audit, three types of audit exist, Entity Audit, Process Audit and Project and Programmes Audit. Entity Audit is focused on one entity with a scope of more than one process. Based on the history of a sound control environment, the Group is in scope for a full entity audit every six years. Process audit has scope of one process across multiple British American Tobacco global entities and Project and Programmes Audit is focused on an ongoing project or programme.

The British American Tobacco p.l.c Group Internal Audit has direct access to both the Audit Committee and the Chairman of the Audit Committee and reports to the Audit Committee on all matters of control and audit. British American Tobacco p.l.c Group Internal Audit 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. 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.

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 annual audit planning cycle takes direct input from both the risk register, described in page 65, and the Audit Committee. In turn, the Audit Committee formally 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 within the Group.

Furthermore, the Audit Committee can request immediate assistance from British American Tobacco p.l.c. Group Internal Audit for any matter it considers appropriate. Internal audit fees in 2013 were RM555,000.

Internal Audit 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 Internal Audit are as follows:

- Review of the approval procedures in respect of recurrent related party transactions.
- Review the revisions to the credit policy and procedures for trade debtors and intercompany balances.
- Undertake special reviews requested by the Audit Committee and/or management.
- Review the findings and action plans resulting from internal audits.

During the financial year, the audits conducted by Internal Audit are as follows:

- Brand Management (April 2013)
- Malaysia Tier 1 Operation Audit (April – May 2013)
- Anti Illicit Trade Audit (May – June 2013)
- Financial Health Check (November 2013)

This Audit Committee Report is made in accordance with the resolution of the Board of Directors on 19 February 2014.

statement on risk management and internal control

RESPONSIBILITY

The Board of Directors recognises the importance of sound risk management practices and internal controls to safeguard shareholders' investments and the Group's assets. The Board affirms its overall responsibility for the Group's system of risk management and internal control which includes the establishment of an appropriate control environment and framework, as well as reviewing its adequacy and integrity.

The Board is responsible for determining the nature and extent of the strategic risk that the Group is willing to take to achieve its objectives, whilst in parallel maintaining sound risk management and systems of internal control. By virtue of the controversial nature of the industry in which the Group operates, the Board does not consider its strategic risk appetite to be high, and it seeks to minimise risks at an operational level.

The Board tasks 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. There are inherent limitations to any system of internal control and the system is designed to manage and minimise impact rather than completely 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.

The Group has in place an on-going process (outlined below) 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, business and external environment. This process is reviewed by the Board via the Audit Committee. The Audit Committee's responsibilities and duties can be found in the Audit Committee Report section of this Annual Report.

The Group's Standards of Business Conduct underpin our commitment to good corporate behaviour, and is an integral part of the Group's system of corporate governance. The Standards of Business Conduct require all employees to act with highest standards of business integrity, comply with all applicable laws and regulations, and ensure that business standards are not compromised for the sake of results. Our Standards of Business Conduct is made available to our stakeholders and employees on our corporate website at www.batmalaysia.com.

ENTERPRISE RISK MANAGEMENT PROCESS

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

Group's Enterprise Risk Management Objectives

- Preserve the safety and health of its employees.
- Ensure the continuity of its supply to consumers and customers at all times.
- Protect its assets and reputation.
- Ensure that the Group's operations do not impact negatively on the community in which it operates and the environment.
- Protect the interests of all other stakeholders.
- Promote an effective risk awareness culture where risk management is an integral aspect of the Group's management systems.
- Ensure compliance with the Malaysian Code of Corporate Governance (Revised 2012), British American Tobacco p.l.c guidelines and all applicable laws.

Management operates a Risk Management Team comprised of senior managers from all functions of the Group and led by the Finance Director. It meets formally at least twice a year to:

- (a) review and update the risk register; and
- (b) assess status of risk mitigation action plans.

The Audit Committee is briefed bi-annually by the Enterprise Risk Manager on the Group's Risk Management Programme and its activities in the Audit Committee meeting.

Risk Management Team Responsibilities

- Steer the Group's enterprise risk management programme.
- Promote a proactive risk awareness culture in the Group.
- Conduct an annual review of the business risks.
- Coordinate the development and implementation of risk mitigation action plans.
- Develop and update business continuity plans (BCPs) for key business risks.
- Plan and coordinate the testing of BCPs.
- Organise training and education for employees on risk management.

Five Phase Enterprise Risk Management Process

(1) Risk Identification

All potential events that could adversely impact the achievement of business objectives, including failure to capitalise on opportunities are identified.

(2) Risk Evaluation

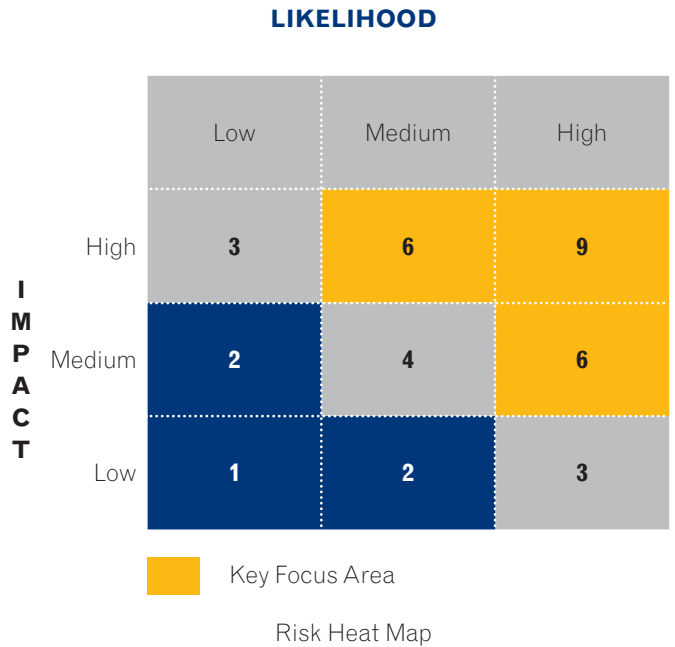
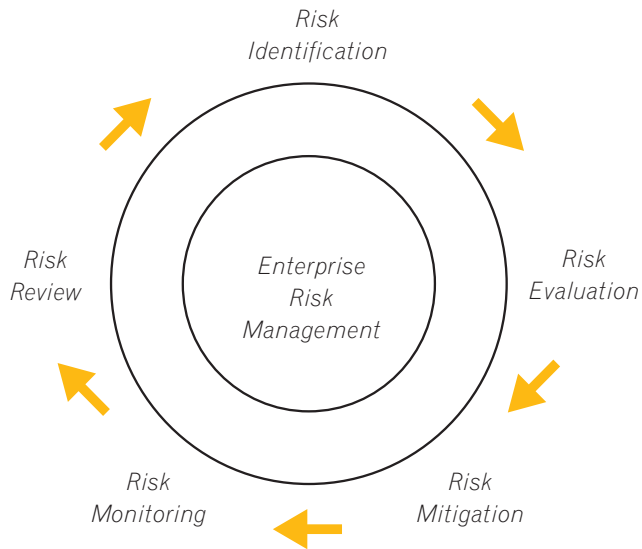
The identified business risks are then evaluated to determine their impact on the relevant business strategy/objectives and whether the risks are likely to occur:

- **LIKELIHOOD** of the risks crystallising
- **IMPACT** of the consequence

taking into account the degree of internal control and risk management measures in place.

Assessment against a set of pre-specified criteria on a scale of one to three is completed for both Likelihood and Impact, the combination of which provides the total risk rating ranging from one to nine. Risks are then categorised on the Risk Heat Map which maps the significance of the risks to the organisation and determines the relative prioritisation and focus for risk mitigation.

The outcome of the risk identification and evaluation process is both a Risk Heat Map and a comprehensive Risk Register which documents all identified business risks.



(3) Risk Mitigation

In completing the Risk Register, Risk Owners are identified who are responsible for identifying action plans to manage and mitigate the risks, together with a timeline for completion of the actions. The Risk Owners are typically a senior manager and part of a functional leadership team.

A variety of risk management measures are used to manage the identified risks as outlined in the table below:

Risk Management Measures	Sub Category	Description
ACCEPT	Acceptance	Accept the risk as it is rated, with no further action and maintain the control procedures that are already in place.
RETAIN	Loss prevention	Implement proactive risk mitigation (control measures and practices) to reduce likelihood of the risk crystallising.
	Loss reduction	Implement reactive risk mitigation (control measures and practices) to reduce the impact and consequences if a risk materialises.
TRANSFER	Insurance	Purchase insurance for insurable risks e.g. fire, life, theft, etc.
	Contract	Protection clauses in contracts e.g. indemnity clauses, etc.
	Sharing of risks	Joint venture or partnerships.
	Outsourcing	Third party to assume risk.

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(4) Risk Monitoring

Ongoing risk monitoring is conducted by the Risk Management Team to assess whether any conditions associated with a particular risk have changed, and to ensure that action and risk mitigation plans have been implemented. Status of action/mitigation plans are communicated to the Audit Committee bi-annually.

(5) Risk Review

Finally, the Group's Enterprise Risk Management process is subjected to periodic reviews by Management to ensure that the policy and objectives of the programme remain applicable and effective under changing market and regulatory environment. This is complemented by internal control practices such as the Statement of Compliance with the Malaysian Code of Corporate Governance (Revised 2012) and the Key Control Checklist of the Group's holding company, British American Tobacco p.l.c.

BUSINESS CONTINUITY AND CRISIS MANAGEMENT

Business Continuity is defined as the strategic and tactical capability of the organisation to plan for and respond to incidents and business disruptions in order to continue business operations at an acceptable pre-defined level in order to avoid negative impact on the business.

The Group has 13 BCPs in place for the Group to manage the various potential disruptions which could impact the Group, for example, Manufacturing Contingency Sourcing Plan and Information Technology Disaster Recovery Plan.

These plans are reviewed and updated for content by the owners of the plan on an annual basis. In addition, a desktop review/simulation is conducted by the plan owners with the support of the crisis response team members periodically based on the cyclical testing schedule.

In addition, the Group has a structured approach to Crisis Management to ensure leadership and timely decision in the event of a crisis and to manage the situation effectively within minimal time.

Our approach involves immediate formation of a Crisis Management Team, assisted by a Crisis Response Team and Communications Team. The responsibilities of these teams are outlined below.

CRISIS MANAGEMENT		
Crisis Management Team	Communications Team	Crisis Response Team
<ul style="list-style-type: none">Provides leadership and coordination during a crisis.	<ul style="list-style-type: none">Handles all communications with stakeholders.	<ul style="list-style-type: none">Implements agreed actions in response to a crisis.
<ul style="list-style-type: none">Decides on the best response to ensure early resolution of the crisis.	<ul style="list-style-type: none">Obtains the support of key allies who can help to overcome the crisis within the shortest timeframe.	<ul style="list-style-type: none">Keeps the Crisis Management Team informed on the progress.
<ul style="list-style-type: none">Approves urgent expenditure and actions to ensure business continuity.	<ul style="list-style-type: none">Coordinates execution of communication strategy.	<ul style="list-style-type: none">Documents all learning points and update the respective business continuity plans.

KEY RISKS TO THE GROUP

The Group views two key risks as being prevalent in the tobacco sector and having ability to significantly impact the Group's results:

- 1. Growth of illicit trade**
- 2. Excise driven price shocks**

In addition to the above, the Group is subject to the ever present risk of competitor actions. Steps to anticipate, mitigate and neutralise such risks are core to our business.

2013 RISK MANAGEMENT ACTIVITIES

Review Of The Group's Risks

The Risk Management Team met formally twice during the year, in March and September 2013, to review and assess the Group's risks, and to monitor progress of key activities for the year, including the progress of the business continuity plans.

In September 2013, the Risk Management Team together with senior managers updated the risk register and risk mitigation action plans. The outcome of the meeting, among others, were the identification, evaluation and risk mitigation plan for two new risks.

The Leadership Team and the Audit Committee were briefed by the Enterprise Risk Manager on the Group's Enterprise Risk Management programme in April and October 2013. The briefing included updates on the key risks of the Group and the risk mitigation plans, and the status of business continuity plans testing.

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 is responsible for the risk awareness induction programme for new joiners. 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 participant's knowledge on risk management and their role in managing the Group's risks.

Crisis Management Activation

In September 2013 as part of British American Tobacco p.l.c's global Enterprise Resource Planning deployment, the SAP instance underwent a technical upgrade. The system was expected to be unavailable for approximately two days hence preparatory steps had been taken ahead of this change, namely, optimising stock levels, pre-staging materials for the factory and prepayment of excise. The upgrade however experienced an unforeseen technical issue resulting in the system being unavailable for almost one week. The Group activated crisis management to manage the situation thus enabling the factory to continue operation and distributors to continue selling. As a result no sales were lost and financial impacts were negligible. The most challenging aspect of the situation was recovery once the system became available again. This was successfully completed in a carefully sequenced and choreographed manner, thereby minimising disruption.

In 2013, Malaysia experienced a period of air pollution in the form of haze as a result of fires in Indonesia. Whilst crisis management was not activated, as a preliminary step, management met and decided on a clear Air Pollution Index (API) score where crisis management would be activated. At the same time, action plans were further reviewed for completeness.

Significant Risk Mitigation Activities

The Group successfully completed improvements in its network architecture in Q1 2013, thereby alleviating identified risks associated with loss of network linkage by enabling failover capability.

Business Continuity Plan Simulation and Testing

During the year, a desktop review/simulation was conducted by the Business Continuity Plan (BCP) owners, with the support of Crisis Response Team members, across 13 BCPs.

The review and testing indicated that the existing plans were still relevant to the current business environment except for the Information Technology (IT) Disaster Recovery Plan for SAP. The IT Disaster Recovery Plan was subsequently amended to take into account the new SAP instance and associated architecture.

SYSTEM OF INTERNAL CONTROL

Control Self Assessment (CSA) Process

Central to the Group's system of internal control is its Control Self Assessment process and the backbone of this process is a key control checklist known as the Control Navigator. The Control Navigator sets out various key controls and process requirements across all functions in the Group.

The Group's CSA process requires controls and processes to be self-assessed for effectiveness on an annual basis. Where control gaps/weaknesses are identified, corrective actions and timelines are identified and agreed. The findings from the CSA and year-on-year trend analysis is reported to the Audit Committee annually.

Notably in 2013, the wider British American Tobacco p.l.c group implemented a revised Control Navigator process globally. A new SAP enabled tool was deployed, which provide a standardised central solution that automates and monitors key risks and controls at the business level. The new tool allows the business to use a combination of automated work flows, certification, manual controls and interactive reports to monitor control and compliance activities across the Group. This has resulted in an improved visibility of assessment throughout the business, improved transparency of issues management and remediation, together with streamlining reporting. Further capabilities in the new tool are anticipated to be rolled out over the coming years.

Financial Reporting Controls

The Group has in place a series of policies, practices and controls in relation to the financial reporting and

consolidation process, which are designed to address key financial reporting risks, including risks arising from changes in the business or accounting standards. The Finance Director is required to confirm annually that all information relevant to the Group audit has been provided to the Directors and that reasonable steps have been taken to ensure full disclosure in response to requests for information from the external auditor. In addition, it is a practice for the Finance Director to fully review account reconciliations on a quarterly basis.

The effectiveness of the Group's financial reporting controls is assessed through self-certification as part of the Control Navigator exercise described above. The integrity of the Group's public financial reporting is further supported by a number of processes and steps to provide assurance over the completeness and accuracy of the content including, review and recommendation by the Audit Committee and review and approval by the Board.

Internal Audit

The role of Internal Audit for the Group is fulfilled through the Global Audit function of British American Tobacco p.l.c. This approach ensures a high level of independence and gives access to more skilled and specialised resources, particularly in respect of Information Technology (IT), than would otherwise be available within the Group.

A permanent invitee from the Global Audit function attends the Audit Committee meetings and is the liaison between the Audit Committee and Global Audit. The annual audit planning cycle takes direct input from both the risk register, described above, and the Audit Committee. In turn, the Audit Committee formally approves the scope of work for the year.

Furthermore, the Audit Committee can request immediate assistance from Global Audit for any matter it considers appropriate.

Within Global Audit three types of audit exist, Entity Audits, Process Audits and Project & Programmes Audits. Entity Audits are focused on one entity with a scope of more than one process. The Group is in scope for full entity audits at regular intervals. Process audits have scope of one process across multiple British American Tobacco global entities, and Project & Programmes audits are focused on an ongoing projects or programmes. Global Audit is organised into both central and regional teams and also include a specialised IT Audit capability.

More details on the audit activities conducted during the year can be found in the Audit Committee Report in this Annual Report.

External Audit

In the course of conducting the annual statutory audit of the Group's consolidated financial statements, the external auditors review and where applicable based on judgment, will highlight any significant audit, accounting and internal control matters which require attention to the Board and Audit Committee. A report on the above is made officially to the Audit Committee and the management once a year post substantial completion of the year-end audit. Additionally, the external auditors attend the quarterly Audit Committee meetings, and where applicable will provide views on any related matters for the attention of the Audit Committee. At least once a year, the Audit Committee shall meet the external auditors without the Executive Directors and management being present. This year, the Audit

Committee has met twice with the external auditors without the Executive Directors and management being present.

During the year, as part of the annual statutory audit, the external auditors were involved in performing certain review over the controls and processes affecting financial reporting relating to the implementation of the new SAP instance to support the audit of the financial statements. There is no significant matter with material financial impact arising from the review of these related controls and processes, although certain improvement recommendations were highlighted to the Board and Audit Committee.

Other Key Elements Of The System Of Internal Control

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.

(b) Immediately Reportable Incidents

- The Group adheres to a British American Tobacco p.l.c control procedure termed 'Immediately Reportable Incidents'. This process seeks to capture breakdowns in basic controls and expedite the reporting and immediate action thereof. Seven areas of basic control issues are considered: (1) Reconciliation of Accounts Issue; (2) Reporting Issue; (3) Stock Control Issue; (4) Procurement Issue; (5) Segregation of Duties, Access, Password and Related Issues; (6) Effective Market Focus Demand Issue; and (7) Trade Debtor Management.

(c) Strategic Business Plan, Budget and Performance Review

- Regular and comprehensive information provided by Management for monitoring of performance against the strategic plan, covering all key financial and operational indicators. On a quarterly basis, the Managing Director reviews with the Board all key performance metrics and highlights any issues;
- Annually, a detailed budgeting process is completed for the year ahead which is discussed and approved by the Board; and
- Effective reporting systems are in place to highlight significant variances against budgets and plan and to monitor performance. Key variances are followed up by management and reported to the Board.

(d) 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.

(e) Written Declarations

- Written declaration from all management personnel confirming their compliance with the Group's Standards of Business Conduct and where applicable 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.

CONTROL MATTERS

In the year 2013, the Finance Director notified the Audit Committee and the Board on a breakdown in the operating procedure related to the handling of tax stamps for the Philippines contract manufacturing market. The matter resulted from the failure of one employee of the Group in following the procedures in the reconciliation of the tax stamps. Measures were put in place to enhance the controls surrounding the management of tax stamps, which include, tightening of the reconciliation and counting procedures, implementation of performance measures and reviews against the new procedures, and re-defining accountabilities. This was the only control matter that had a financial impact of RM2.5 million on the financial performance of the Group in 2013.

In addition, there were non-conformance with procurement practices which had been identified and reported. Investigations were successfully undertaken and concluded that no financial loss has been associated with the non-conformance. At the time of writing, plans are in place to remedy the situation and improve practices.

BOARD ASSESSMENT

The Board is of the view that the Group's overall risk management and internal control system is operating adequately and effectively, and have received the same assurance from both the Managing Director and Finance Director of the Group.

The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Group has been in place throughout 2013 and up to the date of approval of this statement. The Board is also of the view that the Group'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 2013 Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 19 February 2014.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide (RPG) 5 (Revised) issued by the Malaysian Institute of Accountants. RPG 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.



GROWTH

Our strategy to deliver our vision begins with growth and our aim to increase our market share, with a focus on our Global Drive Brands and our other international brands.

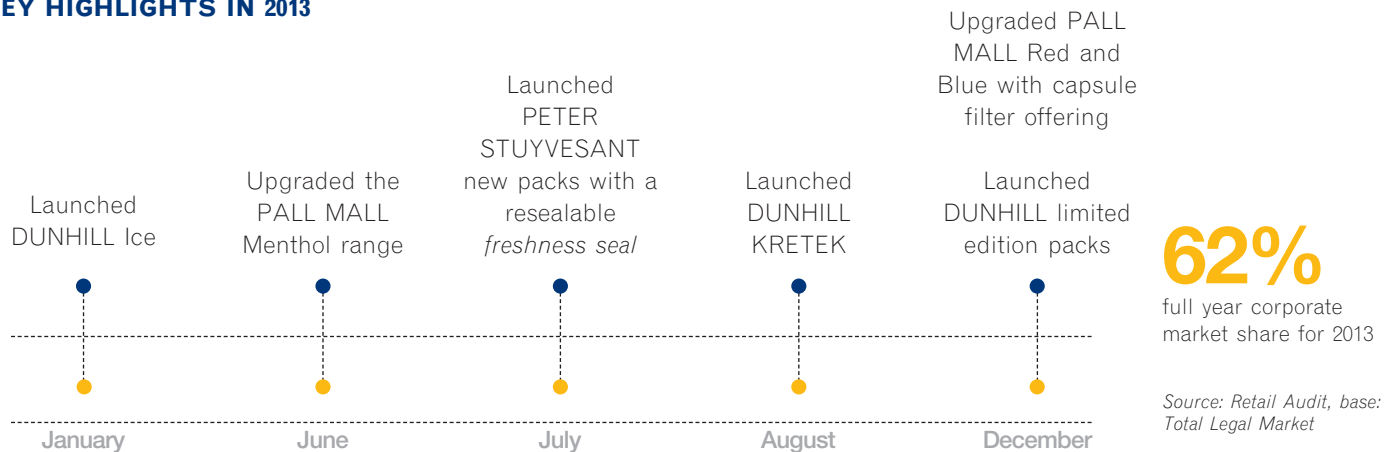


our next chapter in driving sustainable growth

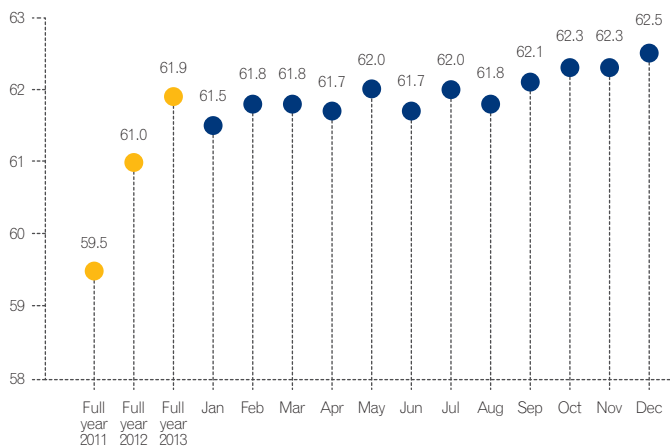
British American Tobacco Malaysia is a consumer-led organisation, providing high quality and relevant products that meet consumer needs. We do this by being brand-focused and excelling at bringing superior, differentiated offers to market.

Building on the Group's continued growth achievement in 2012, the focus in 2013 was to further strengthen brand positions in strategic segments, aimed at accelerating growth and solidifying our market position.

KEY HIGHLIGHTS IN 2013



British American Tobacco Malaysia corporate market share (%)



Source: Retail Audit, base: Total Legal Market

GLOBAL DRIVE BRANDS

In 2013, DUNHILL launched a range of new products to grow share within the strategic segment by launching DUNHILL Ice, a highly mentholated premium product, and DUNHILL Kretek, which was the first international premium Kretek product offering in Malaysia. Alongside the launch of these new products, on-going initiatives focusing on the core range were also implemented to enhance the Premium Lights category through DUNHILL Blue and DUNHILL Switch, which further increased DUNHILL's corporate market share by another 1.3 percentage points compared to same period last year.

In our Aspirational Premium* portfolio PALL MALL upgraded its entire range with the aim of improving its product mix and enhancing brand equity. Together with PALL MALL, PETER STUYVESANT also took an active growth role in striving towards leadership in the Aspirational Premium segment.

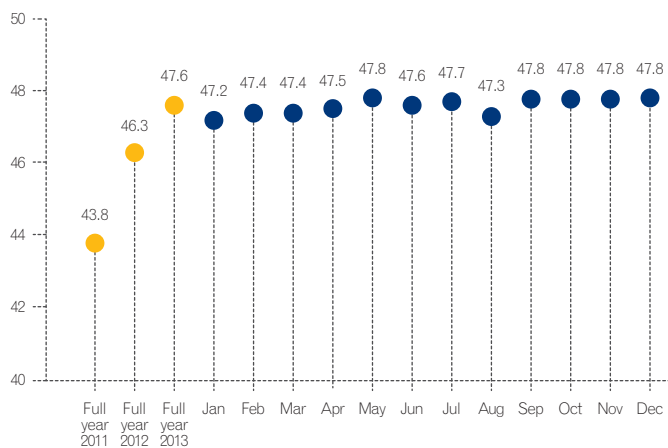
PETER STUYVESANT delivered exceptional growth performance in the second half of the year by introducing new packs that featured the PETER STUYVESANT Freshness Seal, a resealable seal that maintains product freshness. With the launch of the new packs, PETER STUYVESANT's share of market had an impressive growth of 0.5 percentage points within six months.

*previously known as Value For Money, which was reclassified to better reflect the brand portfolio's price positions which are of closer value to premium pricing.

DUNHILL

DUNHILL continued to perform strongly in 2013 in spite of concerns on a dip in performance due to the significant excise-led price increase at the end of September. This is a testament to the brand's strong equity in an ever-challenging business environment. The focus for the brand in 2013 was to drive more reinforcement initiatives on its existing range. Coupled with new product launches to further strengthen its position as the leading tobacco brand amongst consumers, DUNHILL continued its growth trajectory, increasing corporate share of market to 47.6 percent.

DUNHILL corporate market share (%)



Source: Retail Audit, base: Total Legal Market



DUNHILL Red is the benchmark, premium cigarette offer in the Malaysian market. It continues to drive corporate market share growth for British American Tobacco Malaysia.

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

Winning in the Menthol and Kretek segment

DUNHILL Ice was introduced in the market as a highly mentholated premium product offering. DUNHILL Ice is an innovative product that enables consumers to boost the menthol level by crushing the spearmint capsule in the filter. Its launch has contributed to a net growth of 0.4 percent to the DUNHILL portfolio.

Riding on the success of DUNHILL Ice, DUNHILL further extended its position by introducing the first international, premium Kretek offering in Malaysia. DUNHILL Kretek is fully imported. This product uses the blend of Java tobaccos, imported tobaccos and Indonesian cloves which are finely cut to deliver taste and quality.



DUNHILL Ice and DUNHILL KRETEK

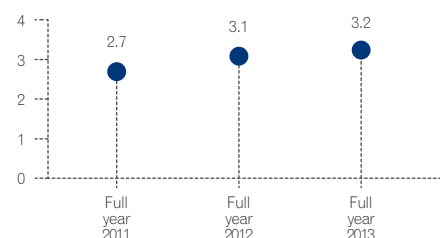
Stretching leadership in the Premium Lights segment

DUNHILL continues to extend its leadership in the Premium Lights category through DUNHILL Blue. The brand's focus on increasing brand equity amongst urban consumers contributed to the brand's growth acceleration, which now stands at 3.2 percent corporate market share.



DUNHILL Blue enhanced its position as the number one Premium Lights in the market.

DUNHILL Lights share of market (%)



Source: Retail Audit, base: Total Legal Market

DUNHILL limited edition packs

As a strategic direction to further establish DUNHILL's presence as an international brand amongst consumers, DUNHILL launched three limited edition packs with designs referencing its proud heritage in December 2013.



DUNHILL limited edition packs

Striving for leadership in the Aspirational Premium segment

Our mission of pursuing leadership in the Aspirational Premium segment continued in 2013 through various brand activities for both PALL MALL and PETER STUYVESANT.

PALL MALL

To reinforce PALL MALL's Aspirational Premium Menthol credentials and position as the number one Menthol brand in the Aspirational Premium segment, PALL MALL enhanced its menthol product range through blend and packaging upgrades in 2013.

In December 2013, PALL MALL upgraded its Red and Blue variants with capsule filter offerings. These new products provide consumers with the option to switch a regular cigarette into a menthol cigarette by crushing the capsule in the filter. Through its newly designed packs, PALL MALL continues to heighten its brand equity amongst consumers.

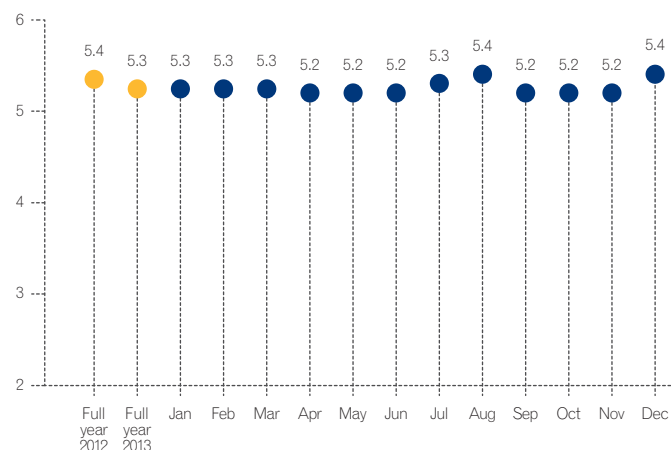


PALL MALL Menthol Range commands 57 percent of the White Aspirational Premium Menthol segment

Upgraded PALL MALL Red and Blue.



PALL MALL share of market (%)



Source: Retail Audit, base: Total Legal Market

PETER STUYVESANT

PETER STUYVESANT made further inroads into the Aspirational Premium segment by delivering exceptional growth performance in the second half of the year through the relaunch of its entire brand portfolio range.

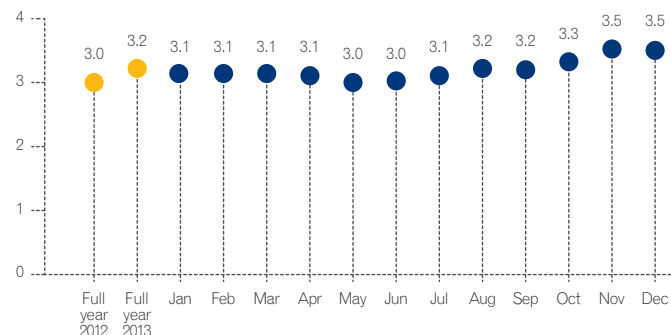
PETER STUYVESANT clearly differentiated itself from other Aspirational Premium products in the market through better packaging quality, with the inclusion of the *Freshness Seal*. Similar to DUNHILL's resealable RELOC seal, PETER STUYVESANT's *Freshness Seal* functions to maintain product freshness.

The brand exits the year at 3.5 percent share of market up 0.5 percentage points compared to 2012.



Upgraded PETER STUYVESANT Range

PETER STUYVESANT share of market (%)



Source: Retail Audit, base: Total Legal Market



PRODUCTIVITY

We target continuous improvements in our cost base that will release funds to invest in our brands, helping us to grow our business and deliver higher returns for shareholders.



effectively deploying resources to drive sustainable business growth

Productivity continues to be an integral part of the British American Tobacco Malaysia strategy because it provides the capabilities and resources we need to support investment in our brands to grow the business.

We can increase profits, improve our operating margin and invest in our business by effectively deploying our resources, thereby helping us grow market share and achieve higher returns to shareholders. In 2013, we achieved this through our consumer-centric and flexible supply chain and the implementation of a new global operating model with common systems and processes.

KEY HIGHLIGHTS OF 2013

- Strengthened our role as contract manufacturers in Asia Pacific
- Promoted leadership skills, responsibility, and accountability amongst production floor employees
- Deployed an Open Mobile solution
- Provided all visitors and employees with free Wi-Fi in the Virginia Park Head Office

SUPPLY CHAIN PERFORMANCE

SUPPLY CHAIN OPERATIONS	
Business highlights	People development
<ul style="list-style-type: none"> • Aspiring to be key exporter in Asia Pacific. • Agile and responsive to business needs. • Successfully delivered new product innovations. • Enabled a resource-efficient supply chain. • Completed the 2013 International Audit. 	<ul style="list-style-type: none"> • Launched <i>My Heart</i> Campaign. • Promoted a healthy environment of knowledge sharing. • Promoted leadership skills, responsibility, and accountability amongst production floor employees.

Aspiring to be a key factory hub in Asia Pacific

British American Tobacco Malaysia is an increasingly key export factory hub for Asia Pacific. In 2013, British American Tobacco Malaysia contract manufactured for Cambodia, Philippines, Japan, Taiwan, Hong Kong, Australia and Global Travel Retail.

Agile and responsive supply chain in a fast moving business

The Company constantly demonstrates the agility and flexibility of its supply chain. In Q1 2013, it effectively managed to flex up capacity to meet an unplanned production demand increase from export market. Our flexible supply chain also meant that the Company was able to bring down production capacity in Q3 2013 when it was required, while still maintaining cost efficiency.



● Loading of cigarettes to be exported to Japan

Successful delivery of new product innovations

British American Tobacco Malaysia prides itself in having an efficient and effective supply chain to successfully deliver our business targets on time, and in full. In 2013, we achieved our targets to produce 83 new product innovations for the domestic market and 89 SKUs (Stock Keeping Units) for the export market. This is a remarkable achievement which was made possible through our high performing teams and by deploying our resources effectively. In addition to this, our supply chain also successfully delivered 77 new SKUs following changes to the pictorial health warnings, as gazetted by the Ministry of Health, Malaysia.



● Radio frequency gun used to scan warehouse stock movement to improve effectiveness of warehouse storage capacity

Resource-efficient supply chain

- **Ideas for *Continuous Improvement***
In spite of the ever-challenging business environment, our supply chain constantly strives to maintain a cost-competitive business by reducing unnecessary complexity, maximising the use of our resources and assets.

Our initiatives to achieve this is underpinned by a culture of *Continuous Improvement*, whereby employees are encouraged to provide feedback and ideas on making simple but value-adding improvements in their everyday work.

- **Tobacco Utilisation Assessment 2013**
The Tobacco Utilisation Assessment 2013 was conducted to review and provide feedback on the utilisation and yield of the tobacco leaves in British American Tobacco Malaysia's operations. The assessment looked at overall factory waste, and production and machinery efficiency. On a whole, British American Tobacco

Malaysia's factory was found to have satisfactory tobacco leaf optimisation and more importantly, the Company received useful feedback on areas for improvement.

Benchmarking against the Global Standards: International Audit 2013

British American Tobacco Malaysia seeks to benchmark our operational performance to British American

Tobacco's global best practices. The International Audit on its operations which was conducted in 2013 helped to provide feedback on required practices and areas for improvement, which ultimately enables the Company to enhance its operations performance moving forward.

Following feedback from the International Audit review, the Company put in place plans to improve areas such as Product Integrity & Traceability, Information Technology, Logistics as well as Stocks Management.

PEOPLE DEVELOPMENT

My Heart Campaign

British American Tobacco Malaysia believes that past achievements do not guarantee future success. Our Operations team has achieved noteworthy successes but we will need to focus on what matters for us to grow and move forward. We believe that it is as simple as putting our *hearts* in the right place. With this in mind, the Operations function launched the *My Heart Campaign*.



● A knowledge sharing session on quality control with a functional expert

The key pillars that the Operations team upholds in this campaign comprise of the values below:

- (a) Pride
- (b) Passion
- (c) Commitment
- (d) Drive
- (e) Teamwork

The campaign was aimed at embedding the right strategic pillars to put the teams' *hearts* in the right direction. This campaign is aligned to the Operation team's vision of a *Journey Towards Excellence*, where it aspires to achieve excellence in all aspects of work.

Promoting a healthy environment of knowledge sharing

We believe in promoting a healthy culture of knowledge sharing to encourage the desire to learn and improve. In 2013, functional experts within the Operations function conducted sharing sessions on their areas of expertise with their supply chain colleagues to better understand each other's roles and functions within the organisation. These sessions were conducted throughout the Operations function.

Delivering a globally-integrated business with cutting edge technology

British American Tobacco Malaysia piloted a globally designed Enterprise Resource Planning (ERP) solution on a single SAP platform in July 2011. The Company's key role as the pilot market was to test the new system and to ensure the system was fit for purpose, with seamless end-to-end processes between British American Tobacco Malaysia and our shared services.

On 3 September 2012, the ERP solution was successfully implemented without disruption to the Company's critical processes of purchasing resources, manufacturing, transporting goods, receiving payment, and selling of its products.

Throughout 2013, intensive efforts were channeled towards ensuring that the Company fully embraced change and embedded new ways of working with the ERP system. These efforts included conducting refresher training sessions for system users, introducing process owners and role profiles, as well as implementing a robust communications plan with employees, amongst others.

In 2013, the Company also successfully completed an upgrade of Malaysia's ERP system to implement new features to improve existing functionalities in line with the launch of the Global ERP system in other British American Tobacco operating centres. The new features implemented were aimed at improving credit management, employee expense claims, and governance of Company master data.

Concurrently, as the Global ERP system was rolled-out to other British American Tobacco markets, the Company was also involved in testing existing system functionality to ensure that it worked as it should despite new changes being made to the system due to different business requirements from these new markets.

Our ERP system upgrade was successfully carried out as a result of strong project governance and extensive cross-collaboration across various functions in the Company, alongside various global and shared service teams.

Modernising and updating our IT infrastructure

British American Tobacco globally is in the process of modernising and updating its IT infrastructure to keep pace with the ever-evolving world. An initiative deployed in British American Tobacco Malaysia in 2013 was the *Open Mobile* solution.

Open Mobile is an end user experience project, providing users with access to corporate resources such as email, calendar, to-dos and contacts on their own handheld or tablet devices whilst adhering to IT security requirements. *Open Mobile* is the first step in deploying an approach called *Bring Your Own Device* in British American Tobacco. In 2013, the aim of *Open Mobile* was to convert existing Blackberry users in the Virginia Park Head Office to use *Open Mobile*. In 2014, a second phase will be launched for Blackberry users in state and regional offices.

Supplementing the usage of *Open Mobile*, is another end user experience project that IT successfully deployed: the *Global Guest Wi-Fi*, which was made available throughout the Company in its Virginia Park premises. British American Tobacco Malaysia employees as well as visitors now enjoy having free Wi-Fi for them to use on all internet-enabled devices.



RESPONSIBILITY

We believe that sustainability is about operating with integrity and responsibility. Our commitment towards embedding sustainability at the heart of the business is the right way forward.



sustainability at the heart of the business

At British American Tobacco Malaysia, sustainability means operating with integrity and responsibility. We believe that embedding sustainability at the heart of the business is the right direction to take the Company forward.

Our vision of a sustainable tobacco business is one that manages the impact of its operations and products responsibly today, and prepares for a future in which it continues to create value for shareholders and stakeholders.



In 2012, British American Tobacco Malaysia celebrated its 100th anniversary in Malaysia. As the Company moved forward into the next chapter of its history in the country, its principle of operating responsibly remains unchanged. We are committed to continue dedicating hard work and resources toward making a difference in the communities where we operate.

In building a better tomorrow, we have transitioned from carrying out individual acts of charity, to supporting long-term sustainability of our community and environment. Not only is this the right thing to do, supporting sustainability of our biodiversity and surrounding community makes sound business sense. The sustainability of our business depends on the availability of these resources, and an operating environment that is commercially-viable.

British American Tobacco Malaysia recognises that our business environment is constantly changing and we will need to evolve our approach towards sustainability. Our goal of embedding sustainability in our business is all about creating value for our shareholders, in a way that keeps the best interests of our stakeholders as well. How we do this, is through addressing key business-related social, environmental and economic impacts which build stakeholder and shareholder value.

In this Responsibility section of our 2013 Annual Report, we will share examples of how we translate our sustainability agenda into real life initiatives.

SUSTAINABILITY AGENDA – COMMITMENT FROM SENIOR MANAGEMENT

British American Tobacco Malaysia recognises that embedding sustainability effectively in the business needs to be supported by a robust governance process. Good governance structures ensure that we are aligned to our principles and standards. 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 members of British American Tobacco Malaysia's functional directors (also known as the *Leadership Team*) and is chaired by the Managing Director.

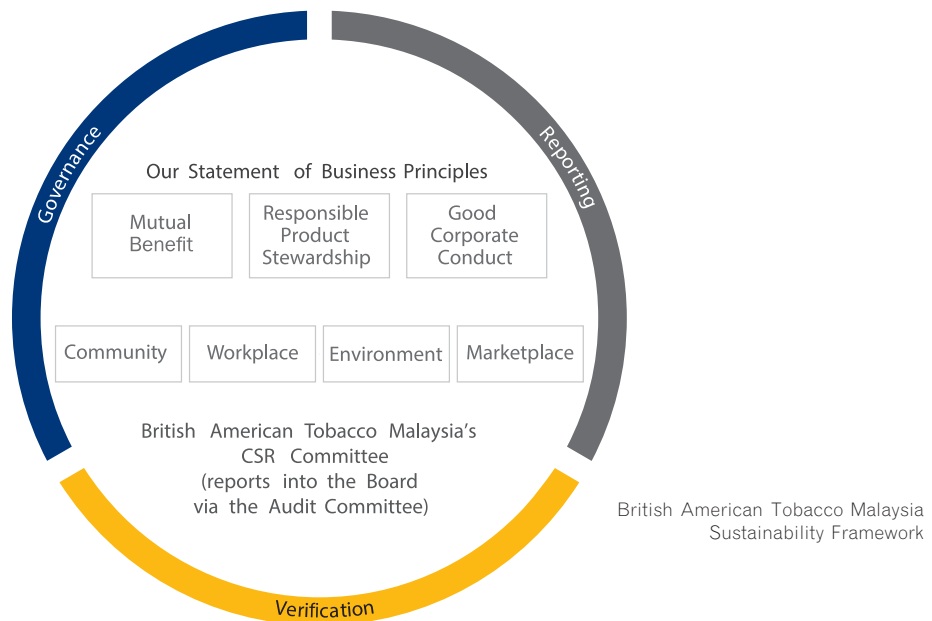
The focus areas of the CSR Committee include those outlined below:

- Identification and management of key social and environmental issues.
- Engagement with relevant stakeholders on sustainability initiatives.
- 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 CSR Committee. A dedicated team is also tasked to coordinate and implement sustainability initiatives.

BRITISH AMERICAN TOBACCO MALAYSIA'S SUSTAINABILITY FRAMEWORK

Effective governance is critical to ensuring that we live up to our principles and standards and also that we deliver on our sustainability agenda. British American Tobacco Malaysia's sustainability initiatives are aligned to Bursa Malaysia's CSR Framework. Our Sustainability Framework focuses on creating value for our shareholders and stakeholders in four key areas; Community, Workplace, Environment, and Marketplace.





COMMUNITY

British American Tobacco Malaysia places the highest commitment towards giving back where it matters – by conducting Corporate Social Investment activities that support sustainability of our surrounding communities.

KEY HIGHLIGHTS IN 2013

Poverty alleviation

- Completed construction of **20 homes** for hardcore poor families in Kedah.

Education

- Awarded scholarships to **23 students**.
- Provided Higher Education Starter Kits to **86 students** in Kelantan.

Employee volunteerism

- Conducted annual blood donation drive with **124 employee** donors.
- Donated close to **RM29,000** to victims of Typhoon Haiyan in the Philippines.

Environment

- Stopped supply of **all plastic bottled mineral water and juices** in the Company cafeteria.

Underprivileged

- Helped **over 3000 low income families** obtain basic food necessities through MyKasih Foundation.

Poverty alleviation: Building homes for the hardcore poor

- British American Tobacco Malaysia Foundation established a flagship initiative to build homes for the hardcore poor in Malaysia in 2008, in line with the Government's agenda of eradicating hardcore poverty. We strongly believe that equipping the hardcore poor with the most basic of necessities will provide them with a head start to break out of the cycle of poverty.
- To date, the Company has contributed RM1.16 million towards building homes for the hardcore poor.

The first phase of the Company's initiative to build homes was a collaboration between the British American Tobacco Malaysia Foundation and the Kelantan Southern Development Authority (KESEDAR) to build homes for 15 hardcore poor families in Gua Musang, Kelantan.

The second phase of this initiative was building 20 homes in 2013 for the hardcore poor in Kedah in collaboration with the Kedah Regional Development Authority (KEDA) under Program Penempatan Masyarakat Setempat (PPMS).

Education: Enabling education opportunities for tomorrow's leaders

- In 2013, the British American Tobacco Malaysia Foundation awarded over RM406,000 in scholarships to 23 aspiring leaders.
- To date, the British American Tobacco Malaysia Foundation has awarded scholarships to more than 2,800 deserving Malaysians, bringing the total investment of the Foundation to date to more than RM17 million.

In December 2013, the British American Tobacco Malaysia Foundation held its 30th Foundation Day Awards Ceremony, awarding scholarships to 23 students from the retailers community, employees' children as well as employees. The scholarships awarded amounted to RM406,000 for the full duration of their courses in local higher education institutions.

The British American Tobacco Malaysia Foundation was established in 1999 when Rothmans of Pall Mall (Malaysia) Berhad and the Malaysian Tobacco Company Berhad merged to form the now British American Tobacco Malaysia. The Foundation

(previously known as the Malaysian Tobacco Company Foundation which was established in 1983) was founded to formalise the Company's active involvement in providing assistance to deserving Malaysians pursuing higher education; an involvement that dates back to 1956.

Over the years, more than 2,800 students have benefited from the Foundation's various education aid programmes which include scholarships for university degrees, college diplomas and certificates for technical studies and Higher Education Starter Kits (HESK) for students from the tobacco farming community. The various Foundation education programmes represent an investment of well over RM17 million.

Education: Supporting higher education in the tobacco growing community

- In 2013, a total of 86 aspiring students from the tobacco growing community were awarded with higher education starter kits amounting to RM59,200.
- To date, more than RM1.3 million has been awarded to over 3,200 students under this programme.

British American Tobacco Malaysia Foundation and the National Kenaf and Tobacco Board (NKTB) have jointly sponsored the Higher Education Starter Kit Programme to ease the financial difficulties of students from the tobacco growing community in pursuing higher education since 2003.

On 13 November 2013, a total of 86 recipients were awarded with the Higher Education Starter Kit. The ceremony was held at the NKTB headquarters in Kubang Kerian, Kelantan, and was officiated by Datuk Ahmad Loman, Director-General of the National Kenaf and Tobacco Board.

The awards totalled RM59,200, and helps students obtain necessities such as books, clothes, accommodation and transportation as they take their first step into tertiary education.

Employee Volunteerism: Giving back to a good cause

- In 2013, 124 employees participated in the annual blood donation drive organised by the British American Tobacco Malaysia Sports Club.

Since 2007, British American Tobacco Malaysia has encouraged employees to volunteer their time and hard work towards giving back to the community through its various programmes.

In 2013, we continued to keep the spirit of volunteerism alive by encouraging employees to participate in British American Tobacco Malaysia Sports Club's blood donation drives. Approximately 124 employees donated blood during the blood donation drives in March, June and October.

The blood donation drive provides a much-needed contribution towards replenishing the blood bank in the University Malaya Medical Centre.



● An employee participating in the blood donation drive.

Employee Volunteerism: Donating to Typhoon Haiyan victims

As part of the Company's Corporate Social Investment (CSI) initiatives, we believe in supporting communities devastated by natural catastrophes both locally and regionally to alleviate the burden of those affected.

In 2013, the Philippines were struck by Typhoon Haiyan, which caused massive devastation across many islands in central Philippines. Thousands of people were killed, while millions were left homeless or in urgent need of assistance.

In light of this tragedy, employees dug deep into their hearts to lend monetary support to the victims.

British American Tobacco Malaysia's practice since 2007 is to match every Ringgit that an employee contributes to a natural disaster fund. Generous donations from employees matched by the Company brought the total collection close to RM29,000 for the victims.

Environment: Protecting the environment at the workplace

- British American Tobacco Malaysia has a dedicated Environment, Health and Safety (EHS) Committee that reviews and makes recommendations on the Company's Environmental Management performance and activities, against annual targets.
- From May 2013 onwards, we stopped supply of all plastic bottled mineral water and juices in the Company cafeteria to raise awareness on protecting biodiversity.

British American Tobacco Malaysia has remained steadfast in our commitment towards protecting the environment where we operate. All our environmental activities are managed by our EHS department, and we have a dedicated EHS Committee comprising of members from across various functions in the Company, which are responsible for reviewing the Company's Environmental Management performance and activities against annual targets, as well as making recommendations for improvement.

Our commitment towards protecting the environment, starting with our office premises has resulted in us stopping the supply and use of all mineral water and juices in plastic containers in the Company cafeteria from May 2013 onwards in an effort to raise awareness on protecting biodiversity across the organisation.

This initiative was launched in conjunction with the World Environment Day, concurrently with an employee awareness campaign on reducing food waste.

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

Underprivileged community: Easing the burden

- Since January 2013, British American Tobacco Malaysia Foundation has sponsored over 3,000 families from low-income households through the MyKasih Foundation's Food Aid Programme.

In August 2012, British American Tobacco Malaysia contributed to the food aid programme for the needy by the MyKasih Foundation, a non-profit organisation which aims to support the less fortunate working in collaboration with various organisations like the National Population and Family Development Board.

MyKasih Love My Neighbourhood programme: How it works

The MyKasih *Love My Neighbourhood* programme, via the MyKad, drives welfare distribution with a technological difference. Using ePetrol's cashless payment system, MyKasih provides welfare recipients with the means to shop, select, and pay for essential food items using their MyKad for up to RM80 a month. The whole system is cashless, efficient and most importantly, transparent.

MyKasih identifies the poor and needy families with the help from local non-Governmental organisations. These families are screened and assessed independently before they are approved for the programme.

Once approved, accounts will be opened against the recipient's Mykad in MyKasih's system, into which a spending allowance of RM40 will be deposited once every two weeks. At 26 biweekly insertions in one year, a recipient family receives a total of RM1,040 worth of aid. The recipients of the funds will be the housewives in each family. They will draw on the allowances by using their Mykad at the participating retailer.

British American Tobacco Malaysia Foundation makes a difference for the underprivileged:

Recipient families under British American Tobacco Malaysia Foundation's sponsorship were recruited in groups or batches whereby 440 families residing in Batu Pahat started the food aid programme first in January 2013, followed by Kluang (275 families), Gelang Patah (1,522 families), Pasir Gudang (245 families) and Segamat (579 families) later on in March and April 2013, respectively.

Some of the positive effects of the MyKasih food aid programme in the communities include those outlined below:

- Beneficiary families are able to put food on the table and have much needed nourishment for at least two years. This would improve the families' general wellbeing and quality of life.
- Beneficiary families' savings within the funding period can then be channeled towards their children's education (e.g. paying for school fees and learning materials, transport to school, and extra tutorial lessons, etc.)
- Welfare recipients registered under the MyKasih food aid programme are placed within the radar for a more specific community-based needs assessment, whereby recipients and their family members are exposed to opportunities to improve their well-being and livelihood through various skills training, financial

literacy, entrepreneurship and income-generation workshops to help them achieve financial independence.

- Unemployed adults and youths (afterschool leavers or school dropouts) are given job training and/or employment opportunities; whereas for those who excel academically, scholarships and/or bursaries to further their studies.

British American Tobacco Malaysia Foundation's contribution helped families to meet their basic needs, which enables their children to complete proper education and have a better opportunity of stepping out of poverty through better job employment.



Recipient selects items

Cashier scans items

Recipient presents MyKad and keys in 6-digit PIN

Recipient keeps receipt to track expenses

● Food Aid Programme: Product Purchase Flow Process.



WORKPLACE

KEY HIGHLIGHTS IN 2013

- Robust governance process and dedicated team managing the Company's Environment, Health and Safety (EHS) practices.
- Increased safety and health initiatives to eliminate work-related accidents.
- Clear communications strategy that enabled employees to have clarity on the Company's vision and business objectives.
- Improvements in employee welfare and wellbeing.

ROBUST GOVERNANCE PROCESS FOR ENVIRONMENT, SAFETY AND HEALTH MANAGEMENT

British American Tobacco Malaysia placed top priority on the occupational health and safety of employees. A robust governance process provides a structure which ensures that management of the Company's EHS practices is well-supported and its performance is monitored and reviewed against yearly targets.

In line with our continuous commitment towards EHS management, from June 2013, updates on EHS management were included as an agenda for review in the Company's monthly business review meeting which is attended by the Leadership Team (Functional Directors).

Outlined below are the Company's EHS governance structures:

Environmental management in British American Tobacco Malaysia is spearheaded by the Engineering and Site Services department under the Operations function, and reports on the EHS performance to various stakeholders, which include the Leadership Team.

Managing Environment, Health and Safety: Engineering & Site Services department

Participation: The department is headed by the Engineering and Site Services Manager, supported by the EHS and Technical Support Manager.

Responsibilities: This department oversees the implementation of environmental initiatives.

EHS performance and initiatives are reported to these stakeholders:

1. Operations Leadership Team and Company Leadership Team

The EHS department reports to the Operations Leadership Team, which consists of the Operations Director and his direct reports. Key environmental management programmes and initiatives are submitted to the Operations Leadership Team as well as the Company's Leadership Team (consisting of the functional directors) for approval.

2. Corporate EHS Committee

The Corporate EHS Committee consists of management representatives from all functions. This committee, which is a global requirement by the British American Tobacco Group, is chaired by the Operations Director.

At British American Tobacco Malaysia, the EHS Manager is appointed as the Secretary of the Corporate EHS Committee and is responsible for ensuring the EHS Management Programme is implemented accordingly.

The Corporate EHS Committee reviews all the issues that pertains to environment, health and safety in the Company.

3. Regional EHS Manager

The EHS department submits an online report to the Regional EHS Manager on the EHS performance of British American Tobacco Malaysia.

4. Local Audit Committee

The EHS department also submits reports to the local audit committee, that consists of the company Chairman and members of the Board of Directors, on a quarterly basis. All of the Audit Committee Meeting minutes notes down the tabling of the EHS Report.

Health and Safety statements and policies

Our robust structures and processes ensure that we live up to the standards set in our policies governing health and safety in the Company. Health and safety management at British American Tobacco Malaysia is governed by a global and a local policy, which are the Global Environmental, Health and Safety Policy and the Integrated Management System Policy respectively.

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

Enhancing Health and Safety at our workplace

- **Driving effective Environment, Health, and Safety management for a zero accident workplace**

Since 2012, British American Tobacco p.l.c has been carrying out a global campaign to reduce the number of accidents at the workplace to zero. The campaign, *Closing the Gap to Zero* aimed to make British American Tobacco as safe as possible for all employees across the world. The campaign emphasised the importance of adhering to behaviour and policies that drive towards the goal of zero accidents.

In line with carrying out the Global *Closing the Gap to Zero* campaign in 2013, British American Tobacco Malaysia conducted additional local-level activities which emphasised good health and safety practices in the organisation.

Outlined below are the key activities conducted:

- **Safety and Health campaign**

The Company organised its yearly Safety and Health week in the office premises in conjunction with the World Safety Day. The focus of the Health and Safety week this year was on road safety and industrial safety (entrapment and work at height). There were more than 235 participants from various departments, including external suppliers who participated in the three-day event, which included interactive games, info sharing activities and exhibition booths.

- **Distribution of motorcyclist reflective safety vest to employees**

In October 2013, the Company distributed free reflective vests to all who commute to work with a motorcycle. The initiative was organised to emphasise good safety practice to all motorcyclists as the reflective vest will improve their

visibility to other road users with the aim of reducing road accidents. More than 278 vests were distributed, and as of December 2013, more than 95 percent of the motorcyclists wore the vest when riding to work.

The reflective safety vest campaign was also supplemented with posters and signage on the importance of wearing reflective safety vests, to raise better awareness of safety in the workplace amongst employees.

- **Defensive Driving Programme**

The Company also conducted 11 sessions of the Defensive Driving Training Programme to train employees on handling their vehicles during emergency situations. The sessions were organised for over 97 employees across Malaysia. The Defensive Driving Training programme is aligned to the national 1Malaysia staff upskilling and safety programme.

The Defensive Driving training was also carried out for forklift and stacker drivers as part of training to upskill employees and to raise awareness on safety at work.

- **Handswheel and Air Lock Safety Campaign**

The Company also conducted a *Handswheel and Air Lock Safety Campaign* aimed at improving the standard practice for machine operators on the Handswheel and Air Lock machines. The campaign which was initiated by British American Tobacco's regional operating centre was accompanied by videos and posters which were developed together with training for all relevant personnel.

- **Safety Observation Card**

British American Tobacco Malaysia has a Safety Observation Card initiative that has been in place over the past 10 years to ensure a safer working environment. The Safety Observation Card enables any employee to observe and report non-compliance on health and safety guidelines or an “unsafe act”, to designated Safety Observation Officers. Employees who have been identified as not complying with the safety guidelines can face disciplinary action.

- **Green Card Programme for External Contractors**

Our emphasis on high safety standards applies not only to our employees but also to the business partners we work with. All contract supervisors that have been hired by British American Tobacco Malaysia for contract work around the office premises are required to undergo the Green Card Programme. In the Green Card Programme, these contract supervisors are briefed by our Environment, Health and Safety (EHS) team on the EHS policies and regulations in British American Tobacco Malaysia. The contract supervisors then undergo an evaluation session to ensure they have full understanding of these policies.

A Green Card training programme was carried out in June 2013 where a total of 28 new green cards were issued to new contractors.

- **Achieved over two years of zero Lost Workday Cases**

In 2013, British American Tobacco Malaysia yet again achieved zero Lost Workday Cases (LWC) after clocking in a total of 1,875,437 man-hours without any workdays lost due to accidents.

To date, our marketing and corporate services entities have achieved 2,199,874 man-hours without a Lost Workday Case since September 2011, whereas our manufacturing entity achieved 1,309,639 man-hours without a Lost Workday Case.

The achievements are testament to our commitment to continue making the Company a safer place to work.

- **Safety and health initiatives around the factory and workplace:**

- **Frequent health and safety *walkarounds***

Inculcated a culture of continuous improvement on health and safety around the office based on feedback from weekly health and safety *walkaround* checks.

- **Road Safety Awareness for our External Distributors**

Conducted a road safety briefing and awareness campaign to improve road safety amongst external distributors.

ENGAGING EMPLOYEES

British American Tobacco Malaysia leverages on a clear communications strategy to provide employees at all levels with clarity on how their roles and responsibilities are aligned to the Company's strategy and direction. This is because we believe that providing line of sight and clarity on the Company's vision and objectives to employees drives business performance and the development of a high performance organisation. Through this, our employees will better understand and take more responsibility of their individual contributions to the Company's performance and sustainability.

Overall, the communication strategy in 2013 leveraged on numerous communication channels that comprised of direct communication (i.e. face-to-face) and indirect communication (i.e. companywide emails, circulars, and newsletters).

Our communication channels and activities for 2013 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, buntings, notice boards and company email lists.

Direct communication

In 2013, we disseminated our key business information through the direct communication channels outlined below:

	Business Update (Employee town hall session)	Functional Team Talks	Departmental/ Functional meetings	Focus Group Sessions	Ad Hoc briefing sessions
Scheduled dates	February, May, August, October	March, June	Throughout 2013	Throughout 2013	Throughout 2013
Objective	To share updates on the global business, the region we operate in (i.e. Asia Pacific), as well as the business in Malaysia.	(See <i>Business Update objectives</i>) Additionally, updates from individual functions are also shared company wide.	To provide departmental updates and encourage team feedback. These updates enable departments to align strategy and plans within the team.	To communicate the Company's strategic direction for the year, and obtain employee feedback and ideas for improvement.	To brief on implementation of new processes and new ways of working. Clinics provide open forums for employees to provide feedback and ask questions.
Audience	Management employees	All employees	Specific employee groups	All employees	Specific employee groups
Spokesperson	Managing Director, Leadership Team and senior management	Senior management	Senior management	Leadership Team and senior management	Business content experts

Employee propositions

British American Tobacco Malaysia believes that creating an environment for high performance necessitates providing our employees with propositions that are relevant and that addresses their needs. 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 – in our people.

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

Protecting employees' wellbeing and welfare

We believe that providing employees with a safe place to work and protecting their wellbeing are part of creating a happy, passionate and high performing organisation.

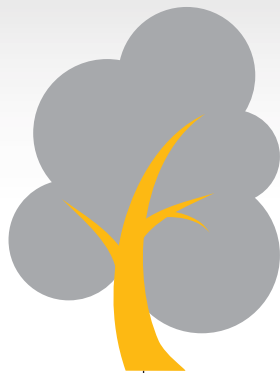
Outlined below are some of our key initiatives to improve employee wellbeing at work:

1. **Flexi time**
British American Tobacco Malaysia practices *flexi time*, which allows employees to customise start/stop hours and create an efficient work schedule for themselves without disrupting the efficiency of the Company, following stipulated guidelines.
2. **Replacement annual leave**
The Company has also outlined guidelines that enable employees to take replacement annual leave for attending to business matters required by the Company during non-workdays.

3. **Extended maternity leave**
Following employees' feedback in 2011, the Company extended paid maternity leave from 60 to 90 days.
4. **Paternity leave**
British American Tobacco provides all confirmed male employees with four days paternity leave.
5. **Medical benefits**
The Company also extends medical benefits to family dependents of employees for outpatient and hospitalisation.
6. **Free meals**
Employees receive a monthly food allowance which they may use to purchase their meals at the cafeteria situated within the Company's premises. This cafeteria also offers vegetarian cuisine and healthier food options.
7. **Marriage leave**
The Company provides marriage leave for all confirmed employees.
8. **Compassionate leave**
The Company allocates compassionate leave for all employees.

9. **Home leave passage**
Employees who are based out of their home state or region are eligible for home leave passage and this benefit is extended to include spouses and children.
10. **In-house clinic and doctor**
The Company has an in-house clinic with a full-time doctor and nurses for on-site health and medical services. The clinic also provides health-related education, counseling, prevention and other programmes for employees to ensure their health and general wellbeing are well taken care of.
11. **External medical support**
The Company provides a list of panel clinics across all regions for employees to seek medical help, outside of office.

For further information on initiatives on employee welfare and wellbeing, please refer to our Winning Organisation pillar and the Global Reporting Initiative (GRI) Indicators section in our Responsibility pillar.



ENVIRONMENT

KEY HIGHLIGHTS IN 2013:

- Robust policies to govern environmental management.
- Continued focus on reducing energy, water, and air pollution.
- Maintaining our focus to drive a carbon positive business forward.

OUR ENVIRONMENT POLICIES

British American Tobacco Malaysia's commitment to embed environmental responsibility throughout our business operations is aligned to the principles outlined in our Global Environment, Health and Safety policy and Integrated Management System (IMS).

Global Environmental, Health and Safety Policy

The Global Environmental, Health and Safety (EHS) Policy aims to apply the best international standards of practice in all aspects of its operations throughout the British American Tobacco Group.

All of British American Tobacco's operating companies worldwide are required to:

- (i) Comply with all applicable national and international laws and regulations affecting their business activities.
- (ii) Establish procedures for assessing and reviewing the EHS impacts of present and future activities on a regular basis.

- (iii) Seek continually to identify proactive and cost-effective measures which it can take to safeguard the health and safety of its employees and non-company personnel on company premises and the physical environment.

Integrated Management System (IMS) Policy

The Integrated Management System Policy, which is certified by three systems (ISO 9001, ISO 14001 and OHSAS 18001), acts as a guide for all British American Tobacco employees in exercising their individual responsibilities in all aspects of Quality, Environment, Health and Safety in our business operations.

In accordance to the IMS policy, British American Tobacco Malaysia is committed to continuously improving its business operations in the aspects of upholding environmental responsibility and the prevention of pollution.

Maintaining high standards of responsible management

A yearly surveillance is carried out by external auditors, Lloyd's Register Quality Assurance in order to maintain the highest standards underpinning the IMS. In August 2013, the surveillance audit was completed without any minor or major non-compliance findings. British American Tobacco Malaysia was successfully recertified for the standards outlined below in 2013:

- 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.

Reducing our impact on the environment: Minimising energy, water, and air pollution

British American Tobacco Malaysia believes in taking proactive steps towards reducing our environmental impact to ensure environmental and business sustainability. Outlined below are several of our key initiatives to this effect:

- **Reducing energy consumption**
 - a. **Energy-efficient machinery**

In 2013, the Company replaced factory machinery with more energy-efficient versions and installed new energy efficient machinery after the routine equipment maintenance procedures. These machineries include: lockable compressed air gun, power transformers, and air washers.

Replacement of these machineries have resulted in a reduction of energy consumption, and minimised water consumption.

b. Energy-efficient lighting

Current fluorescent lights (T8) were also replaced with more energy efficient versions (T5) within the factory to reduce energy consumption. Sensor lights have been installed in main staircases in the office to reduce electricity usage when not in use.

• Reducing water consumption

Upon detection of water overflow, the Company also conducted a replacement of old pipes around building in order to curb water wastage.

• Improving waste production and management

In November 2013, the effluent treat plants were reinforced with more effective bio-treatment processes.

Following from these initiatives, we also monitor and track our usage of energy and water consumption, as well as waste recycling rate.

	2012	2013	2013 versus 2012	Remarks
Total Energy (Gj)	279,550	278,415	-0.20%	1.9% increase in total volume produced in 2013 versus 2012.
Water (m³)	202,107	209,775	+3.4%	British American Tobacco Malaysia recorded a 3.4% increase in water index with higher water intensive product mix (cut rag – 13.69%) in Primary Manufacturing Department that consumed more water.
Waste recycling rate (%)	98.4	98.6	+0.2%	Additional recycling activities conducted in 2013.

• Driving a carbon positive business

In 2000, British American Tobacco Malaysia established an afforestation programme as part of our long-term commitment to reduce our carbon footprint. This programme is aligned to Malaysia's goal of reducing 40 percent of its carbon dioxide (CO₂) emissions by the year 2020 compared to 2005 levels.

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

In 2013, British American Tobacco Malaysia's total CO₂ emission was 32,000 tonnes and current projections demonstrate that we will remain carbon positive until 2024 based on present business operations.



• Benchmarking key business partners against our environmental standards

In 2008, our three year Environment, Health and Safety (EHS) Mentoring Programme was developed with the objective of benchmarking key business partners' EHS standards against that of the Company's and to share with them our business expertise and best environment, health and safety practices.

A new key business partner, Tiong Nam, who provides logistics services, was identified for the EHS Mentoring Programme in 2013.



MARKETPLACE

KEY HIGHLIGHTS IN 2013

- Continued to help address the illegal cigarette trade issue in the country.
- Complied with key regulatory requirements that took effect in 2013, and continued to support sensible regulations.

ADDRESSING ILLEGAL CIGARETTES ISSUE

The illegal cigarette situation in Malaysia has reached dire straits. Today, the illegal cigarette incidence in Malaysia stands at 35.7 percent¹, which means that almost four out of 10 cigarette packs sold in the country are illegal. In Asia, Malaysia has been identified as the third highest among 11 Asian countries in terms of illicit cigarette consumption, according to a report conducted by the International Tax and Investment Centre and Oxford Economics in 2013.

Malaysia is an attractive market for cigarette smuggling as cigarette prices are the third highest among ASEAN countries after Singapore and Brunei.

What is of more concern is that the illegal cigarettes trade is not a victimless crime. Illegal cigarette trade is also linked to organised crime and the funding of terrorism and criminal activities, as highlighted by the Malaysian Home Ministry and Crime Prevention Groups². Numerous reports

have forged links between the illegal cigarette trade and organised crime groups, who are attracted by high consumer demand, high potential profits, and relatively low potential penalties. Organised crime syndicates garner wide reach through diverse distribution channels in the form of small retailers and street vendors.

Essentially, the rising levels of illegal cigarettes bring these criminal networks and crime closer to our neighbourhoods.

Illegal cigarette trade also undermines the Government's health objectives because illegal cigarettes are sold at extremely low prices and do not comply with any regulatory requirements.

Given the severity of the issue, law enforcement authorities like the Royal Malaysian Customs, the Malaysian Maritime Enforcement Agency and Marine Police have stepped up enforcement.

In addition to this, effective 1 January 2014, the Ministry of Health has made possession of illegal cigarettes a punishable crime in Malaysia. These actions are clear indication of the Government's resolve to do more to combat illegal cigarettes trade.

In contributing towards addressing this national scourge, the Confederation of Malaysian Tobacco Manufacturers

(CMTM), of which British American Tobacco Malaysia is a member, continued to support and work together with various Government agencies to raise awareness on the severity of illicit cigarettes trade to retailers and members of the public.

CMTM provided support to the Royal Malaysian Customs (RMC) on their Anti-Smuggling Campaign nationwide with distribution of leaflets which sought to educate retailers and the public on the features of illegal cigarettes, its implications to the nation and the penalties involved.

Following a successful campaign in 2012, a second nationwide campaign was also launched by the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC) in 2013 to address the issue of certain local brands that were sold with fictitious company names and addresses and with fake security ink. This campaign sought to educate retailers on the features of such illegal cigarette packs and the laws which it contravened. CMTM also held workshops with the Session Court Judges and Magistrates in three different states (Selangor,

¹ 2013 Illicit Cigarette Study (ICS) commissioned by the Confederation of Malaysian Tobacco Manufacturers

² *Cigarettes and the terrorists link*, New Straits Times, 30 September 2013

Wilayah Persekutuan and Johor) to raise awareness on the severity of illegal cigarettes trade to society at large, its link to criminal activities and to consider stringent penalties of imposing imprisonment over fine to help deter this illegal activity.

CMTM continued to proactively engage with various law enforcement agencies which included the Royal Malaysia Customs, the Ministry of Domestic Trade, Co-operatives and Consumerism, Malaysian Maritime Enforcement Agency, the Royal Marine Police, the Royal Malaysian Police, the Malaysian Anti-Smuggling Unit, the Ministry of Finance, and the Ministry of Health enforcement division towards tackling the menace of illicit trade.

PROCUREMENT POLICIES AND PROCEDURES

British American Tobacco Malaysia maintains high standards of conduct in our procurement processes with external business suppliers.

The Company's Procurement Policy, outlines the processes and procedures involved in 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 to adhere to this process, under the guidance and advice of the Company's Procurement Department.

British American Tobacco Malaysia is focused on delivering smart spend management, enabling innovation and building quality partnerships both internally and externally through the Company's procurement processes and procedures.

By collaborating with the Company's Regional and Global Procurement counterparts in the area of Category,

Sourcing and Supplier Management, the Company is able to leverage on both scale and knowledge of the people throughout the globe.

PRODUCT RESPONSIBILITY

Our business in British American Tobacco Malaysia is not about persuading people to smoke but in offering quality brands to adult smokers. We acknowledge that smoking is a health risk and we want both our consumers and stakeholders to know the facts of ingredients used by our Company in the manufacture of tobacco products.

In line with maintaining transparency towards our products, British American Tobacco Malaysia took the lead eight years ago in the local tobacco industry to voluntarily publish ingredients in our products on a website (www.bat-ingredients.com) that is accessible to the general public.

REGULATORY DEVELOPMENTS IN 2013

In British American Tobacco Malaysia, we are committed to doing business in a way that meets the expectations of today's society, upholding high standards of corporate conduct and demonstrating responsibility in everything that we do and this includes compliance with all regulatory requirements.

Acknowledging that tobacco consumption poses real risks to health, we agree that tobacco products should be regulated in appropriate ways. We support, and want to help deliver, balanced and enforceable tobacco regulation that balance the preferences of consumers with societal

interests whilst enabling our business to continue to compete.

In 2013, the Ministry of Health introduced further regulatory requirements in the Control of Tobacco Products Regulations 2004. These new regulatory requirements which were gazetted on 11 June 2013 through the Control of Tobacco Product (Amendment) Regulations 2013 take effect at different dates.

The key regulatory requirements which took effect on 15 June 2013 were:

1. Prohibition on sale of tobacco product by promotion

With effect from 15 June 2013, the Ministry of Health prohibits promoting the sale of any tobacco product directly or indirectly by any person whether by way of contract, agreement, understanding or undertaking.

2. Requirement for Retail Selling Price (RSP) to be approved by the Ministry of Health due to any increase in RSP of the tobacco product

With effect from 15 June 2013, the Ministry of Health requires all manufacturer or importer of tobacco product to apply in writing to the Director of the Ministry of Health on the RSP of any tobacco product for sale in the domestic market every time there is a change to the RSP of any tobacco product.

3. Minimum Cigarette Price (MCP) of RM7.00 for a packet of 20 sticks cigarettes

With effect from 15 June 2013, the Ministry of Health amended the regulation to impose a MCP of RM7.00 for a packet of 20 sticks cigarettes which resulted in a revised MCP notice to be displayed at the counter or the place where cigarettes are displayed or offered for sale.

4. Enhancements to regulation on places where smoking is prohibited

With effect from 15 June 2013, the Ministry of Health amended the regulation to further clarify the boundary and areas which are included for places where smoking is prohibited.

The key regulatory requirements which took effect in from 1 January 2014 were:

1. Increase in size for Pictorial Health Warning (PHW) on front panel of cigarette pack and top panel for carton by 10 percent

With effect from 1 January 2014, the Ministry of Health requires that the PHW on the front of the cigarette pack and top panel for carton to be increased by 10 percent from 40 percent to 50 percent.

2. Additional six new Pictorial Health Warning (PHW) to be printed on cigarette pack or carton

With effect from 1 January 2014, the Ministry of Health requires an additional six PHW to be printed on cigarette packs or cartons. With this new requirement, there is now a total of 12 PHW to be printed.

3. Regulation on possession of any cigarette packet or carton that is not printed with the Pictorial Health Warning (PHW) and text sets as specified in the Control of Tobacco Product Regulations 2004

With effect from 1 January 2014, the Ministry of Health prohibits the sale, or offer for sale, purchase or possession of any cigarette packet or carton that is not printed with the Pictorial Health Warning (PHW) and text sets as specified in the Control of Tobacco Product Regulations 2004.

4. Tighter restriction on the use of descriptors on cigarette packaging

With effect from 1 January 2014, the Ministry of Health further prohibits tobacco product packaging or label to contain any term, word, description, claim, representation or graphic that states the grading, quality or supremacy of the product or is fanciful or that is not relevant to the physical characteristics of the tobacco product or any other words that is meant for the purpose of promoting directly or indirectly the sale or disposal of the tobacco product.

5. Reduction in emission levels for cigarette

With effect from 1 January 2014, the Ministry of Health requires the following maximum allowable emission level per cigarette:

- Nicotine – 1.3 mg
- Tar – 15 mg
- Carbon monoxide – 15 mg

6. Further enhancements to regulation on places where smoking is prohibited

With effect 1 January 2014, the Ministry of Health further clarified the definition of any area in a building to refer to “any area inside the building and includes the five-foot way and within three metres from the distance of the building line, and also includes the area covered by any additional permanent roof that is connected to the main building”

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

global reporting initiative (GRI) indicators 2013



Over the years, British American Tobacco Malaysia has been lauded by external parties for its exemplary disclosure of its economic, environmental, social and governance performance in its Annual Report. As part of our commitment demonstrating accountability and transparency, we are once again incorporating key Global Reporting Initiative (GRI) Indicators in our 2013 Annual Report. This is the fifth 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, where 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 2013
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): RM4,517 million</p> <p>Economic value distributed:- Operating costs: RM1,359 million Employee wages and benefits: RM118 million Payment to providers of capital: RM802 million</p> <p>Payment to government in the form of taxes: RM2,214 million</p> <p>Community investment: RM1 million</p> <p>Economic value retained: RM23 million</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.	In 2013, British American Tobacco Malaysia contributed an additional four percent into employees' accounts, in excess of additional above the mandatory employer Employees Provident Fund (EPF) contribution: 12 percent for salary more than RM5,000 and 13 percent for salary less than RM5,000. Altogether, British American Tobacco Malaysia contributed 16 percent or 17 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 2013 was 65 percent against 40 percent in 2012. However more than 97 percent of the imported materials are from within Asia Pacific.</p>

GRI Code	Issue Area	Response for 2013
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 continued its mission to hire the most talented personnel, regardless of whether they were local or foreigners. The senior management, defined as the <i>Leadership Team</i> consisted of 57 percent local hire in 2013.</p> <p>This is derived from the formula below: $(4 \text{ local hires out of } 7 \text{ members}) \times 100 = 57 \text{ percent.}$</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 page: 85 on the British American Tobacco Malaysia Foundation which encompass building homes for the hardcore poor, the Higher Education Starter Kit (HESK), Foundation Scholarships and Employee Volunteerism.
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	<p>A total of 22 British American Tobacco Malaysia Foundation Scholarship recipients completed their higher education in 2013 and were ready to join the highly skilled workforce.</p> <p>A total of 23 British American Tobacco Malaysia Foundation scholarship recipients graduated in 2012.</p>
EN1	Materials used by weight or volume.	<p>Total materials: 33,931 tonnes</p> <p>Non-renewable materials: 5,448 tonnes <i>(Parts, fuels, cleaning materials, chemicals and processing aids)</i></p> <p>Direct materials: 28,483 tonnes <i>(Leaf, wrapping, packaging, filter and flavouring)</i></p> <p>Normalised: 1.45 tonnes/million cigarette equivalent (1.60 for 2011)</p> <p>British American Tobacco Malaysia recorded a 8.17 percent decrease in total materials in 2013. The decrease is mainly attributed to better product mix and more efficient usage of material.</p>
EN3	Direct energy consumption by primary energy source.	<p>Total: 253,617 Gigajoules</p> <p>Non-renewable: 253,617 Gigajoules <i>(Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)</i></p> <p>Renewable: 0 Gigajoules</p> <p>Normalised: 10.80 Gigajoules/million cigarette equivalent</p> <p>A higher direct energy usage was recorded in 2013 due to an increase in tobacco cut rag production volume in the Primary Manufacturing Department, which consumed more electricity and natural gas (steam).</p>

GRI Code	Issue Area	Response for 2013
EN4	Indirect energy consumption by primary source.	Total: 309,127 Gigajoules Non-renewable: Electricity – 309,127 Gigajoules Normalised: 13.17 Gigajoules/million cigarette equivalent A decrease of 4.29 percent in indirect energy consumption was recorded in 2013. This was due to a reduction of air freight incurred through improved efficiency in planning.
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	British American Tobacco Malaysia initiatives: 1. Installation of lockable regulator to reduce the air gun pressures to 3.5 bars from 6 bars in the Secondary Manufacturing Department. 2. Replacement of air washer in the factory premises. Estimated future reductions: 1. Air washer estimated to improve performance efficiency by two percent. 2. With the reduced compressed air pressure, the estimated annual saving of energy is 60,000 kilowatt-hours.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Please refer to GRI G3 Reference EN6.
EN8	Total water withdrawal by source.	Total: 233,896 cubic metres Normalised: 9.96 cubic metres/million cigarette equivalent British American Tobacco Malaysia recorded a 2.74 percent increase in water index due to an increase of product mix (tobacco cut rag) in the Primary Manufacturing Department which consumed more water.
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 under the Ramsar List of Wetlands of International Importance* in Malaysia. *These wetlands are included under the Ramsar Convention, which is an international treaty for the conservation and sustainable utilisation of Wetlands
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high bio-diversity 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.

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GRI Code	Issue Area	Response for 2013
EN13	Habitats protected or restored.	<p>British American Tobacco Malaysia sponsored an afforestation programme in Forest Management Unit No. 4 located in Ulu Tungud, Sabah since 2002. Bringing the total hectarage planted to date to 6,635 hectares – the equivalent of 9,089 football fields.</p> <p>*Size of 1 football field is approximately 0.73 hectares.</p> <p>The project partner for this afforestation programme was TSH Resources Berhad.</p>
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Please refer to pages: 93-94 on our Environment pillar.
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.	<p>Total: 32,000 tonnes of carbon dioxide</p> <p>Normalised: 1.36 tonne/million cigarette equivalent</p> <p>The total carbon dioxide captured consists of 10,663 tonnes of direct emission of carbon dioxide, there is a slight increase of total carbon dioxide emission of 283 tonnes in 2013 due to higher production volume and a higher product mix that consumes more carbon dioxide during production.</p>
EN17	Other relevant indirect green-house gas emissions by weight.	<p>Total: 21,429 tonnes of carbon dioxide</p> <p>A decrease of 8.48 percent in indirect green-house gas emissions was recorded in 2013 as a result of a substantial reduction of air freight usage.</p>
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Please refer to GRI G3 Reference EN6.
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.	<p>British American Tobacco Malaysia facilities discharged water through these routes:</p> <ol style="list-style-type: none"> Public waterways (24,121 cubic metres) after water that was used in factory operations was treated at our Effluent Treatment Plant following stringent standards.

GRI Code	Issue Area	Response for 2013
EN22	Total weight of waste by type and disposal method.	<p>2011 : Hazardous Waste – 25 tonnes : Non-Hazardous Waste – 1,810 tonnes</p> <p>2012 : Hazardous Waste – 18 tonnes : Non-Hazardous Waste – 2,309 tonnes</p> <p>2013 : Hazardous Waste – 13 tonnes : Non-Hazardous Waste – 2,124 tonnes</p> <p>All our hazardous waste 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 2013.
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: 13 tonnes (2012: 18 tonnes)</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 organisation's discharges of water and runoff.	Reinforcement of the Effluent Treatment Plant in November 2013 was completed with a more robust Sequencing Batch Processes (biological digestion process) to treat effluent.
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 environmental footprint during the years through the implementation of initiatives in these areas of process and practices:</p> <ol style="list-style-type: none"> Reinforcement of Effluent Treatment Plant for a more robust process to treat effluent. Progressively replaced water distribution pipes and leakages to reduce water waste. Replacement of air washer in the factory premise for better heat transfer, and to reduce energy usage. Installation of lockable regulator for compressed air gun in the Secondary Manufacturing Department.

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GRI Code	Issue Area	Response for 2013
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Information not reported due to a lack of data systems needed to generate the required information. The development of the required data systems will be evaluated.
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	The Tobacco Importers and Manufacturers was fined RM1,500 by the Department of Environment in September 2013 due to an unintentional discharge of untreated effluent to public waterways as a result of an Effluent Treatment Plant malfunction. The malfunction was fixed on the spot with several preventive measures put in place.
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: RM1,067,400</p> <p>Below is the breakdown for total environmental protection expenditures and investments:</p> <ol style="list-style-type: none"> 1) Afforestation maintenance: RM602,000 2) Air washer replacement in factory premise: RM400,000 3) Lockable regulator for compressed air gun in the Secondary Manufacturing Department: RM15,400 4) Replacement of concealed water pipes: RM50,000
LA1	Total workforce by employment type, employment contract, and region.	<p>Total Workforce: 940</p> <p>Employment type</p> <p>Permanent/Full-time: 935</p> <ul style="list-style-type: none"> – Management: 647 – Non-Management: 288 <p>Temporary/Consultants/Contracts: 5</p> <p>British American Tobacco Malaysia's workforce broken down by regions:</p> <ol style="list-style-type: none"> a. North (Kedah, Penang, Perak, Perlis) = 71 b. South (Melaka, Johor)= 72 c. East Coast (Pahang, Terengganu, Kelantan) = 42 d. East Malaysia (Sabah, Sarawak)= 40 e. Central (Kuala Lumpur, Selangor, Negeri Sembilan) = 715

GRI Code	Issue Area	Response for 2013
LA2	Total number and rate of employee turnover by age group, gender, and region.	<p>As at 31 December 2013:</p> <p>The total number of employees who left employment in 2013 by age group:</p> <ul style="list-style-type: none"> a. less than 30 years old = 90 b. 30 – 50 years old = 111 c. above 50 years old = 39 <p>The total number of employees who left employment in 2013 by gender:</p> <ul style="list-style-type: none"> a. Male = 179 b. Female = 61 <p>The total number of employees who left employment in 2013 by region:</p> <ul style="list-style-type: none"> a. East Coast = 56 b. North = 5 c. South = 12 d. East Malaysia = 28 e. Central = 139
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 fulltime management and non-management employees:</p> <ul style="list-style-type: none"> a. Medical benefits b. Cigarette ration c. Free meals d. Annual, calamity, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, sports and pilgrimage leave e. Bonus f. Group Term Life Insurance Scheme g. Company vehicle and monthly cash allowance (depending on grade) h. Corporate club membership (depending on grade) i. Housing loan interest subsidy (depending on grade) j. Car loan interest subsidy (depending on grade)

GRI Code	Issue Area	Response for 2013
LA4	Percentage of employees covered by collective bargaining agreements.	<p>The percentage of total employees covered by collective bargaining agreements is 22 percent. As at 31 December 2013, all eligible employees amounting to 220 non-management staff were covered by the Collective Agreement.</p> <p>In October 2007, the Director General of the Trade Unions (DGTU) of the Ministry of Human Resources had decided that the in-house union, 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. The Court of Appeal affirmed the decision of the High Court and in Feb 2012, the Federal Court dismissed the leave application by BATEU.</p> <p>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.</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> <p>On 18 December 2013, TIM granted recognition to the national union, National Union of Tobacco Industry Workers, to represent the non-management employees of TIM. This paved the way for the said employees to be represented by a union and a new collective agreement to be negotiated.</p>
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	<p>The minimum notice period 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 was adhered to in the retrenchment exercise of the Leaf Tobacco Development Corporation of Malaya employees.</p> <p>The minimum notice period of 2 weeks as specified in the Guideline on Employee Engagement was adhered to in the conversion of the terms & conditions for the confidential category.</p> <p>(Please refer to LA4 on judicial review filed on behalf of BATEU)</p>

GRI Code	Issue Area	Response for 2013																																																					
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 (EHS) Committee.</p> <p>Six representatives each (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>																																																					
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.	<p>In 2013, British American Tobacco Malaysia achieved zero Lost Workday Cases (LWC) after clocking in a total of 1,875,437 man-hours without any workdays lost due to accidents.</p> <p>To date, the Commercial Marketers and Distributors entity, and Corporate Services have achieved 2,199,874 man-hours without a Lost Workday Case since September 2011, whereas the Tobacco Importers and Manufacturers achieved 1,309,639 man-hours without a Lost Workday Case.</p> <p>By comparison, in 2012 there were two lost workday cases reported during the year of which involved accidents in factory with a slip and fall and entrapment each.</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 Program</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Education/ Training</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>Programme recipients</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <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:</p> <p>Education/Training</p> <ol style="list-style-type: none"> Chemical Exposure Ergonomics Noise Conservation Programme H7N9 Awareness Cough Etiquettes and Importance of Hand Washing Haze Awareness First Aid/CPR Training 		Education/ Training		Counselling		Prevention/ Risk Control		Treatment		Yes	No	Yes	No	Yes	No	Yes	No	Programme recipients									Workers	√		√		√		√		Workers' families		√	√		√		√		Community members		√		√		√		
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GRI Code	Issue Area	Response for 2013
		<p>Counselling</p> <ul style="list-style-type: none"> a. Non-communicable Diseases – Shifting towards wellness and disease prevention b. Sickness Absenteeism c. Return to work d. Overseas Travel <p>Prevention/Risk Control</p> <ul style="list-style-type: none"> a. Immunisations b. Updates on Infectious Diseases e.g. H7N9 on the Company's intranet portal, notice boards, Lotus Notes c. Routine – Annual/Biennial Medical Examinations d. National Strategic Plan – Early Detection of Non-communicable Diseases – Coronary Care/ Hypertension/Diabetes/Gout e. Statutory Medical Examinations f. Vaccinations against Hepatitis A, Hepatitis B, Tetanus Toxoid and Influenza g. Provision of hand sanitisers and face masks and notice of precautions for overseas travel h. Chemical Hazardous Regulation Act Surveillance (CHRA) i. Breast Examination, Pap Smear, Mammogram/ Ultrasound Breast j. Bone Health Check <p>Treatment</p> <ul style="list-style-type: none"> a. Medications for Daily Sickness Report b. Medications for Non-communicable diseases c. Investigations d. Referral to specialists e. Compliance with medication f. Regular follow ups <p>For Workers' Families:</p> <p>Education/Training</p> <ul style="list-style-type: none"> a. On adhoc Basis <p>Counselling</p> <ul style="list-style-type: none"> a. On adhoc Basis b. On Confidentiality Basis <p>Prevention/Risk Control</p> <ul style="list-style-type: none"> a. On adhoc basis <p>Treatment</p> <ul style="list-style-type: none"> a. Clinic/Hospitalisation b. Medications

GRI Code	Issue Area	Response for 2013
		<p>In June 2013, the air quality in Malaysia hit hazardous levels caused by forest fires in Sumatra, Indonesia. British American Tobacco Malaysia set up a Haze Crisis Committee as part of the functional business continuity planning in response to a pandemic.</p> <p>The Occupational Health Manager also sent out email communications to update employees on the Malaysia Air Pollution Index (API) and health precautions throughout this period.</p>
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>Management attendee Central programmes: 9.84 hours Functional programmes: Operations – 0 hours Marketing – 0 hours</p> <p>Non-management 8.36 hours</p> <p>Non-management attendee 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 conduct their individual functional programmes.</p>

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GRI Code	Issue Area	Response for 2013
		However, the Marketing and Operations management employee programmes were conducted at a central level in 2012 instead of at a functional level, hence the record of nil for Marketing and Operations management employees.
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.
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 = 88.9 percent Female = 11.1 percent</p> <p>The percentage of British American Tobacco Malaysia's Board of Directors by age groups: Under 30 years old = 0 percent 30-50 years old = 22.2 percent [2 out of 9 directors] Over 50 years old = 77.8 percent</p> <p>The percentage of employees in British American Tobacco Malaysia by gender: Male = 82 percent Female = 18 percent</p> <p>The percentage of employees in British American Tobacco Malaysia by age groups: Under 30 years old = 28 percent 30-50 years old = 57 percent Over 50 years old = 15 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.	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.

GRI Code	Issue Area	Response for 2013
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 whistleblowing 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>
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>

GRI Code	Issue Area	Response for 2013
		<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 by May 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> <p>The Company had also implemented a Guideline on Employees Engagement in October 2011 which includes the process, scope and timelines on consulting employees.</p> <p>The following areas are defined to be within the scope of these Guidelines:</p> <ul style="list-style-type: none"> a) Employment status <ul style="list-style-type: none"> i) Voluntary Separation Schemes (VSS) ii) Retrenchment iii) Restructuring/regrading resulting in a change of employment b) Key employment terms <ul style="list-style-type: none"> i) Working days/hours ii) Rest Days/Off Days
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.
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.

GRI Code	Issue Area	Response for 2013
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	<p>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. Topics covered by our Employment Principles include:</p> <ul style="list-style-type: none"> a. Equality of opportunity and non-discrimination. b. Internal communications and the free flow of ideas. c. Worker representation and freedom of association. d. Fairness at work and the unacceptability of harassment and bullying. e. Do not condone or employ child labour. f. Forced or bonded labour is completely unacceptable. g. Performance responsibility. h. Health, safety and environmental responsibility. i. Community contributions and skills development for employees and communities in markets where our companies operate. j. Personal development and learning. k. Reasonable working hours and family friendly policies. l. Fair, clear and competitive remuneration and benefits.
SO2	Percentage and total number of business units analysed for risks related to corruption.	Please refer to page 35 on Standards of Business Conduct.
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	In May 2013, employees were briefed in a town hall meeting on a revision of British American Tobacco Malaysia's Standards of Business Contact (SOBC), which includes information about anti-corruption and bribery. The Company's revised SOBC is aligned to British American Tobacco p.l.c.' SOBC, which was revised to reflect latest developments and issues affecting corporate conduct and values. In particular, this includes the provisions of the United Kingdom Bribery Act 2010.
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 2013
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 2013, we undertook the following:</p> <ul style="list-style-type: none"> • Distribution of information leaflets in Bahasa Malaysia and Chinese to approximately 78,000 retailers nationwide that explained the types of illegal cigarettes, laws and penalties related to illicit tobacco trade. • Engaged with relevant Government law enforcement agencies on ways it could contribute to illicit trade reduction through presentations to various government agencies on the severity of illicit trade in Malaysia, on an industry platform through the Confederation of Malaysian Tobacco Manufacturers. • Continued to engage law enforcement agencies on carrying out more frequent raids and seizures and increase the penalties on those involved in illicit trade. These sessions also facilitated feedback from law enforcement agencies on ways and means of contributing towards reduction in illicit trade. • Conducted an engagement with the Session Court Judges and Magistrates via the platform of the Confederation of Malaysian Tobacco Manufacturers to increase awareness of rising illegal cigarette trade and lack of stringent penalties that contributes to this growth. • Discussion with the National Kenaf and Tobacco Board on closure of the tobacco leaf growing programme. <p>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</p>
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>

GRI Code	Issue Area	Response for 2013																				
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> <p>However, the Tobacco Importers and Manufacturers had been fined RM1,500 by the Department of Environment in September 2013 due to an unintentional discharge of untreated effluent to public waterways as a result of an Effluent Treatment Plant malfunction. Kindly refer to GRI G3 Reference EN28 for more information.</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>																				
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.	British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.																				
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 rowspan="2"></th> <th colspan="2">2013</th> </tr> <tr> <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> <tr> <td>Other (explain)</td> <td>N.A</td> <td>N.A</td> </tr> </tbody> </table>		2013		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		√	Other (explain)	N.A	N.A
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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 2013, 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.																				

GRI Code	Issue Area	Response for 2013
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 Principles (IMP) which provides a consistent and responsible approach to marketing across the Group. The Marketing Principles are our minimum standard and will be applied even when they are stricter than local laws.</p> <p>The IMP replaces the International Marketing Standards which were launched in 2001 and updated in 2007. The new Marketing Principles ensure our approach reflects developments in marketing, technology and changing regulations and stakeholder expectations.</p>
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.	No complaints were received regarding breaches of customer privacy and losses of customer data.
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

By being a winning organisation, we can ensure that we attract, develop and retain the best people we need to execute and deliver on our strategy.

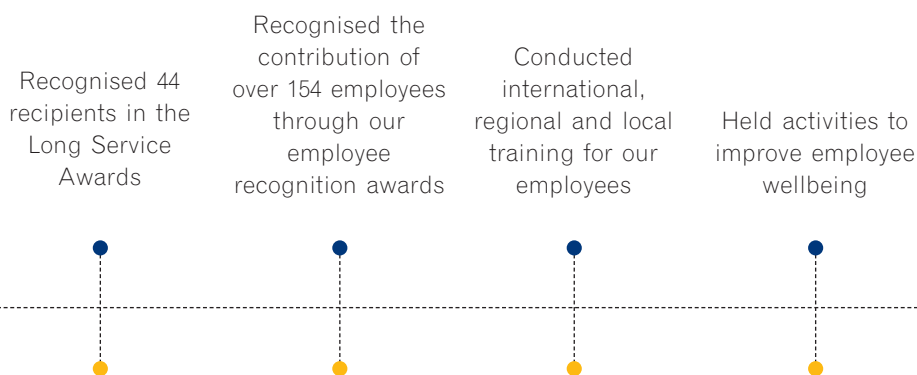


a high performing organisation of next generation leaders

British American Tobacco Malaysia prides itself on having great people and great teams. Our aim is to maintain a high performing organisation that can attract, develop and retain the next generation of leaders. We do this by encouraging an entrepreneurial mindset and by creating a culture of personal ownership. In order to embed feedback and empowerment as part of our culture, we have embarked on a leadership journey with our top 60 senior managers (called the Leadership 60).

We strongly believe that our business growth and continued success is fueled by our people. A winning organisation delivers winning results and as such, we are committed to creating the right environment that can nurture a Winning Organisation.

KEY HIGHLIGHTS IN 2013



RECOGNISING LONG SERVING EMPLOYEES

In recognition of their commitment and dedication to the Company, British American Tobacco Malaysia showed its appreciation towards the contribution of our long serving employees through its annual Long Service Award ceremony. In 2013, the annual Long Service Award ceremony

was held in conjunction with the Company's Annual Dinner in November.

A total of 44 employees were awarded the Long Service Award. Out of the total recipients, 16 were recipients for 10 years' service, 7 were for 20 years' service and 21 were for 30 years' service.

REWARDING OUTSTANDING CONTRIBUTION

In nurturing entrepreneurship and ownership, British American Tobacco Malaysia, works on a three-tiered award system which seeks to recognise and reward employees for their aspirational work behaviours, significant achievements and inspirational leadership in a challenging and demanding environment.

In 2013, the Company presented a total of 154 of these distinguished awards to well-deserved employees for their exceptional performance and leadership.

CONTINUOUS TALENT DEVELOPMENT

Continuous development of our employees is the cornerstone in building high performing individuals and teams in a high performing organisation.



● Recipients of the Long Service Awards 2013

Talent development in the Company is built on the *Agile Learning Model*, whereby employees' development are driven through *on the job* training, learning from others, and *off the job* learning, following a 70:20:10 time and resource allocation approach. All employees are encouraged to take ownership for their development with their line managers providing coaching, feedback and ongoing performance and development evaluations.

Employees are provided with a wide range of talent development options, which include the following:-

- Job rotations, assignments, or project work
- Secondments
- Coaching
- Performance and Development assessment and 360° feedback
- e-Learning & Online courses
- Formal classroom training

In 2013, the Company invested considerably on leadership development of its senior managers by organising a series of leadership development modules. These modules were geared at developing the participants' awareness of their leadership behaviours and its impact on others. This initiative was the beginning of the journey we have undertaken with the Leadership 60 group in creating a Legacy of Leaders.

British American Tobacco Malaysia also provides local, regional and international training to its employees. Listed here are some of our training programs that employees attended throughout 2013:

International & Regional training:

Program	Course Objectives
Leading a Global Business	To explore the future implications of the global marketplace environment and to challenge perceptions of what capabilities are required to lead a global business in the 21 st century.
Accelerated Leadership Program	To build leadership capabilities by accelerating the development of participants' awareness of their leadership behaviour and its impact on others.
Leadership Excellence Accelerator Program	To build critical experiences and skills in the areas of leadership, change, and strategy to support high performing senior managers to transition to the next management level.
Leading Self	To develop individual leadership capabilities via self-assessment tools, knowledge transfer, and exchange of experiences.
Negotiation Skill Masterclass	Develop knowledge and skills to manage complex negotiations in a professional, ethical, and competent manner.
Business Presentation Masterclass	Develop competencies in creating and delivering compelling business presentations.
License to Hire	To enhance effectiveness at hiring high potential talent.
Positive Program	Fundamental Trade Marketing and Distribution Program to equip Field Force employees with the required competencies in carrying out their role.

Local training:

Program	Course Objectives
Product Integrity & Traceability (PI&T) management and Responding to Product Recall	Best practice on Product Integrity & Traceability (PI&T) Framework in a Fast Moving Consumer Goods industry, consequences of product integrity failures and handling product recall.
Cigarette Packing	To train technical personnel on the required skill to operate and carry out minor troubleshooting.
Competitive & Market Intelligence Masterclass	To gain understanding on source and strategic application of market data and delivering impactful results.
Defensive Driving	Identifying defensive driving concepts, driving behaviours, vehicle control, and perform emergency accident avoidance.
How to Effectively Manage Employer's Obligations	To understand and manage an employer's tax obligation.

TALENT SOURCING: RECRUITING AND ATTRACTING GREAT TALENT

British American Tobacco Malaysia is known for attracting and developing great talent, as we believe our people are the core of our business success.

In 2013, various channels and strategies were implemented to meet our internal manpower demand. Reduced attraction lead time, simplified but stringent recruitment processes and constant contact with candidates were key areas of improvement in meeting these demands. As a result, we hired 29 management employees, 7 management trainees, 45 territory executives and 32 technical trainees this year.

Listed below are several key initiatives that British American Tobacco Malaysia embarked on for to source for talent:

- **E-recruitment went live across the globe**

The year 2013 was an exciting year for our talent as British American Tobacco Malaysia embarked on a global e-recruitment portal. The single global platform now provides our employees a transparent view of career opportunities across all markets.

Also, given the full visibility of job postings around other British American Tobacco operating centres, it has expanded the employees' view of potential roles for their future career developments. This portal also serves to attract talent from outside the Group

- **Understanding and responding to effective trends**

As it gets harder to attract great talent, we have also extended our talent sourcing network to include various social media channels to attract high potential talent and to also increase our visibility with the current workforce. In September 2013, we had great success in conducting our very own recruitment day with approximately 200 people walking in for interviews. Candidates were tested on their language proficiency and IQ, and those who performed well qualified for a panel interview, all on the same day.

- **Employee recommendations**

We believe that our employees make the best ambassadors and know how to spot the best talent for this organisation. In 2013, the *Employee Referral Program (ERP)* was revamped to further encourage our

current employees to refer potential talent to join the Company. This initiative helped to reduce cost and out dependency on recruitment agencies to fill roles and improved our employer brand.

EMPLOYEE ENGAGEMENT: EMPLOYEE BENEFITS AND WELLBEING

British American Tobacco Malaysia fosters a long-term commitment to attracting, retaining and motivating high quality workforce through constant review of our reward practices.

Employees enjoy loan interest subsidies, free meals, free parking, medical coverage, dental and optical reimbursements, group life insurance coverage and retirement benefits through additional EPF contribution, amongst others.

Our 2013 key initiatives on employees' well-being focused on the core element of a healthy lifestyle through better diet and health management. The initiatives outlined below were spearheaded by the Employee Relations and the Occupational Health department:

- Reviewed the quality of company meals and switched to a new caterer whereby employees were able to choose their preferred service provider.



● British American Tobacco Malaysia Sports Club members playing futsal

- Monitored employees for Hypertension, Diabetes, Gout and Coronary Artery Disease as per the National Strategic Plan for Non Communicable Diseases.
- Launched a *Healthy Bone Screening* programme which provided consultation on bone health to all employees.
- Communicated health awareness updates on issues such as the haze



● British American Tobacco Malaysia Sports Club members trying their luck at fishing

pollution and the Avian Influenza A H7N9 Virus.

Additionally, we continuously promoted work-life balance for all employees through fun activities organised by the British American Tobacco Malaysia Sports Club. These activities included:

- Recreational activities and competitions such as American Pool, Bowling, Fishing, Futsal,



● All dressed up for British American Tobacco Malaysia's 2013 Annual Dinner

Paintball, Street Photography and Treasure Hunt.

- Family Day for employees and their family members at Genting, Pahang.
- Annual Dinner at One World Hotel which was organised as a social get-together for all employees who are members of the British American Tobacco Malaysia Sports Club.

Developing our talent across the globe



British American Tobacco Malaysia is extremely proud of our Malaysian talent who are currently lending their expertise to other British American Tobacco entities across the Group

i) BANGLADESH

Finance Director

ii) INDONESIA

President Director, Export Leaf
Head of Supply Chain
Head of Corporate and Regulatory Affairs
Route to Market Development Manager

iii) PHILIPPINES

Route to Market Deployment Manager

iv) SINGAPORE

Head of Singapore Manufacturing
Regional Sourcing Manager
Operations Finance Manager

v) SOUTH KOREA

Group Brand Manager
Trade Marketing and Distribution
Program Implementation Manager

vi) UNITED KINGDOM

Head of Brand Strategy
Development



**BRITISH AMERICAN
TOBACCO**
MALAYSIA

reports and
FINANCIAL
STATEMENTS

FINANCIAL STATEMENTS

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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 2013.

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. The principal activities of the subsidiaries are as disclosed in note 13 to the financial statements.

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

FINANCIAL RESULT

	Group RM'000	Company RM'000
Profit before tax	1,105,399	882,599
Tax expense	(281,959)	(5,208)
Net profit for the financial year	823,440	877,391

DIVIDENDS

	RM'000
The dividends paid or declared by the Company since 31 December 2012 were as follows:	
In respect of the financial year ended 31 December 2012, as shown in the Directors' report of that year:	
Fourth interim dividend of 77.0 sen per share, tax exempt under the single-tier system, paid on 27 March 2013	219,858
In respect of the financial year ended 31 December 2013:	
First interim dividend of 68.0 sen per share, tax exempt under the single-tier system, paid on 23 May 2013	194,160
Second interim dividend of 68.0 sen per share, tax exempt under the single-tier system, paid on 29 August 2013	194,160
Third interim dividend of 68.0 sen per share, tax exempt under the single-tier system, paid on 28 November 2013	194,158
	582,478
	802,336

The Directors declared a fourth interim dividend of 78.0 sen per share, tax exempt under the single-tier tax system amounting to RM222,713,400 in respect of the financial year ended 31 December 2013, payable on 27 March 2014, to all shareholders whose names appear on the Register of Members and Record of Depositors on 7 March 2014. These financial statements do not reflect the fourth interim dividend which will be accounted for in the financial year ending 31 December 2014.

The Directors do not recommend a final dividend in respect of the financial year ended 31 December 2013.

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:

Datuk Mohamad Salim Bin Fateh Din (Chairman)
Datuk Toh Ah Wah (retired on 30 June 2013)
Stefano Clini (appointed on 1 May 2013)
Dato' Ahmad Johari bin Tun Abdul Razak
Andreas Michael Thompson
Dato' Chan Choon Ngai
James Richard Suttie
Datuk Oh Chong Peng
Datuk Zainun Aishah Binti Ahmad
Lee Oi Kuan

In accordance with Article 103 of the Company's Articles of Association, Stefano Clini will retire from the Board at the forthcoming Annual General Meeting and being eligible, has offered himself for re-election.

In accordance with Articles 97(1) and (2) of the Company's Articles of Association, Dato' Chan Choon Ngai, Datuk Zainun Aishah Binti Ahmad and Lee Oi Kuan will retire by rotation from the Board at the forthcoming Annual General Meeting and being eligible, have offered themselves for re-election.

Datuk Oh Chong Peng who served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years, will seek for re-election to continue to act as an Independent Non-Executive Director of the Company. The Board recommends that Datuk Oh Chong Peng be re-elected as an Independent Non-Executive Director of the Company and to hold office until the conclusion of the next Annual General Meeting.

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 regarded by the Directors 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 the Company			
	At 1.1.13	Bought	Sold	At 31.12.13
Shareholdings in the name of the Director:				
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 1.1.13/ Date of appointment	Bought/ Granted	Sold	At 31.12.13
Shareholdings in the name of the Director:				
James Richard Suttie	14,227	–	–	14,227
Andreas Michael Thompson	4,841	4,710	6,735	2,816
Lee Oi Kuan	7,840	920	206	8,554

Ultimate Holding Company – British American Tobacco p.l.c.	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.13/ Date of appointment	Awarded	Vested	At 31.12.13
Deferred Share Bonus Scheme, Sharesave & International Share Reward Scheme:				
Shareholdings in the name of the Director:				
Andreas Michael Thompson	5,972	1,421	2,058	5,335
Lee Oi Kuan	5,049	1,180	784	5,445
Stefano Clini	534	–	–	534

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Ultimate Holding Company – British American Tobacco p.l.c. Shareholdings in the name of the Director	At 1.1.13 / Date of appointment	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c.			
		Granted	Exercised	Lapsed	At 31.12.13
Andreas Michael Thompson					
LTIP – Nil (13 March 2018)	2,500	–	2,500	–	–
LTIP – Nil (27 March 2019)	6,982	–	–	–	6,982
LTIP – Nil (25 March 2020)	5,144	–	–	633	4,511
LTIP – Nil (25 March 2021)	5,228	–	–	–	5,228
LTIP – Nil (28 March 2022)	4,067	–	–	–	4,067
LTIP – Nil (22 March 2023)	–	3,873	–	–	3,873
Lee Oi Kuan					
LTIP – Nil (27 March 2019)	5,443	–	–	–	5,443
LTIP – Nil (25 March 2020)	3,870	–	–	477	3,393
LTIP – Nil (25 March 2021)	4,377	–	–	–	4,377
LTIP – Nil (28 March 2022)	3,524	–	–	–	3,524
LTIP – Nil (22 March 2023)	–	3,356	–	–	3,356
Stefano Clini					
LTIP – Nil (22 March 2023)	–	21,611	–	–	21,611

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 regarded by the Directors 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 financial statements of the Group and of the Company were made out, the Directors took reasonable steps:

- 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
- to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business at their values as shown in the accounting records of the Group and of the 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:

- 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 of the Company inadequate to any substantial extent; or
- which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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 of the Group or of the Company 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 of the 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 19 February 2014.



Stefano Clini
Managing Director



Andreas Michael Thompson
Finance Director

Petaling Jaya


statement by directors

pursuant to Section 169(15) of The Companies Act, 1965

We, STEFANO CLINI 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 131 to 189 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and of the results and cash flows of the Group and of the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of The Companies Act, 1965.

The supplementary information set out on page 190 have 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.

Signed on behalf of the Board of Directors in accordance with a resolution dated 19 February 2014.



Stefano Clini
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 131 to 189 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 above named Andreas Michael Thompson at Petaling Jaya in the state of Selangor on 19 February 2014.

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 131 to 189 which comprise the balance sheet as at 31 December 2013 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 and other explanatory notes, as set out on Notes 1 to 32.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of The Companies Act, 1965 in Malaysia. The directors are also responsible 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 give a true and fair view of the balance sheet of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of The Companies Act, 1965 in Malaysia.

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 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.
- (c) Our 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 on page 190 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



LOH LAY CHOON

(No. 2497/03/14(J))

Chartered Accountant

Kuala Lumpur
19 February 2014

income statements

for the financial year ended 31 December 2013

	Note	Group		Company	
		Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
Revenue	2	4,517,222	4,364,786	878,608	773,510
Cost of sales		(2,995,331)	(2,865,590)	-	-
Gross profit		1,521,891	1,499,196	878,608	773,510
Other operating income		1,990	11,887	34,882	7,216
Distribution and marketing costs		(259,095)	(271,747)	-	-
Administrative expenses		(123,355)	(156,376)	(13,332)	(22,033)
Other operating expenses		(15,334)	(3,065)	(270)	(230)
Profit from operations	3	1,126,097	1,079,895	899,888	758,463
Finance cost – interest expense		(20,698)	(25,512)	(17,289)	(26,222)
Profit before tax		1,105,399	1,054,383	882,599	732,241
(Tax expense)/Tax credit	6	(281,959)	(256,637)	(5,208)	105
Profit for the financial year		823,440	797,746	877,391	732,346
Profit attributable to:					
Owners of the Company		823,440	797,746	877,391	732,346
Earnings per share (sen)	7	288.4	279.4	307.3	256.5
Net dividends per share (sen)	8	282.0	272.0	282.0	272.0

The accounting policies on pages 139 to 152 and the notes on pages 153 to 189 form an integral part of these financial statements.

statements of comprehensive income

for the financial year ended 31 December 2013

	Note	Group		Company	
		Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
Profit for the financial year		823,440	797,746	877,391	732,346
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
– Defined benefit plan actuarial gain/(loss)		1,801	(159)	148	(287)
– Deferred tax on defined benefit plan actuarial (loss)/gain	14	(450)	40	(37)	72
Items that may be subsequently reclassified to profit or loss					
– Changes in fair value of cash flow hedges		1,308	1,022	–	4
– Deferred tax on fair value changes on cash flow hedges	14	(327)	(255)	–	(1)
Total other comprehensive income for the financial year		2,332	648	111	(212)
Total comprehensive income for the financial year		825,772	798,394	877,502	732,134
Total comprehensive income for the financial year attributable to:					
Owners of the Company		825,772	798,394	877,502	732,134

The accounting policies on pages 139 to 152 and the notes on pages 153 to 189 form an integral part of these financial statements.

balance sheets

as at 31 December 2013

	Note	Group		Company	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Non current assets					
Property, plant and equipment	9	380,736	416,014	7,687	15,064
Investment property	10	–	134	–	–
Computer software	11	1,970	2,801	1,488	2,801
Goodwill	12	411,618	411,618	–	–
Subsidiaries	13	–	–	973,389	973,389
Deferred tax assets	14	10,806	21,089	677	5,276
Loan to a subsidiary	15	–	–	–	80,000
		805,130	851,656	983,241	1,076,530
Current assets					
Assets held for sale	16	4,605	417	4,374	–
Inventories	17	293,979	312,217	–	–
Receivables	18	200,469	200,400	4,823	38,420
Loan to a subsidiary	15	–	–	80,000	–
Derivative financial instruments	23	7,286	2,287	–	–
Tax recoverable		–	418	481	418
Deposits, cash and bank balances	19	59,596	78,391	43,076	21,826
		565,935	594,130	132,754	60,664
Current liabilities					
Payables	20	232,172	317,828	497,191	590,763
Deferred income	21	3,304	3,304	–	–
Derivative financial instruments	23	3,622	2,670	–	–
Current tax liabilities		69,849	85,828	–	–
Borrowings (interest bearing)	22	510,000	250,000	250,000	–
		818,947	659,630	747,191	590,763
Net current liabilities					
		(253,012)	(65,500)	(614,437)	(530,099)
		552,118	786,156	368,804	546,431
Capital and reserves					
Share capital	24	142,765	142,765	142,765	142,765
Cash flow hedge reserve		1,506	525	–	–
Retained earnings		364,061	341,606	226,039	150,873
Shareholders' funds					
		508,332	484,896	368,804	293,638
Non current liabilities					
Borrowings (interest bearing)	22	–	250,000	–	250,000
Deferred income	21	6,324	9,628	–	–
Post employment benefit obligations	25	–	5,115	–	2,793
Deferred tax liabilities	14	37,462	36,517	–	–
		552,118	786,156	368,804	546,431

The accounting policies on pages 139 to 152 and the notes on pages 153 to 189 form an integral part of these financial statements.

consolidated statement of changes in equity

for the financial year ended 31 December 2013

	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 2013		285,530	142,765	525	-	341,606	484,896
Profit for the financial year 31 December 2013		-	-	-	-	823,440	823,440
Other comprehensive income:							
- changes in fair value of cash flow hedges	23	-	-	1,308	-	-	1,308
- defined benefit plan actuarial loss	25	-	-	-	-	1,801	1,801
- deferred tax on fair value changes on cash flow hedges	14	-	-	(327)	-	-	(327)
- deferred tax on defined benefit plan	14	-	-	-	-	(450)	(450)
Total comprehensive income		-	-	981	-	824,791	825,772
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	-	-	-	3,475	-	3,475
Recharge of share based payment	31	-	-	-	(3,475)	-	(3,475)
Dividends for financial year ended 31 December 2012							
- fourth interim	8	-	-	-	-	(219,858)	(219,858)
Dividends for financial year ended 31 December 2013							
- first interim	8	-	-	-	-	(194,160)	(194,160)
- second interim	8	-	-	-	-	(194,160)	(194,160)
- third interim	8	-	-	-	-	(194,158)	(194,158)
Total transaction with owners		-	-	-	-	(802,336)	(802,336)
At 31 December 2013		285,530	142,765	1,506	-	364,061	508,332

The accounting policies on pages 139 to 152 and the notes on pages 153 to 189 form an integral part of these financial statements.

	Issued and fully paid ordinary shares of 50 sen each						
	Note	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 2012		285,530	142,765	(242)	–	289,212	431,735
Profit for the financial year 31 December 2012		–	–	–	–	797,746	797,746
Other comprehensive income:							
– changes in fair value of cash flow hedges	23	–	–	1,022	–	–	1,022
– defined benefit plan actuarial loss	25	–	–	–	–	(159)	(159)
– deferred tax on fair value changes on cash flow hedges	14	–	–	(255)	–	–	(255)
– deferred tax on defined benefit plan	14	–	–	–	–	40	40
Total comprehensive income		–	–	767	–	797,627	798,394
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	–	–	–	5,135	–	5,135
Recharge of share based payment	31	–	–	–	(5,135)	–	(5,135)
Dividends for financial year 31 December 2011							
– fourth interim		–	–	–	–	(188,450)	(188,450)
Dividends for financial year 31 December 2012							
– first interim	8	–	–	–	–	(185,594)	(185,594)
– second interim	8	–	–	–	–	(185,594)	(185,594)
– third interim	8	–	–	–	–	(185,595)	(185,595)
Total transaction with owners		–	–	–	–	(745,233)	(745,233)
At 31 December 2012		285,530	142,765	525	–	341,606	484,896

The accounting policies on pages 139 to 152 and the notes on pages 153 to 189 form an integral part of these financial statements.

company statement of changes in equity

for the financial year ended 31 December 2013

	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 2013		285,530	142,765	-	-	150,873	293,638
Profit for the financial year ended 31 December 2013		-	-	-	-	877,391	877,391
Other comprehensive income:							
- defined benefit plan actuarial loss	25	-	-	-	-	148	148
- deferred tax on defined benefit plan		-	-	-	-	(37)	(37)
Total comprehensive income		-	-	-	-	877,502	877,502
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	-	-	-	1,634	-	1,634
Recharge of share based payment	31	-	-	-	(1,634)	-	(1,634)
Dividends for financial year ended 31 December 2012							
- fourth interim	8	-	-	-	-	(219,858)	(219,858)
Dividends for financial year ended 31 December 2013							
- first interim	8	-	-	-	-	(194,160)	(194,160)
- second interim	8	-	-	-	-	(194,160)	(194,160)
- third interim	8	-	-	-	-	(194,158)	(194,158)
Total transaction with owners		-	-	-	-	(802,336)	(802,336)
At 31 December 2013		285,530	142,765	-	-	226,039	368,804

The accounting policies on pages 139 to 152 and the notes on pages 153 to 189 form an integral part of these financial statements.

	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 2012	285,530	142,765	(3)	–	163,975	306,737
Profit for the financial year ended 31 December 2012	–	–	–	–	732,346	732,346
Other comprehensive income:						
– changes in fair value of cash flow hedges	23	–	4	–	–	4
– defined benefit plan actuarial loss	25	–	–	–	(287)	(287)
– deferred tax on fair value changes on cash flow hedges	14	–	(1)	–	–	(1)
– deferred tax on defined benefit plan		–	–	–	72	72
Total comprehensive income	–	–	3	–	732,131	732,134
Transaction with owners:						
Expense arising from equity-settled share based payment transactions	31	–	–	3,532	–	3,532
Recharge of share based payment	31	–	–	(3,532)	–	(3,532)
Dividends for financial year ended 31 December 2011						
– fourth interim		–	–	–	(188,450)	(188,450)
Dividends for financial year ended 31 December 2012						
– first interim	8	–	–	–	(185,594)	(185,594)
– second interim	8	–	–	–	(185,594)	(185,594)
– third interim	8	–	–	–	(185,595)	(185,595)
Total transaction with owners	–	–	–	–	(745,233)	(745,233)
At 31 December 2012	285,530	142,765	–	–	150,873	293,638

The accounting policies on pages 139 to 152 and the notes on pages 153 to 189 form an integral part of these financial statements.

statements of cash flows

for the financial year ended 31 December 2013

	Note	Group		Company	
		Year ended	Year ended	Year ended	Year ended
		31.12.13 RM'000	31.12.12 RM'000	31.12.13 RM'000	31.12.12 RM'000
Operating activities					
Cash receipts from customers and related companies		4,512,472	4,331,138	33,597	6,540
Cash paid to suppliers, employees and related companies		(3,407,769)	(3,351,934)	(54,146)	(39,110)
Dividends received from subsidiaries		–	–	870,000	765,100
Cash from operations	26	1,104,703	979,204	849,451	732,530
Income tax paid		(287,069)	(245,734)	(709)	(403)
Net cash flow from operating activities		817,634	733,470	848,742	732,127
Investing activities					
Property, plant and equipment					
– additions		(35,319)	(48,288)	(1,325)	(4,865)
– disposals		9,780	5,024	187	108
Asset held for sale					
– disposals		1,250	–	–	–
Investment Properties					
– disposals		200	–	–	–
Computer software					
– additions		(484)	(613)	–	(613)
Proceeds from capital reduction in subsidiaries		–	–	–	49,200
Interest income received		1,178	7,296	5,040	5,324
Repayment from subsidiaries		–	–	–	272,500
Net cash flow (used in)/from investing activities		(23,395)	(36,581)	3,902	321,654
Financing activities					
Dividends paid to shareholders		(802,336)	(745,233)	(802,336)	(745,233)
Interest expense paid		(20,698)	(29,912)	(29,058)	(32,588)
Proceeds from revolving credit		10,000	250,000	–	–
Repayment of medium term notes		–	(400,000)	–	(400,000)
Net cash flow used in financing activities		(813,034)	(925,145)	(831,394)	(1,177,821)
(Decrease)/Increase in cash and cash equivalents		(18,795)	(228,256)	21,250	(124,040)
Cash and cash equivalents as at 1 January		78,391	306,647	21,826	145,866
Cash and cash equivalents as at 31 December	19	59,596	78,391	43,076	21,826

The accounting policies on pages 139 to 152 and the notes on pages 153 to 189 form an integral part of these financial statements.

summary of significant accounting policies

for the financial year ended 31 December 2013

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summary of significant accounting policies

for the financial year ended 31 December 2013

A. BASIS OF PREPARATION

The financial statements of the Group and Company have been prepared in accordance with the provisions of the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of The Companies Act 1965 in Malaysia.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS 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 reported period. It also requires Directors to exercise their judgment in the process of applying the Group and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 32.

The Group has applied the standards, amendments to standards and interpretations in year 2013.

- 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'.
- 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 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.
- 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 income statement in the future. The amendments do not address which items are presented in OCI.
- 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.
- Amendment to MFRS 7, 'Financial Instruments: Disclosures' (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the balance sheet and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

A. BASIS OF PREPARATION (CONTINUED)

The Group will apply the new standards, amendments to standards and interpretations in the following period:

(i) Financial year beginning on/after 1 January 2014

- Amendment to MFRS 132, 'Financial Instruments: Presentation' (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

(ii) Financial year beginning on/after 1 January 2017

MFRS 9, 'Financial Instruments replaces the parts of MFRS 139' that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess MFRS 9's full impact. The Group will also consider the impact of the remaining phases of MFRS 9 when completed by the Board.

Unless otherwise disclosed, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Group and of the Company in the year of initial application.

B. 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 all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

C. REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue earned from the sale of the Group's product 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.

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are initially stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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 indefinite life. Leasehold land classified as finance lease is amortised in equal installments over the period of the respective leases that range from 15 to 45 years.

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.

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.

D. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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. The impairment loss is charged to income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in the income statement.

E. INVESTMENT PROPERTY

Investment property, comprising principally of a building, is held for long term rental yields or for capital appreciation or both, and is not occupied by the Group.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs if the investment property meets the definition of qualifying asset.

After initial recognition, investment property is stated at cost less any accumulated depreciation and impairment losses. Investment property is depreciated on the straight line basis to allocate the cost to their residual values over their estimated useful lives of 35 to 40 years.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Gains and losses on disposals are determined by comparing net disposal proceeds with the carrying amount and are included in the income statement.

Property is subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss is charged to income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus.

F. LEASES

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Accounting by Lessee

(i) Operating leases

Leases of assets where 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 the straight line basis over the lease period. Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in income statement when incurred.

(ii) Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

G. 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 and sale is considered highly probable 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 income statement 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.

H. INTANGIBLE ASSETS

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is assessed based on single cash generating units ("CGUs"), that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve. Impairment is recognised immediately as an expense and is not subsequently reversed.

(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 three years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

I. INVESTMENTS IN SUBSIDIARIES

In the Company's separate financial statements, investments in subsidiaries are carried at cost less accumulated impairment losses.

On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments is recognised in income statement.

J. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads and gains/losses on qualifying cash flow hedges for purchases of raw materials. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges for purchases of raw materials.

K. 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.

L. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short term, highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, banks overdrafts are shown within borrowings in current liabilities.

M. 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 defined contribution plans are charged to income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Defined Benefit Plan

The Group operated 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 companies. The Group's retirement benefit obligation is determined based on a biennial 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 defined benefit liability recognised in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets, together with adjustments for unrecognised past service cost. The Group determines the present value of the defined benefit obligation and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

The defined benefit obligation, calculated using the projected unit credit method, is determined by independent actuaries, by discounting the estimated future cash outflows using market yields at the end of the reporting period on investment grade bonds which have currency and terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in retained earnings in other comprehensive income in the period in which they arise. The actuarial gains and losses are not subsequently reclassified to income statement in subsequent period.

M. EMPLOYEE BENEFITS (CONTINUED)**(iii) Defined Benefit Plan (continued)**

Past service costs are recognised immediately in income statement, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

The Board has approved the dissolution of British American Tobacco Malaysia Retirement Scheme as at 30 September 2013 and settled the retirement benefits up to 30 September 2013 by the way of transfer to Employees Provident Fund account of the members.

(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 when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after end of the reporting period are discounted to present value.

(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 equity interest in the Company and is regarded by the Directors 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.

N. 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.

O. PROVISIONS

Provisions are recognised when:

- (i) the Group has a present legal or constructive obligation as a result of past events;
- (ii) it is probable that an outflow of resources will be required to settle the obligation; and
- (iii) a reliable estimate of the amount can be made.

P. 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 five years. The distribution rights fee is recognised into the income statement over the five 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.

Q. 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. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. 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.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

R. FOREIGN CURRENCIES

(i) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

R. FOREIGN CURRENCIES (CONTINUED)**(ii) Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'.

(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	31.12.2013	31.12.2012
1 US Dollar	3.2755	3.0580
1 Pound Sterling	5.4250	4.9708
1 Euro	4.5135	4.0317

S. FINANCIAL ASSETS**(i) Classification**

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'receivables' and 'deposits, cash and bank balances' in the balance sheet.

(ii) 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.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

S. FINANCIAL ASSETS (CONTINUED)

(iii) Subsequent measurement – Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of the 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 (or events) 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 impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 income statement. If 'loans and receivables' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(iv) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

T. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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 the income statement over the period of the borrowings using the effective interest method, except for borrowing costs incurred for the construction of any qualifying asset.

U. BORROWINGS (CONTINUED)

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. All other borrowing costs are recognised in income statement in the period in which they are incurred.

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, assessing performance, and making strategic decisions.

The Group is a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products 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.

Y. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives in the Group that qualify for hedge accounting are designated as cash flow hedge.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 23. Movements on the hedging reserve are shown in other comprehensive income. The full fair value of a hedging derivative is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Y. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in income statement within 'other gains/(losses) – net.'

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects the income statement. When the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventories or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains/(losses) – net'.

notes to the financial statements

as at 31 December 2013

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 Directors regard 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 31.12.13 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
Sale of semi finished goods, cigarettes, pipe tobaccos and cigars	4,517,222	4,364,786	–	–
Dividend income from unquoted subsidiaries	–	–	870,000	765,100
Management fee received from subsidiaries	–	–	4,883	4,868
Fee for usage of property, plant and equipment received from subsidiaries	–	–	3,725	3,542
	4,517,222	4,364,786	878,608	773,510

3. PROFIT FROM OPERATIONS

	Group		Company	
	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
Profit from operations is arrived at:				
After charging:				
Raw materials and consumables used	632,117	522,236	–	–
Excise payment	1,926,524	2,167,776	–	–
Auditors' remuneration:				
– statutory audit	400	393	225	205
Property, plant and equipment:				
– depreciation (Note 9)	56,121	49,450	3,958	3,725
– loss on disposal	91	125	183	157
Investment property				
– depreciation (Note 10)	4	4	–	–
Computer software				
– amortisation (Note 11)	1,315	2,554	1,313	2,554
Impairment of asset	–	18,706	–	–
Amortisation of prepayment	–	1,200	–	–
Rental of land and buildings	5,346	3,556	–	–
Inventories written off	5,813	2,608	–	–
Bad debts written (back)/off	(1,215)	74	–	–
Net foreign exchange loss	257	5,694	257	252
Staff costs (Note 5)	117,718	118,034	22,815	26,462
And crediting:				
Gain on disposal				
– investment property	70	–	–	–
– assets held for sale	833	–	–	–
Reversal on provision for litigation	–	11,062	–	–
Interest income on loan to subsidiary	–	–	5,040	5,040
Interest income on deposits	1,178	7,110	842	1,955
Net foreign exchange gain	4,308	–	–	–

4. DIRECTORS' REMUNERATION

	Group		Company	
	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
Fees	845	667	845	667
Other emoluments	16,298	12,741	14,505	10,920
	17,143	13,408	15,350	11,587

4. DIRECTORS' REMUNERATION (CONTINUED)

The estimated monetary value of benefits in kind provided to Directors of the Group and Company during the financial year amounted to RM5,795,917 (2012: RM3,368,077) and RM5,795,917 (2012: RM957,879) respectively.

Included within other emoluments are share-based payments amounting to RM1,264,214 (2012: RM1,318,482) which were made to certain Directors of the Group and Company (during their employment with the Group) 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 2013, 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.

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.13	Awarded in 2013	Vested in 2013	At 31.12.13
Executive Directors				
Deferred Share Bonus Scheme	24,899	2,522	(16,906)	10,515
International Share Reward Scheme	283	79	(97)	265
	25,182	2,601	(17,003)	10,780

Details of the movements of the Directors' participation in the equity-settled Long Term Incentive Plan is as follows, representing costs incurred by the Group and Company during the tenure of the Directors' service with the Group and Company:

Grant Price	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.13	Granted in 2013	Exercised in 2013	Other movements*	At 31.12.13
£19.03	2,500	-	(2,500)	-	-
£15.79	12,425	-	-	-	12,425
£22.58	19,331	-	(9,048)	(2,379)	7,904
£23.77	21,329	-	(5,987)	(5,737)	9,605
£32.08	16,362	-	(742)	(8,029)	7,591
£35.05	-	28,840	-	-	28,840
	71,947	28,840	(18,277)	(16,145)	66,365

* Other movements relate to options that would have lapsed or movement of Directors during the financial year

5. STAFF COSTS

	Group		Company	
	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
Wages, salaries and bonuses	82,962	85,002	14,193	22,423
Defined contribution plan	14,610	19,146	3,002	3,470
Voluntary redundancy package	4,832	681	1,517	–
Other staff related expenses	15,314	13,205	4,103	569
	117,718	118,034	22,815	26,462

The Group voluntarily provide additional 4.0 percent 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 costs is an amount for other emoluments as part of Directors' remuneration disclosed in Note 4 to the financial statements.

Voluntary redundancy package is a result of restructuring of leaf operation.

Staff costs recharged by the Company to the subsidiaries amounted to RM19,581,806 (2012: RM22,628,000).

6. TAX EXPENSE

The tax charge on the profit for the financial year consists of the following:

	Group		Company	
	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
<u>In respect of current year</u>				
Current tax				
– Malaysian income tax	269,945	262,742	646	751
– Foreign tax	–	5	–	–
Deferred tax (Note 14 (i))	10,451	(6,941)	4,562	(856)
<u>In respect of prior years</u>				
Under/(Over) provision in respect of prior years				
– Malaysian income tax	1,563	836	–	–
– Foreign tax	–	(5)	–	–
	281,959	256,637	5,208	(105)

6. TAX EXPENSE (CONTINUED)

The average effective tax rates of the Group and Company are reconciled to the statutory tax rate as follows:

	Group		Company	
	Year ended	Year ended	Year ended	Year ended
	31.12.13	31.12.12	31.12.13	31.12.12
	RM'000	RM'000	RM'000	RM'000
Statutory tax rate	25%	25%	25%	25%
Expenses not deductible for tax purposes	–	1%	–	1%
Utilisation of reinvestment allowances	–	–	–	–
Income not subject to tax	–	-2%	-25%	-26%
Average effective tax rate	25%	24%	–	–

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		Company	
	Year ended	Year ended	Year ended	Year ended
	31.12.13	31.12.12	31.12.13	31.12.12
	RM'000	RM'000	RM'000	RM'000
Profit for the financial year (RM'000)	823,440	797,746	877,391	732,346
Number of ordinary shares of 50 sen each in issue ('000)	285,530	285,530	285,530	285,530
Earnings per share (sen)	288.4	279.4	307.3	256.5

8. DIVIDENDS

Dividends paid, declared or proposed in respect of the financial year are as follows:

	Group and Company					
	Year ended 31.12.13			Year ended 31.12.12		
	Gross per share	Net per share	Amount of dividend	Gross per share	Net per share	Amount of dividend
Sen	Sen	RM'000	Sen	Sen	RM'000	
First interim dividend	68.0	68.0	194,160	65.0	65.0	185,594
Second interim dividend	68.0	68.0	194,160	65.0	65.0	185,594
Third interim dividend	68.0	68.0	194,158	65.0	65.0	185,595
Fourth interim dividend	78.0	78.0	222,713	77.0	77.0	219,858
	282.0	282.0	805,191	272.0	272.0	776,641

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.

8. DIVIDENDS (CONTINUED)

The Directors declared a fourth interim dividend of 78.0 sen per share at the Board of Directors' meeting on 19 February 2014 amounting to RM222,713,400, in respect of the financial year ended 31 December 2013 which will be paid on 27 March 2014 to shareholders registered in the Company's Register of Members at the close of business on 7 March 2014. These financial statements do not reflect the fourth interim dividend which will be accounted for in the financial year ending 31 December 2014.

The directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2013.

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 2012	79,310	303,144	6,818	19,107	15,953	424,332
Additions	126	18,174	5,066	7,909	17,013	48,288
Disposals	–	–	(143)	(5,006)	–	(5,149)
Impairment	–	–	(1,590)	–	–	(1,590)
Depreciation charge	(5,508)	(33,017)	(5,317)	(5,608)	–	(49,450)
Transfer to assets held for sale	(417)	–	–	–	–	(417)
Net book value at						
31 December 2012	73,511	288,301	4,834	16,402	32,966	416,014
Additions	–	1,780	1,833	7,886	23,820	35,319
Disposals	(480)	(4,213)	339	(5,517)	–	(9,871)
Impairment	–	–	–	–	–	–
Depreciation charge	(2,708)	(41,573)	(6,666)	(5,174)	–	(56,121)
Transfer to Machinery and Equipment	–	28,711	–	–	(28,711)	–
Transfer to asset held for sale	(4,401)	(118)	(20)	(66)	–	(4,605)
Net book value at						
31 December 2013	65,922	272,888	320	13,531	28,075	380,736
At 31 December 2012						
Cost/Deemed Cost	152,697	558,668	163,439	35,820	32,966	943,590
Accumulated depreciation and impairment	(79,186)	(270,367)	(158,605)	(19,418)	–	(527,576)
Net book value	73,511	288,301	4,834	16,402	32,966	416,014
At 31 December 2013						
Cost/Deemed Cost	143,429	566,761	163,284	30,204	28,075	931,753
Accumulated depreciation and impairment	(77,507)	(293,873)	(162,964)	(16,673)	–	(551,017)
Net book value	65,922	272,888	320	13,531	28,075	380,736

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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 2012	6,361	764	3,635	3,199	–	13,959
Additions	–	–	4,865	–	–	4,865
Transfer from subsidiary	–	–	–	230	–	230
Disposals	–	–	(3)	(262)	–	(265)
Depreciation charge	(255)	(47)	(2,761)	(662)	–	(3,725)
Net book value at 31 December 2012	6,106	717	5,736	2,505	–	15,064
Additions	–	–	701	624	–	1,325
Disposals	–	–	–	(370)	–	(370)
Depreciation charge	(256)	(43)	(3,033)	(626)	–	(3,958)
Transfer to Asset held for sale	(4,374)	–	–	–	–	(4,374)
Net book value at 31 December 2013	1,476	674	3,404	2,133	–	7,687
At 31 December 2012						
Cost/Deemed Cost	10,476	1,213	21,691	5,336	–	38,716
Accumulated depreciation	(4,370)	(496)	(15,955)	(2,831)	–	(23,652)
Net book value	6,106	717	5,736	2,505	–	15,064
At 31 December 2013						
Cost/Deemed Cost	1,857	1,213	21,157	4,945	–	29,172
Accumulated depreciation	(381)	(539)	(17,753)	(2,812)	–	(21,485)
Net book value	1,476	674	3,404	2,133	–	7,687

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold Land Cost RM'000	Leasehold Land Cost RM'000	Buildings Cost RM'000	Total Land and Buildings RM'000
GROUP				
Net book value at 1 January 2012	105	17,969	61,236	79,310
Additions	–	–	126	126
Depreciation charge	–	(368)	(5,140)	(5,508)
Transfer to assets held for sale	–	–	(417)	(417)
Net book value at 31 December 2012	105	17,601	55,805	73,511
Disposal	–	–	(480)	(480)
Depreciation charge	–	(368)	(2,340)	(2,708)
Transfer to assets held for sale	–	(558)	(3,843)	(4,401)
Net book value at 31 December 2013	105	16,675	49,142	65,922
At 31 December 2012				
Cost/Deemed Cost	105	27,521	125,071	152,697
Accumulated depreciation and impairment	–	(9,920)	(69,266)	(79,186)
Net book value	105	17,601	55,805	73,511
At 31 December 2013				
Cost/Deemed Cost	105	26,520	116,804	143,429
Accumulated depreciation and impairment	–	(9,845)	(67,662)	(77,507)
Net book value	105	16,675	49,142	65,922

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold Land Cost RM'000	Leasehold Land Cost RM'000	Buildings Cost RM'000	Total Land and Buildings RM'000
COMPANY				
Net book value at 1 January 2012	105	946	5,310	6,361
Depreciation charge	–	(21)	(234)	(255)
Net book value at 31 December 2012	105	925	5,076	6,106
Depreciation charge	–	(21)	(235)	(256)
Transfer to Asset held for sale	–	(557)	(3,817)	(4,374)
Net book value at 31 December 2013	105	347	1,024	1,476
At 31 December 2012				
Cost/Deemed Cost	105	1,435	8,936	10,476
Accumulated depreciation	–	(510)	(3,860)	(4,370)
Net book value	105	925	5,076	6,106
At 31 December 2013				
Cost/Deemed Cost	105	434	1,318	1,857
Accumulated depreciation	–	(87)	(294)	(381)
Net book value	105	347	1,024	1,476

10. INVESTMENT PROPERTY

	Group	
	2013 RM'000	2012 RM'000
Net book value at 1 January	134	138
Disposal	(130)	–
Depreciation	(4)	(4)
Net book value at 31 December	–	134
Cost	–	162
Accumulated depreciation	–	(28)
Net book value	–	134
Fair value of investment property	–	134

11. COMPUTER SOFTWARE

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Net book value at 1 January	2,801	4,742	2,801	4,742
Additions	484	613	–	613
Amortisation charge	(1,315)	(2,554)	(1,313)	(2,554)
Net book value at 31 December	1,970	2,801	1,488	2,801
Cost	37,328	36,844	36,844	36,844
Accumulated amortisation and impairment	(35,358)	(34,043)	(35,356)	(34,043)
Net book value	1,970	2,801	1,488	2,801

12. GOODWILL

	2013 RM'000	2012 RM'000
Carrying Amount 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 five years (2012: five years) based on historical growth rate, taking into account industry developments and at the discount rate of 9.1 percent (2012: 9.1 percent). Based on the assessment, the recoverable amount exceeded the carrying amount of the goodwill. Accordingly, no impairment charges were recognised in 2013 (2012: Nil). Any reasonable change in the key assumptions used will not result in any significant change to the recoverable amount.

13. SUBSIDIARIES

	Company	
	2013 RM'000	2012 RM'000
Unquoted investments, at cost	975,256	975,256
Impairment losses	(1,867)	(1,867)
	973,389	973,389

13. SUBSIDIARIES (CONTINUED)

The reduction in the cost of investments in the subsidiaries is due to the capital reduction in ordinary shares owned by the Group in the wholly-owned subsidiaries Rothmans Brand Sdn. Bhd. and Commercial Importers and Distributors Sdn. Bhd.

The subsidiaries, all of which are wholly-owned, are as follows:

Incorporated in MalaysiaOperating

Commercial Importers and Distributors Sdn. Bhd.
Commercial Marketers and Distributors Sdn. Bhd.

Rothmans Brands Sdn. Bhd.
The Leaf Tobacco Development Corporation of Malaya
Sdn. Berhad
Tobacco Importers and Manufacturers Sdn. Berhad

Non-operating

Contemporary Force Sdn. Bhd.*
Lucky Strike Originals Sdn. Bhd.*
Tobacco Blenders and Manufacturers Sdn. Bhd.

*Struck off in the year 2013

Incorporated in Negara Brunei DarussalamOperating

Commercial Marketers and Distributors 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

Principal Activities

Dormant
Dormant
Dormant

Principal Activities

Ceased operations in October 2012

14. DEFERRED TAX

	Note	Group		Company	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Deferred tax assets					
At 1 January		21,089	20,102	5,276	4,349
(Charged)/Credited to income statement	14(i)	(10,358)	895	(4,562)	856
Credited/(Charged) to statement of comprehensive income	14(ii)	75	92	(37)	71
At 31 December		10,806	21,089	677	5,276
Represented by:					
Property, plant and equipment		3,640	970	(760)	(1,899)
Provisions		7,131	20,090	1,402	7,103
Actuarial loss on retirement benefit scheme		35	–	35	72
Cash flow hedge		–	29	–	–
		10,806	21,089	677	5,276
Deferred tax liabilities					
At 1 January		36,517	42,256	–	–
Charged/(Credited) to income statement	14(i)	93	(6,046)	–	–
Charged to statement of comprehensive income	14(ii)	852	307	–	–
As at 31 December		37,462	36,517	–	–
Represented by:					
Property, plant and equipment		40,680	41,235	–	–
Provisions		(4,205)	(4,922)	–	–
Actuarial gain on retirement benefit scheme		485	–	–	–
Cash flow hedge		502	204	–	–
		37,462	36,517	–	–

14. DEFERRED TAX (CONTINUED)

The amounts above have been reconciled to the income statements and statements of changes in equity as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
(i) (Charged)/Credited to income statement				
(Charged)/Credited in respect of deferred tax assets	(10,358)	895	(4,562)	856
(Charged)/Credited in respect of deferred tax liabilities	(93)	6,046	–	–
Net (charge)/credit to income statement (Note 6)	(10,451)	6,941	(4,562)	856
(ii) (Charged)/Credited to statement of comprehensive income				
Credited/(Charged) in respect of deferred tax assets	75	92	(37)	71
(Charged)/Credited in respect of deferred tax liabilities	(852)	(307)	–	–
Net (charge)/credit to statement of comprehensive income	(777)	(215)	(37)	71

15. LOAN TO A SUBSIDIARY

On 17 August 2009, the Company issued a five-year RM80,000,000 unsecured loan to its subsidiary, Commercial Marketers and Distributors Sdn. Bhd. bearing interest of 6.3 percent per annum receivable semi-annually. The loan is receivable in a lump sum in 2014.

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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	417	–	–	–
Transfer from/(to) property, plant and equipment (Note 9)	4,605	417	4,374	–
Disposed during the year	(417)	–	–	–
At 31 December	4,605	417	4,374	–

The transfer from property, plant and equipment to assets held for sale relates to restructuring of LTDC and leaf operation.

17. INVENTORIES

	Group	
	2013 RM'000	2012 RM'000
At cost		
Raw materials	159,123	182,960
Work-in-progress	24,253	25,872
Finished goods	99,090	96,508
Consumable stores	11,513	6,877
	293,979	312,217

18. RECEIVABLES

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Trade receivables	118,380	116,750	-	-
Impairment for doubtful debts	(506)	(4,551)	-	-
Trade receivables (net)	117,874	112,199	-	-
Amounts due from related companies*	42,253	58,144	4,474	34,525
Prepayments	37,930	24,285	76	162
Other receivables	1,147	4,559	27	3,460
Deposits	1,265	1,213	246	273
	200,469	200,400	4,823	38,420

Prepayments mainly relate to leaf purchases from a related company.

Credit terms of trade receivables range from 1 to 60 days (2012: 1 to 60 days).

* Fellow subsidiaries through a common ultimate major shareholder, British American Tobacco p.l.c.

As of 31 December 2013, the Group's amounts due from related companies amounting to RM4,643,000 (2012: RM22,178,000) were overdue. The aging of these receivables are as follows:

	Group	
	2013 RM'000	2012 RM'000
Past due within 1 month	-	8,149
Past due more than 1 month but within 1 year	4,643	14,029
	4,643	22,178

18. RECEIVABLES (CONTINUED)

As of 31 December 2013, the Group's trade receivables amounting to RM3,567,000 (2012: RM10,733,000) were overdue. The amount of provisions was RM506,000 (2012: RM4,551,000). The aging of these receivables are as follows:

	Group	
	2013	2012
	RM'000	RM'000
1 to 2 months*	3,090	9,623
3 to 6 months	-	53
Over 6 months	477	1,057
	3,567	10,733

* Trade receivables amounting to RM3,090,000 were past due but not impaired as based on past experience, management believes these balances are fully recoverable.

Movements of the allowance for doubtful debts during the year are as follows:

	Group	
	2013	2012
	RM'000	RM'000
At 1 January	4,551	5,093
Provision for receivables impairment	28	2,040
Receivables written off during the year	21	74
Unused amounts reversed	(4,094)	(2,656)
At 31 December	506	4,551

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 45 days (2012: 45 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 47 percent (2012: 49 percent) of the Group's trade receivables are derived from its sales to eight (2012: eight) 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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash and bank balances	59,596	78,391	43,076	21,826

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
The currency exposure profile of deposits, cash and bank balances is as follows:-				
– US Dollar	12,989	52,048	2,357	298
– Pound Sterling	1,230	2,982	26	193
– European Dollar	128	–	–	–
– Brunei Dollar	801	4	–	–
	15,148	55,034	2,383	491

	Group		Company	
	2013 %	2012 %	2013 %	2012 %
The weighted average interest rates of deposits with licensed banks that were effective during the year (per annum)				
	2.9%	2.9%	–	2.9%

Deposits of the Group as at the balance sheet dates have an average maturity period of 30 days (2012: 30 days).

20. PAYABLES

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Trade Payables	121,161	167,444	–	–
Trade Accruals	17,739	17,996	–	–
Amounts due to subsidiaries	–	–	472,520	560,623
Amounts due to related companies	36,197	51,628	7,519	3,842
Other payables	57,075	80,760	17,152	26,298
	232,172	317,828	497,191	590,763

20. PAYABLES (CONTINUED)

Other payables mainly comprised of the following:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Other non-operating creditors	1,184	5,238	1,184	5,238
Accruals for employee expenses	14,900	3,091	2,106	2,004
Accruals for administrative expenses	32,454	44,155	9,206	11,954
Provision for employee expenses	8,537	28,276	4,656	7,102
	57,075	80,760	17,152	26,298

The currency exposure profile of trade payables in currencies other than the Company and its subsidiaries' functional currency is as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
US Dollar	1,642	27,334	18	–
Pound Sterling	398	3,339	73	–
Euro	1,128	18,198	–	–
Others	1,794	5,818	–	–
	4,962	54,689	91	–

The currency exposure profile of amounts due to related companies is as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
US Dollar	1,745	15,002	307	–
Pound Sterling	5,775	3,892	1,155	–
Euro	3,300	–	–	–
Others	20	32,677	–	–
	10,840	51,571	1,462	–

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 (2012: no credit to 120 days).

Amounts due to related companies are repayable within credit terms granted of 60 days (2012: 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 starting in 2011 by stages and this continued in the current financial 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 five years. This income to the Group is recognised over the five-year period on a straight line basis.

22. BORROWINGS (INTEREST BEARING)

(a) The Group's and Company's borrowings as at 31 December 2013 are as follows:

- (i) RM250,000,000 five-year unsecured Medium-Term Notes 2009/2014 with a coupon rate of 4.48 percent per annum, maturing on 15 August 2014 pursuant to an Issuance Programme of up to RM700 million nominal value Medium-Term Notes (MTNs Programme)
- (ii) RM260,000,000 revolving credit with tenure ranging from one week to one month.

(b) (i) Maturity of the Group and Company borrowings is as follows:

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Total borrowings				
Medium-term notes	250,000	250,000	250,000	250,000
Revolving credit	260,000	250,000	–	–
Maturity of borrowings:				
Within one year	510,000	250,000	250,000	–
More than 1 year and less than 2 years	–	250,000	–	250,000
More than 2 years and less than 5 years	–	–	–	–

(ii) Classification of the Group and Company borrowings is as follows:

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Unsecured				
Current				
Medium-term Notes	250,000	–	250,000	–
Revolving credit	260,000	250,000	–	–
Non current				
Medium-term notes	–	250,000	–	250,000

(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	
	2013	2013	2013	2013
	Assets	Liabilities	Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000
Forward foreign exchange contracts – cash flow hedges	7,286	3,622	–	–

	Group		Company	
	2012	2012	2012	2012
	Assets	Liabilities	Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000
Forward foreign exchange contracts – cash flow hedges	2,287	2,670	–	–

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 MFRS 7 classification hierarchy.

The ineffective portion recognised in the profit or loss that arose from cash flow hedges amounted to a gain of RM74,926 in 2013 and a loss of RM1,083,000 in 2012.

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 the income statement, 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.

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2013 were as follows:

Hedged item	Currency to be paid	RM'000 equivalent	Average contracted rate
2013			
Group			
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD 16,300,000	US Dollar	54,218	1 USD = RM3.3262
GBP 8,090,000	Pound Sterling	41,040	1 GBP = RM5.0733
EUR 80,000	Euro	417	1 EUR = RM5.2136
2012			
Group			
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD 27,460,000	US Dollar	83,370	1 USD = RM3.0361
GBP 6,820,000	Pound Sterling	34,133	1 GBP = RM5.0048
EUR 3,125,000	Euro	12,540	1 EUR = RM4.0128

24. SHARE CAPITAL

	Group and Company	
	2013	2012
	RM'000	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 closed the defined benefit plan for its eligible employees in Malaysia (who joined the Group prior to 1 January 2006) as at 30 September 2013, the assets of which were held in a separate trustee administered fund. The Company and certain subsidiaries in the Group made contributions to the British American Tobacco Malaysia Retirement Scheme, a tax approved fund independent of the Group.

The defined benefit plan was valued by an independent actuary using the Projected Unit Credit Method. The latest actuarial valuation that was conducted on 30 September 2013 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 2013.

The amounts recognised in the balance sheet are determined as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Present value of defined benefit obligations	6,328	12,085	987	6,129
Fair value of plan assets	(6,328)	(6,970)	(987)	(3,336)
Status of funded plan	-	5,115	-	2,793
Net liability	-	5,115	-	2,793
Analysed as:				
Non-current	-	5,115	-	2,793
	-	5,115	-	2,793

The amounts recognised in the income statement under other operating expenses are as follows:

	Group		Company	
	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
Current service cost	383	615	126	259
Interest cost	395	538	157	208
Expected return on plan assets	(83)	(134)	(16)	(34)
Loss/(gain) on curtailment and settlement	1,359	-	(99)	-
Total, included within staff cost	2,054	1,019	168	433

25. POST EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

Defined Benefit Plan (continued)

Movements in defined benefit obligations were as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	5,115	4,511	2,793	2,324
Charge for the year	2,054	1,019	168	433
Contributions paid	(155)	(574)	(82)	(251)
Benefits paid	(5,213)	–	(5,213)	–
Transfer from subsidiary	–	–	2,482	–
Actuarial (gain)/loss recognised	(1,801)	159	(148)	287
At 31 December	–	5,115	–	2,793

Changes in the present value of defined benefit obligations were as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	12,085	11,487	6,129	5,889
Service cost	383	615	126	259
Interest cost	395	538	157	208
Benefits paid	(5,997)	(746)	(5,190)	(622)
Liability transferred to subsidiary	–	–	–	99
Loss/(gain) on curtailment and settlement	1,359	–	(99)	–
Actuarial (gain)/loss due to actual experience	(1,897)	191	(136)	296
At 31 December	6,328	12,085	987	6,129
Defined benefit obligations expected to be payable in the next year	–	6,604	–	5,267

25. POST EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)**Defined Benefit Plan (continued)**

Changes in the fair value of plan assets were as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	6,970	6,976	3,336	3,565
Expected return on plan assets	83	134	16	34
Contributions by employer	155	574	82	251
Benefits paid	(943)	(746)	(137)	(622)
Assets transferred from/(to) a subsidiary	–	–	(2,322)	99
Actuarial gain on plan assets	63	32	12	9
At 31 December	6,328	6,970	987	3,336
Contribution payable in the next year	–	565	–	234

The developments of actuarial gains and losses as at 31 December were as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Actuarial loss/(gain) from prior year	698	539	252	(35)
Actuarial (gain)/loss recognised in year	(1,801)	159	(148)	287
Cumulative actuarial (gain)/loss recognised	(1,103)	698	104	252

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:

	2013 %	2012 %
Discount rate	6.0	6.0
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 2013 is derived from an investment allocation of 20 percent into Malaysian Government bonds, and 80 percent into money market instruments yielding annual rates of investment returns of 3.2 percent respectively.

26. CASH FROM OPERATIONS

	Group		Company	
	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
Profit for the financial year	823,440	797,746	877,391	732,346
Adjustments for:				
Defined benefit plan charge (Note 25)	2,054	1,019	168	433
Interest income	(1,178)	(7,110)	(842)	(1,955)
Property, plant and equipment				
– depreciation	56,121	49,450	3,958	3,725
– loss/(gain) on disposal	91	125	183	157
Investment property				
– depreciation	4	4	–	–
– loss/(gain) on disposal	(70)	–	–	–
Computer software				
– amortisation	1,315	2,554	1,313	2,554
Assets held for sale				
– loss/(gain) on disposal	(833)	–	–	–
Impairment of asset	–	18,706	–	–
Amortisation of prepayment	–	1,200	–	–
Bad debts written off	(1,215)	74	–	–
(Writeback)/Allowance for doubtful debts	–	(616)	–	–
Inventories written off	5,813	2,608	–	–
Reversal for litigation	–	(11,062)	–	–
Interest expense	20,698	25,512	17,289	26,222
Tax expense/(credit)	281,959	256,637	5,208	(105)
Changes in working capital:				
– inventories	12,425	(121,866)	–	–
– receivables	1,146	6,881	34,439	(35,437)
– payables	(97,067)	(42,658)	(89,656)	4,590
Cash from operations	1,104,703	979,204	849,451	732,530

27. CAPITAL COMMITMENTS AND CONTINGENT LIABILITY

Capital expenditure not provided for in the financial statements are as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Property, plant and equipment:				
– Authorised and contracted for	1,246	–	–	–
– Authorised but not contracted for	35	20	35	–
	1,281	20	35	–

27. CAPITAL COMMITMENTS AND CONTINGENT LIABILITY (CONTINUED)

Contingent Liability

The Group has on 8 January 2014 received a letter from the Royal Malaysia Customs disputing the method of calculation of sales tax applied following the change in transfer price valuation imposed on 18 October 2012. The Group has appealed to the Royal Malaysian Customs on this matter, as it believes the method used is not in line with the Sales Tax (Rules of Valuation) Regulations 2002. As at the date of this report the Group has not received a Bill of Demand and if the demand is received, then based on a preliminary assessment of the case, the Group did not consider this to be a liability. Should a liability crystallise the estimated value as at 31 December 2013 is RM10.2 million (2012: RM1.7 million and 2013: RM8.5 million).

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 50 percent equity interest in the Company and is regarded to be the Company's ultimate holding company).

(a) Group's transactions

	Group	
	Year ended 31.12.13 RM'000	Year ended 31.12.12 RM'000
(i) Sale of goods		
Sale of cigarettes and tobacco products to:		
– British-American Tobacco Company (HK) Ltd.	11,313	5,265
– Rothmans Far East B.V.	7,162	7,405
– Rothmans (Far East) B.V. – Louisville	7,585	–
– Rothmans Far East B.V. c/o Louisville Corporate Services	261	–
– British American Tobacco Marketing (Singapore) Pte. Ltd.	45,302	85,228
– B.A.T. China Ltd.	10,454	909
– British American Tobacco International Ltd.	55,649	53,074
– British American Tobacco Korea Manufacturing Co. Ltd.	41,929	4,542
– India Tobacco Company Ltd.	–	1,911
– British American Tobacco Taiwan Logistics Ltd	–	2,933
– British American Tobacco Taiwan	25,847	–
– Rothmans Far East Japan (a division of Rothmans Far East B.V.)	–	475
– BATUS Japan, Inc.	110,446	–
– British American Tobacco Japan Ltd.	–	87,589
– British American Tobacco (New Zealand) Ltd.	6,493	2,257
– British American Tobacco (Australia) Ltd.	93,135	89,201
– BAT Australia Manufacturing	44,309	–
– British American Tobacco Papua New Guinea	17,300	14,178
– Solomon Islands Tobacco	7,006	4,929
– British American Tobacco Samoa	5,164	–
– BAT Fiji Central Manufacturing	835	–
– PT Bentoel Prima	11,764	–
– Ceylon Tobacco Company Ltd	282	–
– British American Tobacco Phillipines Ltd.	53,888	1,915
	556,124	361,811

28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(a) Group's transactions (continued)

	Group	
	Year ended 31.12.13 RM'000	Year ended 31.12.12 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.	26,816	138,142
– B.A.T. (GLP) Limited	187,690	194,373
– PT Export Leaf Indonesia	49,525	47,400
– B.A.T. (U.K. & Export) Ltd.	–	356
– BAT Supply Chain WE Ltd.	14,149	2,527
– British American Tobacco (Australia) Ltd.	–	11,537
– British American Tobacco International Ltd.	–	232
– PT Bentoel Prima	83	–
– BAT Theodorus Niemeyer B.V.	316	791
– PT Perusahaan Dagang dan Industri Tresno	1,934	–
– British American Tobacco Korea Manufacturing Co. Ltd.	483	61
	280,996	395,419
(iii) Procurement of services		
Procurement of information technology services from:		
– British American Shared Services Ltd.	33,584	29,735
– BAT GSD (KL) Sdn. Bhd.	508	542
	34,092	30,277
(iv) Technical and advisory (includes share based payment charges)		
Payment of fees for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	32,860	42,440
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	14,166	11,391
– British American Tobacco (Singapore) Pte. Ltd.	555	474
– British American Tobacco Asia Pacific Region Ltd.	1,202	2,237
– British American Tobacco (Holdings) Ltd	3,084	5,029
– British American Tobacco Marketing (Singapore) Pte Ltd.	10,360	8,562
– British American Tobacco Asia Pacific Region Ltd	254	203
	62,481	70,336

28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**(a) Group's transactions (continued)**

	Group	
	Year ended	Year ended
	31.12.13	31.12.12
	RM'000	RM'000
(v) Royalties		
Royalties paid/payable to:		
– Dunhill Tobacco of London Ltd.*	104,928	91,043
– Benson & Hedges (Overseas) Limited*	3,047	3,176
– The American-Cigarette Company (Overseas) Ltd.**	4,996	4,187
– St. Regis Tobacco Corporation Ltd.**	214	188
– The House of Edgeworth Inc.	7,048	6,436
	120,233	105,030
(vi) Sale and purchase of equipment		
(Sale)/purchase of equipment (to)/from:		
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	(4,666)	–
– B.A.T. Mexico, S.A. De C.V.	–	1,555
– British American Tobacco Korea	(1,332)	(5,467)
– British American Tobacco (Singapore) Pte. Ltd.	–	488
	(5,998)	(3,424)
(vii) Provision of technical and advisory support services to:		
– B.A.T. China Ltd.	36	79
– British American Tobacco – Vinataba (JV) Ltd.	21	26
– British-American Tobacco Company (HK) Ltd.	70	120
– British American Tobacco Cambodia Ltd.	38	48
– British American Tobacco Services Limited, Taiwan Branch	170	–
– British American Tobacco (Vietnam) Ltd.	72	108
– British American Tobacco (Singapore) Pte. Ltd.	717	1,293
– British American Tobacco Marketing (Singapore) Pte. Ltd.	902	830
– British American Tobacco Japan, Ltd.	59	35
– Ceylon Tobacco Company Ltd.	–	3
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	88	85
– British American Tobacco International Ltd.	6	10
– British American Tobacco Services Limited, Taiwan Branch	–	59
– British American Tobacco (New Zealand) Ltd.	–	17
– British American Tobacco Papua New Guinea	6	5
	2,185	2,718

* Payments in respect of royalty agreements with these entities were made to B.A.T. (U.K. & 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 (CONTINUED)

(b) Company's transactions

	Company	
	Year ended	Year ended
	31.12.13	31.12.12
	RM'000	RM'000
(i) Management fee		
Management fee received from:		
– Commercial Marketers and Distributors Sdn. Bhd.	4,152	4,327
– Tobacco Importers and Manufacturers Sdn. Bhd.	731	541
	4,883	4,868
(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.	2,529	2,428
– Tobacco Importers and Manufacturers Sdn. Bhd.	1,196	1,114
	3,725	3,542
(iii) Procurement of services*		
Procurement of information technology services from:		
– British American Shared Services Ltd.	33,584	29,735
– B.A.T. (U.K. & Export) Ltd.	507	542
	34,091	30,277
(iv) Technical and advisory (includes shared based payment charges)*		
Payment of fees for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	3,064	42,440
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	7,480	11,391
– British American Tobacco (Singapore) Pte. Ltd.	555	474
	11,099	54,305
(v) Interest income		
Interest income from loan to a subsidiary:		
– Commercial Marketers and Distributors Sdn. Bhd.	5,040	5,040

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.

The above transactions have been entered into on terms and conditions that were negotiated among the related parties.

* These costs have been fully re-charged to certain subsidiaries during the year.

29. SEGMENT REPORTING

The Company is domiciled in Malaysia. The revenue from external customers in Malaysia is RM3,972,494,000 (2012: RM3,905,451,000), and the total revenue from external customers and related companies from other countries is RM545,856,000 (2012: RM459,334,000). 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 percent or more of the Group's revenue for the years ended 31 December 2013 and 31 December 2012.

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 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 both fixed and floating rate borrowings as disclosed in Note 22, and a possible 10 percent 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 percent to 100 percent 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.

30. FINANCIAL RISK MANAGEMENT

(a) Financial Risk Factors (continued)

(ii) Currency Exchange Risk Management (continued)

The Group considers a 10 percent 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 percent increase or decrease of functional currency against non-functional currencies would not result in significant changes in the Group's pre-tax profit.

(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 percent 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 percent 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 47 percent 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 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 funding 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 (CONTINUED)

The table below summarises the maturity profile of the Group's and the Company's liabilities based on contractual undiscounted repayment obligations.

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Maturity of borrowings:				
Within 1 year	510,000	250,000	250,000	–
More than 1 year and less than 2 years	–	250,000	–	250,000
Payables within 1 year	232,172	317,828	497,191	590,763
Derivative financial instruments within 1 year	–	383	–	–

(b) Fair Value Estimation

The fair value measurement hierarchy for financial instruments stated in the balance sheets are 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 MFRS 7 classification hierarchy.

The carrying amounts of and fair values of the Group's borrowings are as follows:

	Group		Company	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
At 31 December 2013				
Current borrowings				
RM250 million MTNs	250,000	250,000	250,000	250,000
RM260 million Revolving credit	260,000	260,000	–	–
At 31 December 2012				
Current borrowings				
RM250 million Revolving credit	250,000	250,000	–	–
Non current borrowings				
RM250 million MTNs	250,000	254,075	250,000	254,075

The Group measures the fair values of its borrowings based on observable yield curves.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 BAT p.l.c. share-based payment arrangements of which the two principal ones are:

Long-Term Incentive plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. Payout is subject to performance conditions based on earnings per share relative to inflation (50 percent of grant) and total shareholder return, combining the share price and dividend performance of the Company by reference to two comparator groups (50 percent 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. Both equity and cash-settled LTIPs are granted in March each year. In 2013, the management board LTIP award was made in March.

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.

The Group also has a number of other arrangements which are not material for the Group and these are as follows:

Share Option Scheme (ESOS)

Options exercisable three years from date of grant with a contractual life of 10 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 and final outstanding awards must be exercised by March 2014. The awards were both equity and cash-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.

31. SHARE-BASED PAYMENTS (CONTINUED)**Share-based Payment Expense**

The amounts recognised in the income statement in respect of share-based payments were as follows:

Group	2013	2012
	Equity-settled	Equity-settled
	in RM'000	in RM'000
LTIP (note a)	1,619	2,120
DSBS (note b)	1,829	2,971
Other Schemes (note c)	27	44
Total recognised in the income statement	3,475	5,135

Company	2013	2012
	Equity-settled	Equity-settled
	in RM'000	in RM'000
LTIP (note a)	933	1,654
DSBS (note b)	673	1,848
Other Schemes (note c)	28	30
Total recognised in the income statement	1,634	3,532

(a) Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2013 and 31 December 2012, were as follows:

Group	2013	2012
	Equity-settled	Equity-settled
	Number of	Number of
	options in	options in
	thousands	thousands
Outstanding at start of year	105	104
Granted during the period	14	22
Exercised during the period	(20)	(19)
Forfeited during the period	(17)	(2)
Outstanding at end of year	82	105
Exercisable at end of year	39	31

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £34.50 (2012: £31.78) for equity-settled options.

The outstanding shares for the year ended 31 December 2013 had a weighted average contractual life of 6.74 years (2012: 7.5 years) for the equity-settled scheme.

31. SHARE-BASED PAYMENTS (CONTINUED)

(a) Long-Term Incentive Plan (continued)

Company	2013 Equity-settled Number of options in thousands	2012 Equity-settled Number of options in thousands
Outstanding at start of year	80	75
Granted during the period	8	17
Exercised during the period	(20)	(10)
Forfeited during the period	(16)	(2)
Outstanding at end of year	52	80
Exercisable at end of year	24	21

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £34.50 (2012: £31.81) for equity-settled options.

The outstanding shares for the year ended 31 December 2013 had a weighted average contractual life of 6.78 years (2012: 7.63 years) for the equity-settled scheme.

(b) Deferred Share Bonus Scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2013 and 31 December 2012, were as follows:

Group	2013 Equity-settled Number of options in thousands	2012 Equity-settled Number of options in thousands
Outstanding at start of year	57	67
Granted during the period	11	21
Exercised during the period	(24)	(30)
Forfeited during the period	(1)	–
Outstanding at end of year	43	58
Exercisable at end of year	–	1

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £33.83 (2012: £32.05) for equity-settled options.

The outstanding shares for the year ended 31 December 2013 had a weighted average contractual life of 1.03 years (2012: 1.35 years) for the equity-settled scheme.

31. SHARE-BASED PAYMENTS (CONTINUED)**(b) Deferred Share Bonus Scheme (continued)**

Company	2013	2012
	Equity-settled Number of options in thousands	Equity-settled Number of options in thousands
Outstanding at start of year	36	41
Granted during the period	4	13
Exercised during the period	(21)	(19)
Outstanding at end of year	19	35
Exercisable at end of year	-	1

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £33.60 (2012: £32.05) for equity-settled options.

The outstanding shares for the year ended 31 December 2013 had a weighted average contractual life of 0.96 years (2012: 1.33 years) for the equity-settled scheme.

(c) Other Schemes**ESOS****Group**

The number of outstanding equity-settled options at the end of the year were 9,709 (2012: 9,709).

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 (2012: 2,538).

SRS and ISRS**Group**

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 1,634 (2012: 1,804).

Company

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 575 (2012: 566).

31. SHARE-BASED PAYMENTS (CONTINUED)

(c) Other Schemes (continued)

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	2013		2012	
	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	25	25	26	26
Average expected term to exercise (years)	3.5	3.0	3.5	3.0
Risk-free rate (%)	0.4	0.3	0.7	0.6
Expected dividend yield (%)	3.8	3.8	3.9	3.9
Share price at date of grant (£)	35.05	35.05	32.08	32.08
Fair value at grant date (£)	23.69	31.23	21.79	28.50

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:

Group and Company	2013	2012
	%	%
Average share price volatility FTSE 100 comparator group	37	39
Average share price volatility FMCG comparator group	26	26
Average correlation FTSE 100 comparator group	37	38
Average correlation FMCG comparator group	37	36

32. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

(i) 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.

32. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(ii) 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.

(iii) 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.

supplementary information

pursuant to bursa malaysia securities berhad listing requirements

REALISED AND UNREALISED PROFIT/(LOSS)

The following analysis of realised and unrealised retained profits/(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 31.12.13 RM'000	Financial year ended 31.12.12 RM'000	Financial year ended 31.12.13 RM'000	Financial year ended 31.12.12 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries				
– Realised profits	523,415	525,882	225,362	145,897
– Unrealised (loss)/profits	(27,770)	(16,608)	677	4,976
Less: Consolidation adjustments	(131,584)	(167,668)	–	–
Total retained profits	364,061	341,606	226,039	150,873

The unrealised portion within unappropriated profits (retained earnings) for the Group as at 31 December 2013 predominantly relates to net deferred tax liability of RM26,656,000 (2012: RM15,428,000).

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 2013 predominantly relates to net deferred tax asset of RM677,000 (2012: RM5,276,000).

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 28 February 2014

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 Right : 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	648	13.416	9,613	0.003
100 - 1,000	2,424	50.186	1,056,755	0.370
1,001 - 10,000	1,191	24.658	4,523,368	1.584
10,001 - 100,000	414	8.571	12,852,178	4.501
100,001 - 14,276,499 (*)	151	3.126	107,945,384	37.805
14,276,500 AND ABOVE (**)	2	0.041	159,142,702	55.735
Total	4,830	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
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	Direct		Indirect	
	Number of shares held	% of issues shares	Number of shares held	% of issues shares
British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.000	–	–
Mitsubishi UFJ Financial Group	–	–	14,900,277	5.2185
Employees Provident Fund Board	19,058,602	6.6748	–	–
Aberdeen Asset Management PLC and its subsidiaries	14,533,020	5.0968	–	–

¹ Deemed interested in shares of British American Tobacco (Malaysia) Berhad held by other corporations by virtue of Section 6A of the Companies Act 1965.

TOP THIRTY (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	CITIGROUP NOMINEES (TEMPATAN) SDN BHD – EMPLOYEES PROVIDENT FUND BOARD	16,377,702	5.735
3	AMANAHRAYA TRUSTEES BERHAD – SKIM AMANAH SAHAM BUMIPUTERA	12,105,900	4.239
4	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	6,040,000	2.115
5	DB (MALAYSIA) NOMINEE (ASING) SDN BHD – SSBT FUND 4545 FOR LAZARD EMERGING MARKETS PORTFOLIO	5,685,100	1.991
6	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	4,822,692	1.689
7	HSBC NOMINEES (ASING) SDN BHD – BNP PARIBAS SECS SVS LUX FOR ABERDEEN GLOBAL	4,319,520	1.512
8	AMANAHRAYA TRUSTEES BERHAD – AMANAH SAHAM MALAYSIA	4,000,000	1.400
9	CARTABAN NOMINEES (ASING) SDN BHD – EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	3,989,115	1.397
10	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD – GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	3,801,100	1.331
11	HSBC NOMINEES (ASING) SDN BHD – BBH AND CO BOSTON FOR MATTHEWS ASIAN GROWTH AND INCOME FUND	3,098,700	1.085
12	HSBC NOMINEES (ASING) SDN BHD – BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	2,600,087	0.910
13	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.K.)	2,241,006	0.784
14	CARTABAN NOMINEES (ASING) SDN BHD – GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	2,225,900	0.779

15	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR THE BANK OF NEW YORK MELLON (MELLON ACCT)	2,213,883	0.775
16	HSBC NOMINEES (ASING) SDN BHD – BNP PARIBAS SECS SVS PARIS FOR ABERDEEN ASIA PACIFIC EQUITY FUND	1,750,900	0.613
17	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.A.E.)	1,549,955	0.542
18	CITIGROUP NOMINEES (TEMPATAN) SDN BHD – EXEMPT AN FOR AIA BHD.	1,506,700	0.527
19	CARTABAN NOMINEES (ASING) SDN BHD – RBC INVESTOR SERVICES BANK FOR VONTOBEL FUND - EMERGING MARKETS EQUITY	1,497,890	0.524
20	VALUECAP SDN BHD	1,476,400	0.517
21	CARTABAN NOMINEES (ASING) SDN BHD – EXEMPT AN FOR RBC INVESTOR SERVICES TRUST (CLIENTS ACCOUNT)	1,060,155	0.371
22	CARTABAN NOMINEES (TEMPATAN) SDN BHD – EXEMPT AN FOR EASTSPRING INVESTMENTS BERHAD	915,300	0.320
23	AMANAHRAYA TRUSTEES BERHAD – AS 1MALAYSIA	894,300	0.313
24	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR BNP PARIBAS SECURITIES SERVICES (JERSEY GBP)	889,800	0.311
25	DB (MALAYSIA) NOMINEE (ASING) SDN BHD – STATE STREET AUSTRALIA FUND 7FAF FOR MONETARY AUTHORITY OF SINGAPORE	877,000	0.307
26	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (NETHERLANDS)	862,500	0.302
27	DB (MALAYSIA) NOMINEE (ASING) SDN BHD – SSBT FUND IBE5 FOR LAZARD/INVESTORS BANK COLLECTIVE TRUST	823,800	0.288
28	CITIGROUP NOMINEES (ASING) SDN BHD – CBNY FOR AGF EMERGING MARKETS FUND	809,574	0.283
29	HSBC NOMINEES (ASING) SDN BHD – TNTC FOR PFS SOMERSET EMERGING MARKETS DIVIDEND GROWTH FUND (NWB AS DEP)	792,623	0.277
30	CITIGROUP NOMINEES (ASING) SDN BHD – CBHK FOR KUWAIT INVESTMENT AUTHORITY (FUND 221)	780,000	0.273
TOTAL		232,772,602	81.522

particulars of properties

The properties held by the Group and Company at **28 February 2014** are as follows:-

Location	Date of purchase/ last Revaluation	Usage	Approx. 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	25	143.07	75
No. A79, Jalan Telok Sisek, Kuantan, Pahang	28.4.1994	shop and office	22	110.59	205
Leasehold					
Lots 122 and 124, Jalan Universiti, Petaling Jaya, Selangor (99 year leases expiring on 8.4.2062 and 29.9.2060 respectively)	30.9.1961	factory, office and store	52	46,905.44	65,346
Lots P.T 683-685, 687-689 Mukim of Panchor, District of Kemumin, Kawasan Perindustrian Pengkalan Chepa II, Kota Bharu, Kelantan (66 year lease expiring 25.7.2048)	26.7.1982	industrial land, store and office	26	29,952.00	4,340
No. 2, Jalan Foochow, Kuching, Sarawak (999 year lease expiring 31.12.2923)	3.10.1991	shop and office	24	156.10	160
No. 120, Jalan Semangat, Petaling Jaya, Selangor (99 year lease expiring 12.7.2061)	24.5.1993	office and store	38	6,119.00	4,597
Lot 1, Block A, Hong Tong Centre, Miles 4, Penampang, Kota Kinabalu, Sabah (99 year lease expiring 31.12.2080)	30.9.1999	shop and office	20	136.56	383
No. 8, Jalan Melaka Raya 13, Taman Melaka Raya, Melaka (99 year lease expiring 7.7.2093)	30.3.1996	shop and office	19	143.00	268

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

**COMMERCIAL MARKETERS AND
DISTRIBUTORS SDN. BHD.**
(Company No. 42316-T)

Address as per Head Office

BRANCH OFFICES

Pulau Pinang

No. 50 Weld Quay
10300 Penang
Tel : +60 (4) 261 8840
Fax : +60 (4) 261 8799

Ipoh

No. 120 Jalan Silibin
30000 Ipoh
Perak
Tel : +60 (5) 528 7680 / 528 7689
Fax : +60 (5) 528 7684

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) 337 6593 / 336 5435
Fax : +60 (6) 335 6449

Johor Baharu

No. 4, Jalan Asas
Larkin Industrial Estate
80350 Johor Bahru
Johor
Tel : +60 (7) 232 0412
Fax : +60 (7) 238 6208

Kuantan

PT64561, Jalan IM 3/15
Kawasan Perindustrian Ringan
Bandar Indera Mahkota
25200 Kuantan
Pahang Darul Makmur
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 L180-101/000
Block A, HSK Industrial Centre,
Jalan Bundusan, Mile 5,
Off Jalan Penampang,
89500 Kota Kinabalu, Sabah
Tel : +60 (88) 722628 / 722629
Fax : +60 (88) 722630

Kuching

Lot 1329, Jalan Mersawa
Pending Industrial Estate
93450 Kuching
Sarawak
Tel : +60 (82) 481 884 / 481 886
Fax : +60 (82) 335 490

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Fifty-Third Annual General Meeting of British American Tobacco (Malaysia) Berhad (the “Company”) will be held at Citrine Ballroom, One World Hotel, Ground Floor, First Avenue, Bandar Utama City Centre, 47800 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 22 April 2014 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 2013 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:

(a) Dato' Chan Choon Ngai

Ordinary Resolution 2

(b) Datuk Zainun Aishah binti Ahmad

Ordinary Resolution 3

(c) Lee Oi Kuan

Ordinary Resolution 4

3. To re-elect Stefano Clini who retires in accordance with Article 103 of the Company's Articles of Association.

Ordinary Resolution 5

4. To re-elect Datuk Oh Chong Peng who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company.

Ordinary Resolution 6

5. To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ended 31 December 2014 and to authorise the Directors to fix their remuneration.

Ordinary Resolution 7

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following as Ordinary Resolutions:

6. **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR THE COMPANY 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 27 March 2014) 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 its subsidiaries (“British American Tobacco Malaysia Group”) to enter into recurrent related party transactions of a revenue or trading nature (“Recurrent RPTs”) 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 27 March 2014 which are necessary for the British American Tobacco Malaysia Group's day to day operations, be and is hereby renewed and approved, provided that:

- (i) the transactions are in the ordinary course of business and are 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 RPT 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 a general meeting,

whichever is earlier;

AND THAT the Directors of the Company be and are 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 RPT Mandate."

7. **PROPOSED SHAREHOLDERS' MANDATE FOR A SUBSIDIARY OF THE COMPANY TO ENTER INTO A NEW RECURRENT RELATED PARTY TRANSACTION OF A REVENUE OR TRADING NATURE WITH A RELATED PARTY ("PROPOSED NEW RECURRENT RPT MANDATE")**

Ordinary Resolution 9

"THAT, the Proposed New Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 27 March 2014) authorising a subsidiary of the Company to enter into a new recurrent related party transaction of a revenue or trading nature ("Recurrent RPT") with a Related Party (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 27 March 2014 which are necessary for the Company's business operations, be and is hereby approved pursuant to Paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, provided that:

- (i) the transaction is in the ordinary course of business and are on normal commercial terms which are not more favourable to the Related Party than those generally available to the public and are not to the detriment of the minority shareholders to the Company; and
- (ii) disclosure of the aggregate value of the transaction conducted during a financial year will be made in the annual report for the said financial year,

AND THAT the authority conferred by this 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 New Recurrent RPT 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 a general meeting,

whichever is earlier;

AND THAT the Directors of the Company be and are 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 New Recurrent RPT Mandate."

- 8. To transact any other business of the Company of which due notice has been received.

By Order of the Board



DAVID CHIAM JOY YEOW

LS0009734
Secretary

Petaling Jaya
27 March 2014

Notes:

1. Only members whose names appear in the Record of Depositors as at 15 April 2014 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his/her behalf.
2. 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.
3. 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.
4. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (Omnibus Account), there is no limit to the number of proxies which the exempt authorised nominees may appoint in respect of each Omnibus Account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
5. 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.
6. 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.
7. The original Form of Proxy must be duly executed and deposited at the Registrar of the Company at Tricor Investor Services Sdn Bhd, 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.

8. 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.

9. Explanatory Note on Special Business**Recurrent Related Party Transactions Mandate**

Proposed Ordinary Resolutions 8 and 9, if passed, will enable 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 New and Renewal of the Recurrent RPTs Mandate is set out in the Circular to Shareholders dated 27 March 2014, which is despatched together with the Company's 2013 Abridged Annual Report.

administrative details for British American Tobacco Malaysia fifty-third annual general meeting

Date : Tuesday, 22 April 2014

Time : 11.00 a.m.

Place : Citrine Ballroom, One World Hotel, Ground Floor, First Avenue, Bandar Utama City Centre, 47800 Petaling Jaya, Selangor Darul Ehsan

REGISTRATION

1. Registration will start at 9.00 a.m. at the entrance of Citrine Ballroom, One World Hotel and will close at 11.00 a.m. sharp.
2. Please read the signage to ascertain which registration table you should approach to register yourself for the Annual General 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. Once you have signed in, you will be given a wristband which allows you entrance to Citrine Ballroom. The wristband has to be worn during the whole duration of the Annual General Meeting. There will be no replacement in the event that you lose or misplace the wristband.
6. After registration, please leave the registration area immediately and proceed to Citrine 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 other clarification or queries.

PARKING

9. Shareholders/proxies who park their vehicles in the **hotel carpark of One World Hotel would be reimbursed for the parking fee incurred.** Those who park their vehicles in any other carpark in the area other than the **hotel carpark of One World Hotel** would not be entitled to claim for reimbursement of their parking fee.

ENTITLEMENT TO ATTEND AND VOTE

10. Only Members whose names appear in the Record of Depositors as at **5.00 p.m. on 15 April 2014** (General Meeting Record of Depositors) 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

11. 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.
12. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (Omnibus Account), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
13. To appoint a proxy, the original Form of Proxy which is attached together with the Company's Abridged Annual Report 2013 must be completed and signed, sent and delivered to the Company's Registrar, Tricor Investor Services Sdn. Bhd. at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by 20 April 2014 at 11.00 a.m.
14. 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

15. 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 20 April 2014 at 11.00 a.m.;
 - iii. appointing new proxy by depositing a new Form of Proxy in favour of another person by 20 April 2014 at 11.00 a.m.; and
 - iv. transfer of shares by the appointer.

ENQUIRY

18. 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. Lim Lay Kiow
Share Registrar : Tricor Investor Services Sdn. Bhd.
Telephone number : 603-2264 3883

CORPORATE MEMBER

16. 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 20 April 2014 at 11.00 a.m.

ANNUAL REPORT 2013

17. The Annual Report 2013 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



**BRITISH AMERICAN
TOBACCO
MALAYSIA**

CDS Account No.

Form of proxy

British American Tobacco (Malaysia) Berhad

(Company No. 4372-M)
(Incorporated in Malaysia)

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 _____ or failing him/her, the Chairman
(Full Address)

of the Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fifty-Third Annual General Meeting of the Company, to be held at Citrine Ballroom, One World Hotel, Ground Floor, First Avenue, Bandar Utama City Centre, 47800 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 22 April 2014 at 11.00 a.m., and at any adjournment thereof.

My/our proxy/proxies shall vote as follows:

(Please indicate with an "X" in the spaces provided below how you wish your votes to be cast on the resolutions specified in the notice of meeting. If you do not do so, your proxy/proxies will vote or abstain as he/she may think fit)

Resolutions		For	Against
Ordinary Resolution 1	To receive the Audited Financial Statements for the financial year ended 31 December 2013 and the Reports of the Directors and Auditors thereon.		
Ordinary Resolution 2	Re-election of Dato' Chan Choon Ngai who retires by rotation in accordance with Articles 97 (1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 3	Re-election of Datuk Zainun Aishah binti Ahmad who retires by rotation in accordance with Articles 97 (1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 4	Re-election of Lee Oi Kuan who retires by rotation in accordance with Articles 97 (1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 5	Re-election of Stefano Clini who retires in accordance with Article 103 of the Company's Articles of Association.		
Ordinary Resolution 6	Re-election of Datuk Oh Chong Peng who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company.		
Ordinary Resolution 7	Re-appointment of PricewaterhouseCoopers as Auditors of the Company for the financial year ending 31 December 2014 and authorisation to Directors to fix their remuneration.		
Ordinary Resolution 8	Proposed Renewal of Shareholders' Mandate for the Company and its Subsidiaries to enter into Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties.		
Ordinary Resolution 9	Proposed Shareholders' Mandate for a Subsidiary of the Company to enter into a New Recurrent Related Party Transaction of a Revenue or Trading Nature with a Related Party.		

Dated this _____ day of _____ 2014.

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

	No. of Shares	Percentage
Proxy 1		
Proxy 2		
TOTAL		100

Signature(s) of Member(s)/Common Seal

Notes:

1. Only members whose names appear in the Record of Depositors as at 15 April 2014 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his/her behalf.
2. 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.
3. 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.
4. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (Omnibus Account), there is no limit to the number of proxies which the exempt authorised nominees may appoint in respect of each Omnibus Account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
5. 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.
6. 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.

7. The original Form of Proxy must be duly executed and deposited at the Registrar of the Company at Tricor Investor Services Sdn Bhd, 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.

8. **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.

9. **Explanatory Notes on Special Business**

Recurrent Related Party Transactions Mandate

Proposed Ordinary Resolutions 8 and 9, if passed, will enable 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 New and Renewal of the Recurrent RPTs Mandate is set out in the Circular to Shareholders dated 27 March 2014, which is despatched together with the Company's 2013 Abridged Annual Report.

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



**BRITISH AMERICAN
TOBACCO**
MALAYSIA

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

Virgina Park, Jalan Universiti,
46200 Petaling Jaya, Selangor
Malaysia

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

Fax: +60 (3) 7955 8416

www.batmalaysia.com