

Statement on Corporate Governance

Corporate Governance Framework

The Board of Directors of the Company is committed to maintaining high standards of corporate governance throughout the Group as a fundamental aspect of its responsibilities in managing the business and affairs of the Group.

The Board firmly believes that the integrity and commitment of its Board and employees, supported by a comprehensive framework of policies, guidelines and internal controls, will serve to strengthen the Company's sustainability, organisational effectiveness, drive a high-performance culture within the organisation as well as continuously enhance the value and protect the interests of all stakeholders.

The Group's corporate governance framework is directed towards achieving its business objectives in a manner which is responsible and in accordance with high standards of honesty, transparency and accountability. 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 endorsed, developed and continuously enhanced based on the compliance of the rules and regulations and observation of the principles and best practices outlined in the following:

- a. The Companies Act 2016 (the Act)
- b. Main Market Listing Requirements (Listing Requirements) of Bursa Malaysia Securities Berhad (Bursa Securities)
- c. Malaysian Code on Corporate Governance 2017 (MCCG 2017)
- d. Corporate Governance Guide: Moving from Aspiration to Actualisation, 3rd Edition (CG Guide)
- e. Corporate Disclosure Guide by Bursa Securities (CD Guide)
- f. Malaysia-ASEAN Corporate Governance Scorecard by Minority Shareholder Watchdog Group (MSWG)
- g. British American Tobacco p.l.c's Code of Corporate Governance
- h. Standards of Business Conduct of the Company
- i. Statement of Business Principles of the Company (Business Principles)
- j. Statement of Delegated Authorities of the Company

In driving high standards of corporate governance, the Board continuously reviews its corporate governance framework to ensure its relevance, effectiveness and sustainability in addressing the challenges of the business. The Company is also guided by the Company's Business Principles that covers 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.

This Statement on Corporate Governance (Statement) provides an insight to the shareholders and investors on how the Company has applied the practices and complied with the principles of the MCCG 2017 during the financial year under review. The Corporate Governance Report is available at the Company's website at www.batmalaysia.com.

Principle A: Board Leadership and Effectiveness

I. Board Responsibilities



The Company is headed by a Board, which assumes responsibility for the Company's leadership and is collectively responsible for meeting the objectives and goals of the Company.

Roles of The Board

The Board is guided by the Terms of Reference (TOR) and Statement of Delegated Authorities, which clearly define the matters that are specifically reserved for the Board, Board Committees and outline the manner in which the day-to-day management of the Company is to be delegated to the Managing Director within the relevant authority limit. This delegation structure is further cascaded by the Managing Director to the Leadership Team.

The Board, among others, assumes the following key roles and responsibilities, which are to be discharged in the best interest of the Group and to promote and protect the interests of shareholders and stakeholders of the Company:

- a. Establishing appropriate systems of corporate governance in the Group.
- b. Overseeing the conduct of the Company's businesses.
- c. Reviewing and adopting the strategic plan of the Company.
- d. Reviewing the adequacy and integrity of the management information and internal control systems of the Company.
- e. Identifying principal risks and ensuring the implementation of appropriate internal controls to manage these risks.
- f. Establishing a succession plan which includes appointing, training, fixing the compensation of and, where appropriate, replacing Senior Management.

The Board not only sets the strategic direction but also oversees and ensures that the conduct of the businesses of the Group is in compliance with relevant laws, policies, standards and guidelines applicable to the Group.

Leadership Roles and Responsibilities

Roles	Key Responsibilities
Chairman	The Chairman is responsible for the efficient and effective functioning of the Board.
Managing Director	The Managing Director assumes overall responsibility for the execution of the Group's strategies in line with the Board's direction and drives the Group's businesses and performance towards achieving its vision and goals.
Executive Directors	The Executive Directors are 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	The Non-Executive Directors are responsible for acting as a check and balance on the Company's Board and management by providing independent and unbiased views and also act as caretakers of minority interest.
Leadership Team	<p>The Board is assisted by the Senior Management of the Company, namely the Leadership Team. The Leadership Team consists of senior employees holding the positions of Managing Director, Legal and External Affairs Director, Finance Director, Marketing Director, Operations Director and Human Resources Director.</p> <p>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 managing of the Company's business, implementing the Board's strategies, policies and decisions. 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.</p>

Roles of the Chairman and Managing Director

The Company recognises the importance of the separation of the positions of the Chairman and Managing Director to promote accountability and facilitate division of responsibilities between them.

This division is clearly defined in the BATM Code whereby the roles of the Chairman and Managing Director remain separate and distinct.

The Chairman plays an important leadership role and is responsible for:

- a. providing leadership for the Board so that the Board can perform its responsibilities efficiently and effectively;
- b. setting the agenda for meetings of the Board and ensuring that board members receive complete and accurate information in a timely manner;
- c. leading Board and shareholders meetings;

- d. encouraging active participation and allowing dissenting views to be freely expressed;
- e. managing the interface between the Board and management;
- f. ensuring the Board is constituted in accordance with and acts in compliance with relevant statutory requirements;
- g. leading the Board in establishing and monitoring good corporate governance practices in the Company; and
- h. establishing and maintaining relationships with the stakeholders of the Company including government institutions, shareholders and potential shareholders and major external bodies.

The Board delegates the authority and responsibility for managing the operations and developments of the Group in accordance with the objectives and strategies established by the Board to the Managing Director. The Managing Director is also responsible for stewardship of all the Group's assets and jointly with the Chairman, representation of the Group externally.

Role of the Company Secretary

The Board is supported by a qualified and competent Company Secretary who is responsible for ensuring that the Board in the management of the Group's business is aware and kept updated on the relevant laws, regulations, listing and policy requirements governing the Company and business. This is important to ensure that the said laws, regulations, listing requirements and policies are complied with.

The Company Secretary also ensures that the Board members have adequate resources to fulfill their fiduciary duties and plays a key role in managing Directors' access to information, knowledge and training. As and when required, the Company Secretary provides advice to the Board on its roles and responsibilities, corporate disclosures and compliance with corporate governance requirements.

The Company Secretary is also the focal point for stakeholders' communication and engagement on corporate governance issues.

All Board, Board Committees and shareholders meetings are attended by the Company Secretary, who is responsible for accuracy and adequacy of records of proceedings of the meetings and resolutions.

The Company Secretary being an advocate of adoption of corporate governance best practices, monitors corporate governance developments and assists the Board in applying governance practices to meet the Board's needs and stakeholders' expectations.

In 2017, with the new corporate landscape set by the implementation of the Act and MCCG 2017, the Company Secretary had assessed the requirements of the Act and MCCG 2017, facilitated training for the Board on the new approaches envisaged by Act and MCCG 2017 and provided advice to the Board on the application of practices within the Group.

Access to Information and Advice

In the discharge of their duties, all Directors have direct access to the Senior Management and have 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 are forwarded to all Directors at least five days before the relevant Board and Board Committees meetings. This is to enable Directors to have sufficient time 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, project proposals and discussion documents regarding specific matters. Minutes of the respective Board Committees' meetings are presented to the Board at the meeting.

Through regular Board meetings, the Board receives updates on the 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.

Upon conclusion of the meeting, the minutes are circulated in a timely manner.

The Directors have independent access to the advice and supported services of the Company Secretary to ensure timely and appropriate information flow within the Board and Board Committees. The Company Secretary is also responsible to give sound advice to the Board and Chairman on all governance matters.

The Board may seek independent professional advice at the Company's expense in furtherance of their duties, subject to approval by the Chairman.



There is demarcation of responsibilities between the Board, Board Committees and management.
There is clarity in the authority of the Board, its committees and individual directors.

BATM Code

The Board has in place the BATM Code which serves as a board charter and it sets out the respective roles and responsibilities of the Board, Board Committees, individual directors and management and matters and decisions reserved for the Board. The Board is also guided by the British American Tobacco p.l.c's Code of Corporate Governance that sets out various global policies and procedures that have been established.

The BATM Code also outlines the number of Board meetings in the year and that the Board may convene special meetings to deal with urgent matters where necessary.

The BATM Code is available on the Company's corporate website at www.batmalaysia.com.

Meeting and Time Commitment

Board

Each Board member is expected to commit sufficient time in carrying out his/her role as Director and/or member of the Board Committees which they are part of. The Board meetings for each financial year are scheduled before the end of the preceding financial year to ensure the Directors plan ahead and fit the year's meetings into their schedules.

In addition to the above, all Directors of the Company have complied with the Listing Requirements of Bursa Securities of not holding more than five directorships in listed issuers at any given time. This is to ensure the Directors do not have competing time commitments that may impair their ability to discharge their responsibilities effectively.

The Board meets quarterly to review performances and strategies of the Company. When the need arises, Special Board meetings will be convened when warranted by situations such as to deliberate urgent corporate proposals or matters that require the expeditious direction of the Board. In the intervals between Board meetings, for exceptional matters requiring urgent Board decision, Board's approvals are sought via circular resolutions, which are supported with sufficient information required to make an informed decision.

During the financial year under review, the Board met five times (including one Special Board meeting). All Directors attended at least fifty percent of the Board Meetings held during the financial year, with the majority having full attendance, and have complied with the Listing Requirements of Bursa Securities in terms of attendance. This reflects Board members' commitment and dedication in fulfilling their duties and responsibilities.

The Directors' attendance at Board Meetings and Annual General Meeting (AGM) are as follows:

Directors	Board	AGM
Tan Sri Dato' Seri (Dr.) Aseh Bin Haji Che Mat (Chairman) Independent Non-Executive Director	5/5	1/1
Hendrik Stoel (Managing Director) Non-Independent Executive Director	5/5	1/1
Datuk Oh Chong Peng Independent Non-Executive Director	3/5	1/1
Datuk Zainun Aishah Binti Ahmad Independent Non-Executive Director	5/5	1/1
Dato' Chan Choon Ngai Independent Non-Executive Director	5/5	1/1
Datuk Christine Lee Oi Kuan (Legal and External Affairs Director) Non-Independent Executive Director	5/5	1/1
Ricardo Martin Guardo (Finance Director) Non-Independent Executive Director	5/5	1/1

Board Committees

The Board delegates certain responsibilities to the three main Committees of the Board namely the Audit Committee (AC), the Nomination Committee (NC) and the Remuneration Committee (RC), which operate within clearly defined TOR. The Board reviews the functions and TOR of Board Committees from time to time to ensure that they are relevant and updated in line with the MCCG 2017 and other related policies or regulatory requirements.

All deliberations, recommendations and decisions of the Board Committees are recorded and minutes subsequently confirmed by the Board Committees at the next Board Committee meeting. During Board meetings, the Chairmen of the various Board Committees provide reports of the decisions and recommendations made at the Committee meetings and highlight to the Board if any further deliberation is required at Board level.

(c) Remuneration Committee (RC)

The RC assists the Board in determining the policy and structure for the compensation of Non-Executive Directors and review and recommend to the Board the policy framework on the terms of employment, remuneration and compensation payments of the Executive Directors and Leadership Team.

During the financial year ended 31 December 2017, the RC met two times. The composition of the RC and the attendance record of its members are as follows:

Directors	Designation	Total Meetings Attended
Datuk Zainun Aishah Binti Ahmad (Chairman)	Independent Non-Executive Director	2/2
Datuk Oh Chong Peng (Member)	Independent Non-Executive Director	2/2
Hendrik Stoel (Member)	Non-Independent Executive Director	1/2

During the year under review, the RC discussed and recommended to the Board for approval the following proposals:

- the Non-Executive Directors' fees and benefits.
- the Employees Flexible Benefits proposal.
- annual bonus, salary increments and remuneration package for the Leadership Team.

The TOR of RC which deals with its authority and duties are available on the Company's website.

(a) Audit Committee (AC)

The AC assists the Board to oversee the integrity of the financial statements in compliance with legal and regulatory requirements and applicable accounting records, internal control and risk management processes as well as the management and financial reporting practices of the Group.

For details on the composition, TOR and a summary of activities of the AC, please refer to pages 73 to 75 of this Annual Report under the AC Report.

(b) Nomination Committee (NC)

The NC assists the Board to oversee the selection and assessment of Directors, assess the performance of the Board as well as review succession planning for the Board and Leadership Team.

For details on the composition, TOR, a summary of activities of the NC, selection and assessment of Directors, please refer to pages 76 to 77 of this Annual Report under the NC Report.

Sub-Committees

The Sub-Committees namely, Corporate Social Responsibility Committee and Executive Compensation Committee report to the AC and the RC respectively. The Sub-Committees members are made up of the Leadership Team and senior managers of the Company. Their roles and functions, operating procedures and authorities are clearly defined in the TOR of the respective Sub-Committee, which are reviewed by the Board from time to time.

Sub-Committees	Roles
<p>Executive Compensation Committee (ECC)</p> <p>Chairman: Managing Director</p>	<p>Reviews and approves all elements of remuneration, compensation payments, bonuses, rewards and benefits which include <i>inter alia</i>, 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.</p> <p>The current members include the Managing Director, Finance Director and Human Resources Director. The Company Secretary acts as the Secretary of the ECC.</p> <p>The ECC meets on a bi-annually basis and when deemed necessary. The ECC met twice in the financial year to review and deliberate on matters related to remuneration, benefits and payments of employees in the Group.</p>
<p>Corporate Social Responsibility (CSR) Committee</p> <p>Chairman: Managing Director</p>	<p>Oversees sustainability operations within the Group including identifying and managing of key social and environmental issues, engaging with key stakeholders, monitoring the efficiency and effectiveness of CSR management systems and control, ensuring the reliability of social and environmental performance management information and monitoring alignment with the Business Principles.</p> <p>The members are the Company's Leadership Team and the Corporate Affairs Manager act as the Secretary to the CSR Committee.</p> <p>The CSR Committee met twice in the financial year to deliberate on among others, the review of the Company's current sustainability framework and strategy and the update on the Company's 2017 sustainability initiatives.</p> <p>For details of the corporate responsibility activities, please refer to pages 108 to 138 of this Annual Report.</p>
<p>Risk Management Team (RMT)</p> <p>Chairman: Finance Director</p>	<p>Reviews and updates the Leadership Team and AC on the Company's Enterprise Risk Management Programme, ongoing status of the key risks response measures and status of the business continuity plans.</p> <p>The RMT meets at least twice annually. The Committee met twice during the financial year ended 31 December 2017 to deliberate on among others, the review of the Risk Register, key learnings from the conducted Business Continuity Plan tests as well as risk mitigation plans.</p> <p>For details of the Company's Enterprise Risk Management activities in 2017, please refer to pages 78 to 85 of this Annual Report.</p>

Dealing in Securities

The Board has adopted the Internal Regulations on Securities Dealings applicable to Directors and key employees of the Group and their connected persons (Affected Person). During open periods, an Affected Person may only deal if he/she has made a prior written application and received written permission from the Chairman, the Managing Director or the Finance Director of the Company and these are submitted to the Company Secretary. The Affected Person must within three business days after the

dealing has occurred give notice of the dealing in writing to the Company Secretary and the Company announces such notice immediately through Bursa Securities. During the closed period (which is 30 calendar days before the date of the announcement of the quarterly results of the Company up to the date of the announcement), no dealing in the securities of the Company by Directors and key employees is permitted. Dealings by Directors and key employees in the Company's shares are disclosed to the Board of Directors on a quarterly basis.

Directors' Training

The Board recognises the importance of ensuring that Directors are continuously being developed to acquire or enhance the requisite knowledge and skills to discharge their duties effectively.

Tan Sri Dato' Seri (Dr.) Aseh Bin Haji Che Mat who was appointed on 1 January 2017 had attended an onboarding programme to familiarise himself with the Group's strategy and aspiration, understanding of the line of businesses and corporate functions, key financials, audit, compliance and risk management. The programme is conducted by the various Head of Functions as

well as Senior Management, and is organised by the Company Secretary. The Company Secretary also provided Tan Sri Dato' Seri (Dr.) Aseh Bin Haji Che Mat with an information kit regarding ATM Code, disclosure obligations of a Director, Memorandum and Articles of Association and Board Committees' TOR.

During the financial year under review, the Board attended an in-house training programme on the topic of "Companies Act 2016" and "Malaysian Code of Corporate Governance 2017".

The following training programmes were attended by the Directors during the financial year ended 31 December 2017:

Directors	Briefing/Conference/Forum/Seminar/ Training/Workshop attended	Date
Tan Sri Dato' Seri (Dr.) Aseh Bin Haji Che Mat	(i) Companies Act 2016 and Malaysian Code of Corporate Governance 2017	25 October 2017
	(ii) Pension Funds & Social Security Summit	31 October 2017
Datuk Oh Chong Peng	(i) Overview of the Companies Act 2016: Practical Insights & The Challenges and Duties and Responsibilities of Directors	2 March 2017
	(ii) The Companies Act 2016	5 April 2017
Datuk Zainun Aishah Binti Ahmad	(i) Directors Away Day Strategy Presentation	25 January 2017
	(ii) The New Companies Act 2016 - The Key Issues and Pitfalls and Disclosures of Interest by the Nominee Director	12 May 2017
	(iii) Fraud and Risk Management Workshop	13 July 2017
	(iv) Companies Act 2016 and Malaysian Code of Corporate Governance 2017	25 October 2017
Dato' Chan Choon Ngai	(i) Companies Act 2016 and Malaysian Code of Corporate Governance 2017	25 October 2017
Hendrik Stoel	(i) Companies Act 2016 and Malaysian Code of Corporate Governance 2017	25 October 2017
Datuk Christine Lee Oi Kuan	(i) SSM National Conference 2017	22 and 23 August 2017
	(ii) Companies Act 2016 and Malaysian Code of Corporate Governance 2017	25 October 2017
Ricardo Martin Guardo	(i) Companies Act 2016 and Malaysian Code of Corporate Governance 2017	25 October 2017



The Board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The Board, management, employees and other stakeholders are clear on what is considered acceptable behavior and practice in the Company.

Ethical and Procedural Standards

The Company is committed to upholding high ethical and procedural standards that are aligned with the values and objectives of the Company. To this end, the Company has in place internal policies, standards, guidelines, procedures and codes in support of the Company's corporate governance framework as set out in the BATM Code. Some of the key internal policies, standards, guidelines, procedures and codes are outlined below:

a. Standards of Business Conduct

A set of key policies, expressing the high standards of integrity the Group is committed to upholding. The areas covered by the Standards are Whistleblowing, Conflicts of Interest, Bribery and Corruption, Entertainment and Gifts, Respect in the Workplace, Human Rights and Our Operations, Political Contributions, Charitable Contributions, Accurate Accounting and Record Keeping, Protection of Corporate Assets, Confidentiality and Information Security, Insider Dealing and Market Abuse, Competition Law and Anti-Trust Laws, Money Laundering and Anti-Terrorism, Trade in Products, Sanctions and Principles for Engagement.

The Standards of Business Conduct requires all employees to act with high standards of business integrity and with this, the Company has in place an Anti-Corruption Toolkit which 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 Company is also a signatory of the Malaysian Corporate Integrity Pledge which was signed on 19 February 2014, demonstrating the Company's commitment in upholding anti-corruption in the conduct of its business.

For further information on the Standards of Business Conduct, please refer to pages 53 to 55 of this Annual Report under the Standards of Business Conduct Statement.

b. Supplier Code of Conduct

The Supplier Code of Conduct complements the Standards of Business Conduct by defining the minimum standards that the suppliers of the Company are expected to adhere to. The areas covered by this Code are Legal Compliance, Respecting Human Rights, Environmental Sustainability, Responsible Marketing and Business Integrity.

c. Code of Practice on Sexual Harassment

Ensures 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.

d. Competition Compliance Guidelines

The Company had in 2009 launched the Competition Compliance Guidelines to ensure that the Company's practices will be in compliance with competition laws ahead of the passing of the Competition Act 2010, which came into force in Malaysia in January 2012. The Competition Compliance Guidelines sets out the general principles and standards of behavior in relation to competition laws that employees are required to follow and comply.

e. Employment Principles

Demonstrates the Company's commitment to good employment practices and to the Company's position as an employer of choice.

f. Guidelines on Employee Engagement

Governs employee engagement and consultation on matters which are of interest to employees such as their employment status and key employment terms.

g. Guidelines on Dawn Raid

Sets out the procedures to be adhered to in the event of any raid by relevant authorities so that appropriate cooperation can be provided in a prompt and efficient manner.

h. International Marketing Principles

An internal framework to govern all aspects of tobacco marketing.

i. Policy on Business Security

Provides for effective business focused security throughout the Company.

j. Policy on Data Protection

To assist in establishing and maintaining an adequate level of personal data protection in the collecting, processing, disclosing and cross-border transfer of personal data including that relating to current, past and prospective employees, consumers, customers, enquirers, complainants, suppliers, contractors, business associates, and other agents of the Company. The Policy on Data Protection also reflects the British American Tobacco p.l.c Group's Data Protection Policy which incorporates current international standards for the protection of personal data and also incorporates specific elements to comply with the Malaysian Personal Data Protection Act 2010 (PDPA).

k. 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.

II. Board Composition



Board decisions are made objectively in the best interest of the Company taking into account diverse perspectives and insights.

The Board as at the date of this Statement consists of seven members, comprising four Independent Non-Executive Directors, including the Chairman and three Non-Independent Executive Directors. Currently 57% of the Board members are Independent Directors, complying with Paragraph 15.02 of the Listing Requirements of Bursa Securities.

The Board is committed to ensuring that the Directors of the Company possess a broad balance of skills, knowledge, experience, background, independence and diversity, including gender diversity. Currently, two out of the seven (30%) Board members are women, with one of the female Board members being an Independent Director. The profiles of the Directors are set out on pages 38 to 44 of this Annual Report.

The Board is collectively responsible for the Company's vision, strategic direction and governance. The current Board composition provides the appropriate balance in terms of experience, background, skills, gender, qualifications, integrity, possessing in-depth knowledge and experience of the tobacco business which are essential for sustainability and growth of the business as well as to promote the interests of all shareholders.

Board Independence

The Company measures the independence of its Directors based on the criteria stipulated in the Listing Requirements of Bursa Securities in which a Director should be independent and free from any business or other relationship that could interfere with the exercise of independent judgment or the ability to act in the best interest of the Company.

The Nomination Committee reviews the independence of Directors annually and each Independent Non-Executive Director also performed a self-evaluation to affirm their independence from management.

Tenure of Independent Director

The Board acknowledges and takes cognizance of the MCCG 2017 that the tenure of an Independent Director should not exceed a cumulative term limit of nine years and that if the Board

continues to retain an independent director after the twelfth year, the Board should seek annual shareholders' approval through a two-tier voting process.

Currently, the Board has one long-serving Independent Non-Executive Director, Datuk Oh Chong Peng whose tenure is more than twelve years and, who had obtained shareholders' approval at last year's AGM to continue to serve as an Independent Director of the Company. The NC has reviewed and recommended to the Board for Datuk Oh Chong Peng to continue to act as Independent Non-Executive Director of the Company, as the NC believes that Datuk Oh Chong Peng continues to provide valuable contributions and insights given his experience to support the Board. His familiarity and relationship with a majority of the Directors including Senior Management (Chairman, Managing Director and Finance Director) is of a short tenure, namely less than three years notwithstanding Datuk Oh's long tenure on the Board.

His appointment is tabled to the shareholders for approval at the upcoming 57th AGM. The two-tier voting process will be implemented if applicable, after the Company adopts its new Constitution in 2019 to allow such process to be undertaken.

Senior Independent Non-Executive Director

The Chairman of the AC, Datuk Oh Chong Peng is also the Senior Independent Non-Executive Director, to whom concerns of the other Directors, shareholders and other interested parties may be conveyed to.

Shareholders and other interested parties may contact Datuk Oh to address any concerns by writing or via telephone, facsimile or electronic mail as follows:

Tel: +603 2720 8188

Fax: +603 2720 8106

Email: ocpeng@bat.com

Postal Address: Level 19, Guoco Tower, Damansara City, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur



Stakeholders are able to form an opinion on the overall effectiveness of the Board and individual directors.

The Board undertakes an annual evaluation of its performance, performance of its committees and each individual director. The results of the evaluation for the year 2017 were reported to the NC on 13 February 2018 and subsequently to the Board.

Further information on the evaluation is available in pages 76 to 77 under the NC Report of this Annual Report.

III. Remuneration



The level and composition of remuneration of Directors and Senior Management take into account the Company's desire to attract and retain the right talent in the Board and Senior Management to drive the Company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

The Company's remuneration policy for Directors is tailored to provide a remuneration package which serves to attract, retain and motivate Directors of the calibre needed to manage the business of the Group.

The RC is responsible for reviewing and recommending to the Board, the remuneration package for the Executive Directors. 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 Group's operations in order to contribute to its strategy. Executive Directors who are full time employees, receive no additional compensation for services as a Director of the Board. On an annual basis, the RC considers market competitiveness, business results and individual performance in evaluating the Executive Directors' remuneration.

In evaluating the Managing Director's remuneration, the RC 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 package for Directors comprises the following elements, where applicable:

a. Fees

The fixed annual fees to be paid to the Non-Executive Directors.

b. Salaries

The basic salaries for the Executive Directors as recommended by the RC to the Board for approval.

c. Other Emoluments*

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

d. Benefits-in-kind**

Customary benefits such as provision of rented accommodation for expatriate Executive Directors, motor vehicle, club membership and personal expenses are made available to the Executive Directors in accordance with the policies of the Company.

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, are paid a meeting attendance allowance for each Committee meeting attended. In recognition of the additional time and commitment required, the Chairman of the AC also receives an annual fixed fee for his chairmanship in the AC. Information prepared by independent consultants and survey data on the remuneration practices of comparable companies are taken into consideration in determining the remuneration packages for Executive and Non-Executive Directors.

The Board believes in a competitive and transparent remuneration framework that supports the Directors' and Senior Management's responsibilities and fiduciary duties in managing the Group to drive the Company's long-term objectives and enhance stakeholders' value.

The Company has consolidated the policies and guidelines it adheres to in arriving at the remuneration for Directors and Senior Management into a remuneration framework for Directors and Senior Management.



Stakeholders are able to assess whether the remuneration of Directors is commensurate with their individual performance, taking into consideration the Company's performance.

The details of the Director's remuneration comprising remuneration received/receivable from the Company and subsidiaries for the financial year ended 31 December 2017 are as follows:

Directors	Salary (RM)		Fee (RM)		Other Emoluments* (RM)		Benefits-in-kind** (RM)		Total (RM)
	Company	Subsidiary	Company	Subsidiary	Company	Subsidiary	Company	Subsidiary	
Hendrik Stoel	1,048,056	-	-	-	1,447,286	-	325,761	-	2,821,103
Datuk Christine Lee Oi Kuan	987,107	-	-	-	2,193,934	-	28,000	-	3,209,041
Ricardo Martin Guardo	769,963	-	-	-	697,204	-	266,929	-	1,734,096
Tan Sri Dato' Seri (Dr.) Aseh Bin Haji Che Mat	-	-	345,000	-	154,092	-	-	-	499,092
Datuk Oh Chong Peng	-	-	100,000	-	26,000	-	-	-	126,000
Datuk Zainun Aishah Binti Ahmad	-	-	100,000	-	5,000	-	-	-	105,000
Dato' Chan Choon Ngai	-	-	100,000	-	4,000	-	-	-	104,000
Total	2,805,126	-	645,000	-	4,527,516	-	620,690	-	8,598,332

Principle B: Effective Audit and Risk Management

I. Audit Committee



There is an effective and independent Audit Committee.
The Board is able to objectively review the Audit Committee's findings and recommendations.
The Company's financial statement is a reliable source of information.



The Audit Committee comprise solely of Independent Directors.

The AC comprises of three members, all of whom are Independent Non-Executive Directors. The AC is chaired by an Independent Non-Executive Director who is not a Chairman of the Board. The AC is responsible for the oversight and monitoring of:

- a. the Group's financial reporting and accounting policies.
- b. risk management framework and internal control.
- c. related party transactions and conflict of interest situations that may arise within the Group.
- d. the Group's Internal Audit functions which includes review of the internal audit plans, appointment and termination of senior staff members of the internal audit function.
- e. the appointment, scope of work and evaluation of the external auditor.

The AC took note of the Practice 8.2 of the MCCG 2017 and the Board at its meeting on 13 February 2018 approved the adoption of the policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the AC. This is to safeguard the independence of the audit by avoiding the potential threats which may arise when a former key audit partner is in a position to exert significant influence over the audit and preparation of the Company's financial statement.

The AC evaluated the performance of the external auditors for the financial year ended 31 December 2017 covering areas such as calibre of external audit firm, independence and objectivity, performance of external audit firm, audit team, audit scope and planning and audit fees. After due consideration by the AC of the suitability, objectivity, independence and performance of the external audit firm, KPMG PLT, AC had recommended to the Board for approval, the re-appointment of KPMG PLT as external auditors for the financial year ending 31 December 2018.

The AC had also obtained written assurance from the external auditors, KPMG PLT that they are independent of the Company and the Group, and KPMG PLT has fulfilled other ethical responsibilities in accordance with the By-Laws of the Malaysian Institute of Accountants and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants.

For details on the composition, attendance record, TOR and a summary of activities of the AC, please refer to pages 73 to 75 of this Annual Report under the AC Report.

II. Risk Management and Internal Control Framework



Informed decision is made by the Company about the level of risk they want to take and implement necessary controls to pursue the Company's objectives.

The Board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the Company's objectives is mitigated and managed.

The Company recognizes the importance of sound risk management practices and internal controls to safeguard shareholders' investments and the Group's assets.

The AC which comprises all Independent Directors, assists the Board to review the risk management framework adopted within the Group and monitors the effectiveness of risk mitigation action plans to minimize losses and maximise opportunities. Besides that, AC also monitors systems of internal control to ensure it is soundly conceived and in place effectively administered.

Internal Audit



Have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

The Company's internal audit function is outsourced to the global audit function of British American Tobacco p.l.c. Group Internal Audit. This approach ensures a high level of independence and gives access to more skilled and specialized resources than would otherwise be available within the Group.

Details of the Company's internal control system and framework are set out in the Statement on Risk Management and Internal Control and AC Report found from pages 78 to 85 and pages 73 to 75 of this Annual Report.

Compliance With Applicable Financial Reporting Standards

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, annual report and quarterly announcement of results.

The AC 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 in the presence of external auditors and internal auditors prior to recommending the same for the Board's approval.

The Directors are responsible for ensuring that the financial statements prepared are drawn up in accordance with the provisions of the Act and applicable approved accounting standards in Malaysia.

The Directors' Responsibility Statement for the audited financial statements of the Company and the Group is set out in page 140 of this Annual Report. The details of the Company's and Group's financial statements for the financial year ended 31 December 2017 are presented from pages 141 to 199 of the Annual Report.

Related Party Transactions

The Company has an internal compliance framework to ensure it meets its obligations under the Listing Requirements of Bursa Securities including obligations relating to related party transactions. The Board, through its AC, reviews all related party transactions. The Directors further acknowledge that by declaring their conflict of 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 below:

- a. 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.
- b. all related party transactions will be reported to the AC of the Company. Any member of the AC of the Company may as he deems fit, request for additional information pertaining

to the transaction including from independent sources or advisers.

- c. 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.
- d. 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.
- e. 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 AC shall direct the British American Tobacco p.l.c Group Internal Audit to carry out investigation pertaining to the discrepancies or queries.

The Company proposed to seek its shareholders' approval on the proposed new and 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 New and Renewal of the Recurrent Related Party Transactions Mandate") at the Company's forthcoming 57th AGM. The Proposed New and Renewal of the Recurrent Related Party Transactions Mandate, details are disclosed in the Circular to Shareholders dated 21 March 2018 sent together with the abridged version of this Annual Report, if approved by the shareholders, would be valid until the conclusion of the Company's next AGM.

Independence of External Auditors

The appointment of KPMG PLT as the external auditors of the Company for the financial year ended 31 December 2017 until the conclusion of the next AGM was approved by the shareholders of the Company during the 56th AGM held on 18 April 2017.

The Board via the AC maintains a formal and transparent professional relationship with the Group's auditors, both internal and external. The AC had met with the external auditors without the presence of the Executive Directors and Management twice during the financial year ended 31 December 2017, which encouraged a greater exchange of independent views and opinions as well as dialogue between both parties.

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

The AC 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 auditors and review and evaluate factors relating to the independence of the external auditor and assist them in preserving its independence.

Principle C: Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders

I. Communication with Stakeholders



Continuous communication between the Company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Able to make informed decisions with respect to the business of the Company, policies on governance, the environment and social responsibility.

The Board recognises the importance of effective and proactive engagements with shareholders and stakeholders.

The Company has a dedicated Corporate Finance team which meets key institutional investors and analysts on a regular basis, as well as answers queries from shareholders.

The timely release of financial results on quarterly basis provides an up-to-date view of the Group's performance and operations. A quarterly briefing for fund managers, institutional investors and investment analysts as well as the media are held concurrently with the release of the quarterly financial results to Bursa Securities. 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.

During the financial year ended 31 December 2017, the Company held three quarterly briefings, sixteen direct one-on-one meetings, and hosted thirty-five teleconferences with fund managers, institutional investors and investment analysts.

The primary contact for investor relation matters is as follows:

Name: Ricardo Martin Guardo

Designation: Finance Director

Email: fdoffice_malaysia@bat.com

II. Conduct of General Meetings



Shareholders are able to participate, engage the Board and Senior Management effectively and make informed voting decisions at general meetings.

The Company acknowledges that good corporate governance requires active participation of shareholders in the decision-making process at the Company's AGM. The Company's AGM is the principal forum for dialogue and communication between the shareholders and the Board. Attendance of the Directors at the AGM 2017 is provided on page 60 and details of the AGM 2018 are set out on page 12.

The Company's AGM serves as a forum for shareholders to view the Company's performance and highlights for the year, industry overview, business transformation updates and financial highlights. As the Board values effective two-way communication with shareholders, the Directors and Leadership Team personally engage with the shareholders and welcomes their opinions and views. During the meeting, the shareholders participate in the deliberations of the resolutions being proposed or on the Company's operations in general. Shareholders are encouraged 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 shareholders' enquiries.

Additionally, the detailed feedback on questions raised by the Minority Shareholder Watchdog Group (MSWG), if any, prior to the AGM is shared with all shareholders during the meeting.

The Notice and agenda of 57th AGM together with the Form of Proxy are given to shareholders 28 days prior to the AGM, which allows shareholders sufficient time to make the necessary arrangements to attend the AGM or to appoint a proxy or proxies to attend and vote on their behalf. The Notice and agenda of 57th AGM are published in the local English, Bahasa Malaysia and Chinese newspapers and made available on the Company's website at www.batmalaysia.com. The Notice and agenda are accompanied by explanatory notes and a statement explaining the rationale of each agenda item.

The summary of the minutes of general meeting (including the attendance of Directors, questions raised by shareholders and the respective responses, outcome of the voting results and reply to the MSWG's queries) is made available to the shareholders and public at www.batmalaysia.com.

Poll Voting

The Company has in place the necessary procedures and infrastructure in order to facilitate poll voting for the resolutions at its AGM.

All resolutions set out in the notice of AGM will be voted by poll. Polling processes will be explained during the general meeting and will be conducted via poll slip voting. Voting slips for the AGM were issued by the Share Registrar upon registration, and were printed with details of shareholders' name, identity card number/company number and number of shares held. The poll results were verified by appointed scrutineers.

COMPLIANCE STATEMENT

The Board has deliberated, reviewed and approved the Statement on Corporate Governance in line with the principles of the MCCG 2017. The Board is satisfied that the Company has fulfilled its obligation under the BATM Code, MCCG 2017, Listing Requirements of Bursa Securities and all applicable laws and regulations throughout the financial year ended 31 December 2017.

This Statement was approved by the Board on 13 February 2018.