



BRITISH AMERICAN  
TOBACCO  
MALAYSIA

ANNUAL REPORT  
2018

**Building A Fair Society**  
*year of transformation*



**BRITISH AMERICAN  
TOBACCO  
MALAYSIA**

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# Diversity

We treasure the diversity of people, background, culture, identity and ideas. We believe by harnessing the power of diversity, we are able to promote a society that is more inclusive, collaborative and innovative.





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# Positive Action

We believe that changes that can bring real value to the society can only take place when there is a will to take positive actions.





  
**BRITISH AMERICAN  
TOBACCO  
MALAYSIA**

# Freedom of Choice

We believe that respecting the individual rights and their freedom of choice can foster better equality, understanding and harmony in the society.





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# Fairness

We believe that fairness in the marketplace, workplace and community is important in promoting transparency, equality, integrity and progress in the society.







# 58th

## Annual General Meeting (AGM) of British American Tobacco (Malaysia) Berhad

### Venue

Connexion Conference & Event Centre  
Nexus 2 & 3, Level 3A, Nexus, Bangsar South City,  
No.7, Jalan Kerinchi, 59200 Kuala Lumpur

### Date & Time

Thursday, 18th April 2019, 10.30a.m.

### Website

[www.batmalaysia.com](http://www.batmalaysia.com)



Leadership



Growth



Winning  
Organisation



Sustainability



Productivity

## Results At A Glance

Revenue

**RM2,823** MILLION

Shareholder's Fund

**RM422** MILLION

Profit Before Tax

**RM623** MILLION

Net Profit

**RM469** MILLION

Net Returns on  
Shareholder's Fund

**111%**

Net Dividend  
Per Share

**RM155** SEN

## Overview of British American Tobacco Malaysia

Employees

**481**

Years of History  
in Malaysia

**100+**

Market Share

**56.3%**

Earnings Per Share

**164.1** SEN

Certified Top Employer



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*“We worked hard on the stabilisation of our business, post the completion of our ‘Transformation’ in 2017, in a rapidly changing and challenging environment. We are happy to inform that in 2018, we continued to build towards our legacy as the leading tobacco company in Malaysia.”*



**Tan Sri Dato' Seri (Dr.)  
Aseh Bin Haji Che Mat**  
Chairman

**Erik Stoel**  
Managing Director

# Message to Shareholders

## Dear Shareholders,

2018 has been an eventful year for British American Tobacco Malaysia. We worked hard on the stabilisation of our business, post the completion of our 'Transformation' in 2017, in a rapidly changing and challenging environment for the legal industry.

Operating now fully from our new office in Damansara City, we are happy to inform you that in 2018 we continued our legacy as the leading tobacco company in Malaysia. Our financial results started to improve over the course of the year after the last two years of decline, we grew our share of value of the market, we started to capitalise on the benefits of our new supply chain model and we significantly improved our talent, brand and commercial capabilities. All of this was achieved in absence of a level playing field with illegal trade continuing to be high at about 60 percent of total cigarettes consumption.

We are pleased to see that part of the progress is already recognised by you, our shareholders. During the last AGM in April 2018, our share price was at one of the lowest points, and many of you, whilst showing clear confidence in the management of our Company, also raised concerns about the share price and of course the state of the industry with the lack of Government interventions.

In this context, it was encouraging to see a change in our political landscape, with a new Government that has a clear agenda to fight illegal trade and corruption, as well as being concerned about consumer affordability in general. Although we have not seen any reduction of the illegal cigarettes trade yet, this common ground and intent should form a strong platform for a new approach to address the illegal cigarettes trade. The Government's announcement about its intent to intensify enforcement efforts against illegal trade to bring back RM1 billion in revenue is a refreshing sign of commitment. 2019 will be a key year to see if this intent can be translated into clear actions and results.

We welcome the absence of an excise increase in the 2019 National Budget, however the abolition of Goods and Services Tax (GST) and the subsequent price increase as a result of the Sales and Services Tax (SST), continue to put further pressure on the affordability of legal brands.

Consequently, the industry will continue to be under pressure as a result of high levels of illegal cigarettes, until effective enforcement and measures around addressing affordability are in place.

Having said all of that, British American Tobacco Malaysia is not just a tobacco company. We are a respectable corporate citizen that is deeply connected with the wellbeing and growth of Malaysia, via being a significant tax contributor, an investor in society and of course our people and delivering a good return on shareholder value. Doing this with integrity in a consistent and transparent manner gives us a sense of greater purpose, which we trust provides you with confidence as shareholders.

With that, on behalf of the Board of Directors, we are pleased to present the Group's Annual Report and Financial Statements for the financial year ended 31 December 2018.

## Performance Review

Despite the external challenge from high illegal cigarettes incidence and a stretch on consumer affordability, the Company's financial performance saw signs of stabilisation compared to prior years with gradual recovery in terms of legal volumes, stable market share and a stagnation in illegal cigarettes growth, although illegal cigarettes still continue to rise on a year-on-year basis.

After consecutive double-digit volume decline, the domestic legal industry contracted by 3.5 percent and illegal cigarettes incidence was almost flat at about 60 percent of total consumption, though showing signs of growth post the SST driven price increase. As a result, the Company still experienced a reduction in revenue and profit from operations, albeit at significantly lower levels than in 2016 and 2017, underlining the gradual recovery and the strengthened fundamentals of the Company.

It is not an easy feat to compete with illegal brands, therefore we are heartened by DUNHILL's performance in 2018 with stable volume in the market, reinforcing our continuing leadership in the market. With affordability of legal cigarettes being a key concern for our consumers, we took the positive action of expanding our portfolio via ROTHMANS at the end of 2017 in the lowest legal price segment in the market. In 2018, it rapidly established a strong position against other competitive offers in this segment, further strengthening our portfolio in addition to a solidly performing PETER STUYVESANT in the aspirational premium segment.

As a result, the Group achieved 56.3 percent corporate market share for 2018.



### Corporate Governance

We are committed to good corporate governance and achieving our business objectives in a fair, honest, transparent and accountable way. We regard good corporate governance a key element underpinning the sustainable, long-term growth of our business. As such, we have revised and streamlined the Company’s constitution to reflect our intent and bring the standards to a higher level in line with the Companies Act 2016 and the revised Listing Requirements of Bursa Malaysia. This will be tabled to shareholders for approval at the 58th Annual General Meeting.

### Awards and Recognition

As a Company, we always strive to be a step ahead in creating the kind of workplace where talented and passionate people can not only develop and are motivated to make a true difference, but also simply enjoy working and be inspired by strong and progressive leadership actions.

We are proud that we continue to attract more people who are ambitious, courageous, resilient and agile, ready to take on the challenge of transforming our business. As such, we have heightened our efforts on providing them with the right development, learning opportunities and support required for their career growth in an exciting and rewarding environment.

We are therefore more than delighted that British American Tobacco Malaysia added several feathers to its cap and was recognised for its leadership and talent practices by numerous professional bodies in 2018.

The Company was awarded by The BrandLaureate BestBrands Award 2017-2018 with the Best Employer Brand Leadership Award. The award is conferred to companies that recognise the importance of human capital management in building a successful brand and take great effort in ensuring that the company’s people and culture philosophy, values, policies and initiatives are geared towards attracting the best talent and growing, nurturing and empowering them to become future leaders.

The Group has also been certified as Top Employer – in Malaysia and Asia Pacific 2019, whilst being recognised as one of the best three certified employers in Malaysia.

Aside from the Top Employer Award, British American Tobacco Malaysia also took home the 'Outstanding Practice: Work' at the Life at Work Award 2018 by Talent Corporation Malaysia Berhad, which further cements the Company as an employer of choice, one that puts its people first. Further adding to the list of accolades, British American Tobacco Malaysia was also named winner of HR Asia's 'Best Companies to Work for in Asia 2018' while taking home four more awards at the HR Excellence Awards Malaysia 2018.

### Leadership

We are happy to report that there were no changes at the Group's Board level in 2018. At the Leadership Team level, we will start 2019 with a few changes. We would like to give our most profound thanks to YBhg Datuk Christine Lee who retired as the Legal and External Affairs Director of British American Tobacco Malaysia, with effect from 31 December 2018 after a distinguished career spanning 18 years with British American Tobacco Malaysia. Datuk Christine, however, will remain as the Non-Independent Non-Executive Director of the Board.

As the new Legal and External Affairs Director, we welcome Ms Linda Song, a Malaysian national, with a distinguished international career in the British American Tobacco Group.

In addition, we have added a new role to the Leadership Team - Business Development Director, with particular focus on identifying structural solutions to the challenging business environment in Malaysia. We welcome Mr. Vicente Costa, a Brazilian national with more than 37 years experience in British American Tobacco Group, who has started in this position in October 2018.

We also welcomed Ms. Remeena Prabhakaran, a Malaysian national, as our new Operations Director, who took over in March 2018 from former Operations Director, Mr. Jon Jones. Remeena is a very experienced professional who held several senior positions for the British American Tobacco Group in supply chain management.



### Outlook for 2019

The Group remains concerned that the legal domestic market industry continues to be challenging due to the ongoing influx of illegal cigarettes in the market, but we would like to be proven wrong as we also expect that the Government's intent behind more and better enforcement should give us an opportunity to compete fairly in this highly regulated industry.

We sincerely hope that the intent announced during the 2019 National Budget to raise RM1 billion from addressing the illegal trade, will be rigorously pursued, and from our perspective, we will do everything we rightfully can as a legal company to make this a reality.

Besides this, we will pursue our journey in 2019 to grow our leadership in the legal market via a diversified and consumer relevant brand portfolio. We will continue to focus on our ambition of being the best employer in Malaysia and being a true contributor to the growth and wellbeing of Malaysia.



**Tan Sri Dato' Seri (Dr.)  
Aseh Bin Haji Che Mat**  
Chairman

### Appreciation

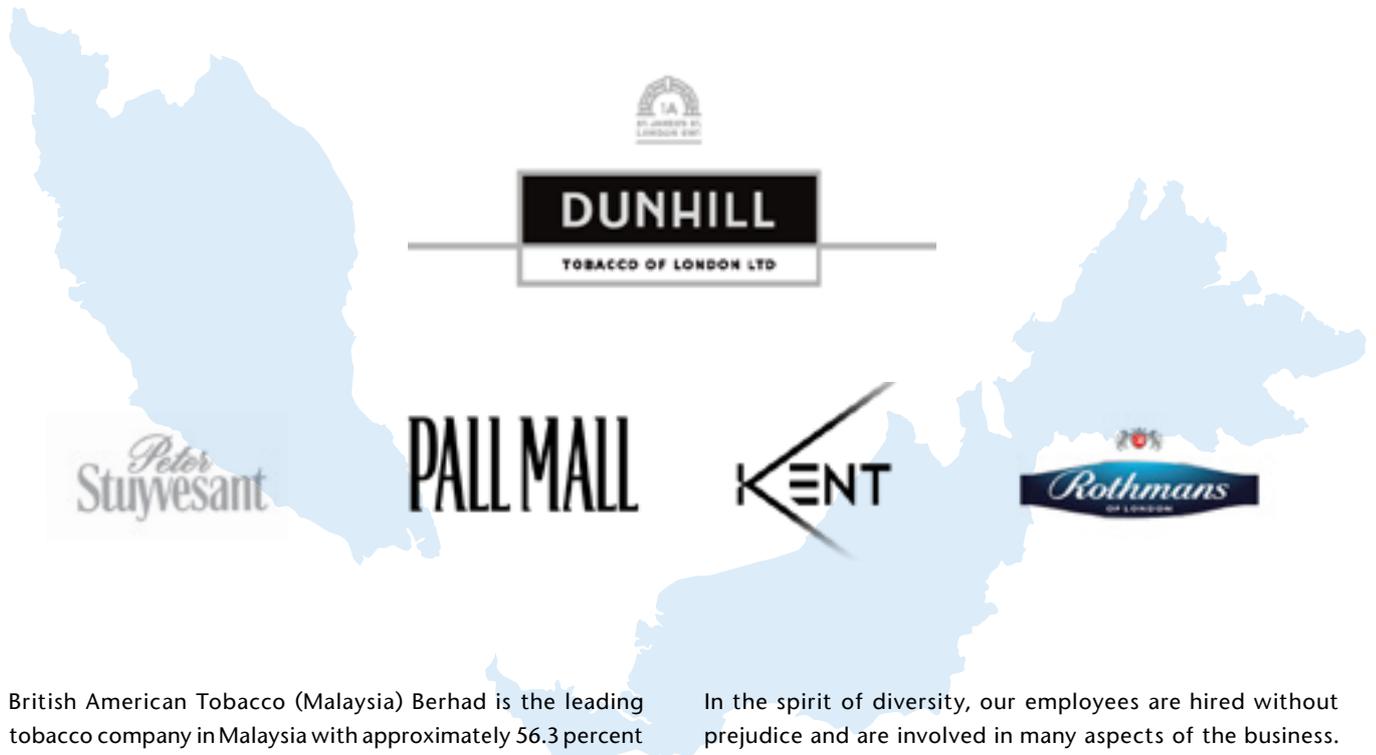
To wrap things up, on behalf of the Board of Directors, we would like to thank the management team and all employees of the Group for their tremendous efforts, dedication and resilience in maintaining our market leadership and delivering greater value for our shareholders despite 2018 being an incredibly volatile year.

We would also like to thank all our shareholders, customers, distributors, business partners and other stakeholders for their confidence and continued belief in British American Tobacco Malaysia.



**Erik Stoel**  
Managing Director

# Corporate Profile



British American Tobacco (Malaysia) Berhad is the leading tobacco company in Malaysia with approximately 56.3 percent of market share in the legal market. This strong position is built upon a portfolio of high-quality tobacco brands that are developed based on a diverse set of consumer needs. Our portfolio includes world-famous brands such as DUNHILL, KENT, PETER STUYVESANT, PALL MALL and ROTHMANS.

Established in 1912, British American Tobacco Malaysia has a history that goes back more than 100 years in Malaysia. Our wealth of expertise, talent, consumer and market insights, combined with British American Tobacco Group's strong science, as well as research and development capabilities place us in a strong position to meet current and future consumer needs and address societal challenges that Malaysia is facing.

Currently, we employ 481 employees directly (1,512 indirectly via our external distributors and dedicated shared services) who are involved across a wide spectrum of internal and external functions for the company – be it through generating insights, developing brands or by making our presence felt on a national level.

In the spirit of diversity, our employees are hired without prejudice and are involved in many aspects of the business. We believe that through empowering our employees combined with leading edge talent development practices, our employees become catalysts for positive change in the Company. This also ensures a strong foundation for corporate governance and shareholder relations.

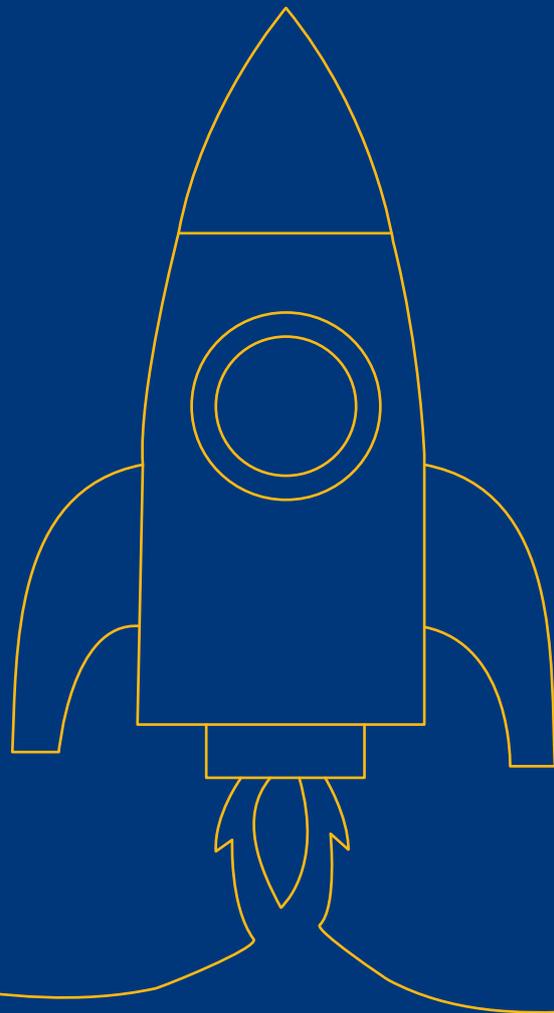
We aim to maintain being a leading company in Malaysia by continuing to satisfy our consumers with a strong portfolio of brands, supported by leading practices that enable us to maximise shareholder returns. In meeting these goals, we ensure that we conduct our business in a manner that not only grows the Company, but also contributes to making Malaysia a fair society where diversity is treasured, positive actions are required, freedom of choice is respected, and fairness is expected.

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02

# Performance

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# Management Discussion & Analysis

## Dear Shareholders,

The aim of the Management Discussion and Analysis (MD&A) is to provide shareholders with an overview of the business operations of British American Tobacco Malaysia (the Group), the financial review of 2018 and the Group's expectation on the business going into 2019.

## 2018 Performance Overview

### The market performance

The legal tobacco market saw some stabilisation in 2018 with gradual recovery in terms of legal volumes after consecutive years of decline since the 2015 excise increase and the consequent exponential growth of illegal trade in the market. Total legal domestic industry volume in 2018 contracted 3.5 percent and illegal cigarettes growth stagnated at about 60 percent.

### Our results

From a double digit decline in the last 2 years, the Group's domestic volume experienced a smaller contraction of 4.6 percent. As a result, domestic and duty-free markets revenue declined by 1.6 percent whilst profit from operations declined by 2.2 percent – which are significantly lower decline rate than in 2016 and 2017.

Recognising the market reality and the consumer needs, the Company remain steadfast in protecting the legal market by ensuring that we cater to consumer needs. The resilience of our portfolio of leading brands resulted in the Company maintaining our position as the market leader with approximately 56.3 percent of legal market share. Our flagship brand, DUNHILL, had stable volume, reinforcing our leadership in the premium segment. ROTHMANS, that was introduced in the lowest legal price segment given the affordability pressure faced by consumers, performed well to grow by 3.1 percentage point compared to 2017. PETER STUYVESANT grew 3.7 percentage point in the aspirational premium segment, compared to 2017.

### Our challenge

It is undeniable that the illegal cigarettes trade is still dominating the market. Whilst it is encouraging to note that some measures are being taken to address the problem, the challenge is that not all sectors of the Government, civil society and public are aligned on how serious this problem really is or which factors are



driving the growth of the illegal cigarettes trade. Many of the restrictions placed on the legal tobacco industry is also helping illegal trade gain a stronger foothold. There have been articles in the media suggesting further restrictions to be imposed such as lowering nicotine levels, retail licence and even plain packaging. However, with 60 percent of the market that does not and will not comply with such requirements, such regulations will further put pressure on the legal tobacco players and push the demand for illegal cigarettes.

Our business constantly evolves to comply with taxation and stringent tobacco control regulations such as packaging requirements and pricing controls. The illegal syndicates ignore such restrictions and have unfettered freedom in all aspects. Rising taxes or imposing more regulations will not achieve the desired results unless the illegal market is effectively reduced.

The change in Government saw a renewed desire of addressing the illegal trade market. In the Budget 2019, the Government announced its intent of intensifying enforcement efforts against illegal trade to bring back RM1 billion in revenue. Subsequently in December, Parliament endorsed the amendment to the Customs Act 1967 to deploy stricter deterrent penalties to those involved in illegal cigarettes trade. These are indeed positive measures and the Royal Malaysian Customs are gradually heading in the right direction to lay down the rules to reduce total illegal cigarettes consumption and prevent revenue leakages.

It is therefore critical that the Royal Malaysian Customs follow through with relentless enforcement that will build a strong platform for the future of the legal tobacco industry and deter retailers from participating in the illegal tobacco supply chain. We also saw other enforcement agencies starting to gain some traction, a realisation that the problem of illegal trade is too big for a single agency to act. It is a national issue that requires diversity in approach and all enforcement agencies to act with rigour. Everyone has the responsibility to fight illegal tobacco trade.

As a responsible and proactive corporate citizen, we are also working hard to consider potential solutions to complement the Government’s efforts. We are still of the view that there needs to be demand based measures to complement the enforcement efforts because consumers are forced to opt for illegal cigarettes retailing illegally at RM3 or RM4 as a result of affordability pressures.

**Business and Operations**

**Our Vision and Strategic Focus**

Our vision, which we share with the British American Tobacco p.l.c. Group, is to be the world’s best at satisfying consumer moments in tobacco and beyond. Consumers are at the heart of everything we do, and their evolving concerns and needs determine our plans to sustain leadership.



We were clear then, as we are now, that we would build our business based on outstanding products, informed consumer choice and a drive towards a reduced risk portfolio.

For over a century, we have built our business on successfully meeting the preferences of adult consumers with relevant cigarette brands, superior blends and market-leading innovations, delivering shareholder value and creating valued employment. Based upon changing consumer demand, we are now entering the dynamic period of change that will transform our industry. An unprecedented confluence of technology, societal change and public health awareness has created a unique opportunity: the opportunity to make a substantial leap forward in our long-held ambition to provide our consumers with potentially reduced risk tobacco choices. Today we have globally an unrivalled range of exciting and innovative products across the potentially reduced risk categories including industry leading products in vapour, tobacco heating products, oral tobacco, tobacco-free nicotine pouches, and moist snuff.

Our global commitment to offering adult smokers a choice of potentially reduced risk products is reflected in the progress we are making in numerous markets. Our flagship tobacco heating product - glo – was successfully launched in Canada, Italy, Japan, Romania, Russia, South Korea, and Switzerland. We believe the time is right to bring this exciting product for Malaysian consumers in 2019. However, it is also key to establish reasonable regulatory framework to enable consumers the transition from cigarettes to these potentially reduced risk products.

Even with our bold ambitions in potentially reduced risk products, we are realistic that cigarettes will remain a key part of our business for many years to come, at a pace which consumers will decide. That is why it is important to focus on addressing illegal cigarettes trade. For now, we cannot underestimate the role that combustible tobacco products play in providing the investment for the future.

It is our aim to create a win for society, our consumers, our shareholders as well as providing a greater purpose for our employees to achieve such wins with integrity and in a consistent and transparent manner. Towards that aim, we focus our commercial activities at leading in growth, productivity, sustainability and a winning organisation.

### **Our Products and Services**

Our core business revolves around the sale and marketing of tobacco products. Our portfolio of leading brands includes DUNHILL, PETER STUYVESANT, PALL MALL, BENSON & HEDGES, KENT and ROTHMANS.

Currently, the Group employs 481 employees who are involved in the marketing and distribution of our products as well as functions that support our talent development, enabling leading edge corporate governance, financial support and stakeholder and shareholder engagement.

### **Our Operating Facilities**

The Group is headquartered at Damansara City, Bukit Damansara, Kuala Lumpur as of September 2017. The Group has 10 sales offices across Malaysia with a nationwide distribution network via third party distributors.

Our Bukit Damansara office also houses the Asia Pacific and Middle East 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 and Middle East.

Besides the domestic tobacco operations, British American Tobacco is also present in Malaysia via its Global Business Services (GBS), a multi-functional, fully integrated end-to-end organisation, focused on innovation in support services. Under GBS, it manages one of the three global Information Technology (IT) centres of excellence as well as the regional back office services for Finance and Human Resources for Asia Pacific and Middle East region. GBS currently employs 600 employees and is operating from Sunway Geo Tower, Sunway South Quay.

In spite of the challenging times for the Malaysian legal tobacco industry, British American Tobacco Group remains committed to Malaysia via increasing investments in its shared services centre as well as in the domestic tobacco operations.

# Review of Financial Results

Ricardo Martin Guardo  
Finance Director



## Revenue

**RM2,823** MILLION

- 3.2%  
(2017 Restated : RM2,916 mil)

## EBITDA

**RM642** MILLION

- 2.0%  
(2017: RM655 mil)

## Return on Equity

**111%**

- 18pp  
(2017: 129%)

## Profit from Operations

**RM637** MILLION

- 2.2%  
(2017: RM651 mil)

## Earnings per Share

**164.1** SEN

- 8.4 sen  
(2017: 172.5 sen)

## Market Capitalisation

**RM10.3** BILLION

- 9.6%  
(2017: RM11.4 bil)

## Net Profit

**RM469** MILLION

- 4.9%  
(2017: RM493 mil)

## Operating Profit Margin

**22.5%**

+0.2pp  
(2017 Restated: 22.3%)

## Revenue

In Malaysia domestic and duty-free markets, illegal cigarettes incidence remained high at about 60 percent. As a result, the contraction of legal market continues to put pressure on 2018 revenue.

Gross Revenue (RM million)



Total revenue declined by 3.2 percent versus 2017, out of which 1.6 percent decline is attributed to the absence of contract manufacturing revenue (RM47 million) following the closure of our Virginia Park manufacturing facility.

Domestic and duty-free markets revenue declined by 1.6 percent (RM46 million) compared to 2017, largely driven by volume contraction (4.6 percent) and to a lesser extent a slight brand mix impact; partly offset by the price increase following SST implementation and one off GST removal impact.

## Cost of Sales

The reduction in cost of sales by 2.2 percent (RM44 million) versus the same period last year was primarily attributed to lower domestic sales, productivity saving initiatives and cessation of contract manufacturing for export markets. This is partly offset by inclusion of SST in cost of sales. The Group continuously delivered competitive manufacturing cost leveraging its full importation model versus 2017.

Operating expenses (RM million)

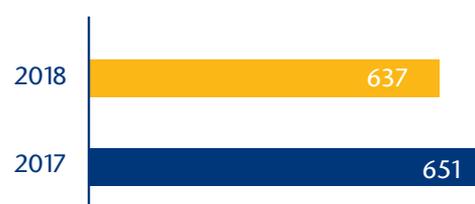


## Operating Expenses

In 2018, operating expenses were 4.5 percent (RM13 million) lower than last year resulting from the Group's continuous effort in undertaking cost base initiatives as well as lower

service recharges from British American Tobacco p.l.c. Whilst protecting the Group's market leadership by investing in strategic brands and channels, our full year operating margin was maintained.

Profit from operations (RM million)



## Profit from Operations

The Group recorded a decline of 2.2 percent in profit from operations (RM14 million) when compared to previous year. The reduction was mainly led by legal market contraction, partly offset by SST led price increase and cost efficiencies. Despite the external challenge from high illegal cigarettes incidence and consumer affordability stretch, the Group's financial performance has shown resilience and signs of stabilisation compared to prior years.

## Taxation

The average effective tax rate of the Group for the financial year ended 31 December 2018 was 24.8 percent versus 22.9 percent in 2017. The increase in average effective tax rate of 1.9 percentage point in 2018 was due to the absence of the one-off non-taxability on capital gains arising from the sale of the equipment and machinery to related parties in 2017 and tax adjustments on non-deductible items.

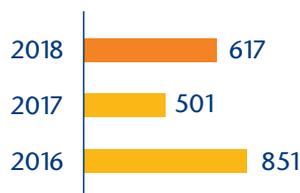
## Dividends

The Group continued its strong commitment to pay dividends at a level above 90 percent of earnings. In 2018, the Group declared four quarterly interim dividends amounting to 155 sen per share, which represents a 95 percentage earnings per share payout. Total dividend declined 8.0 percent versus 2017 mainly due to lower profit after tax for the financial period.

## Debt Structure

In 2018, the Group had a total debt facility of RM720 million maintained with several licensed financial institutions in Malaysia. The Group continues to utilise revolving credit to support its short-term working capital requirements. This more flexible debt structure allows the Group to borrow at optimum levels thereby minimising cash holding costs, together with improving interest deductibility. At the end of 2018, the Group had RM410 million of revolving credits with tenure between one week to one month, as compared to RM378 million in 2017.

### Cash from Operations (RM million)



## Working Capital and Liquidity

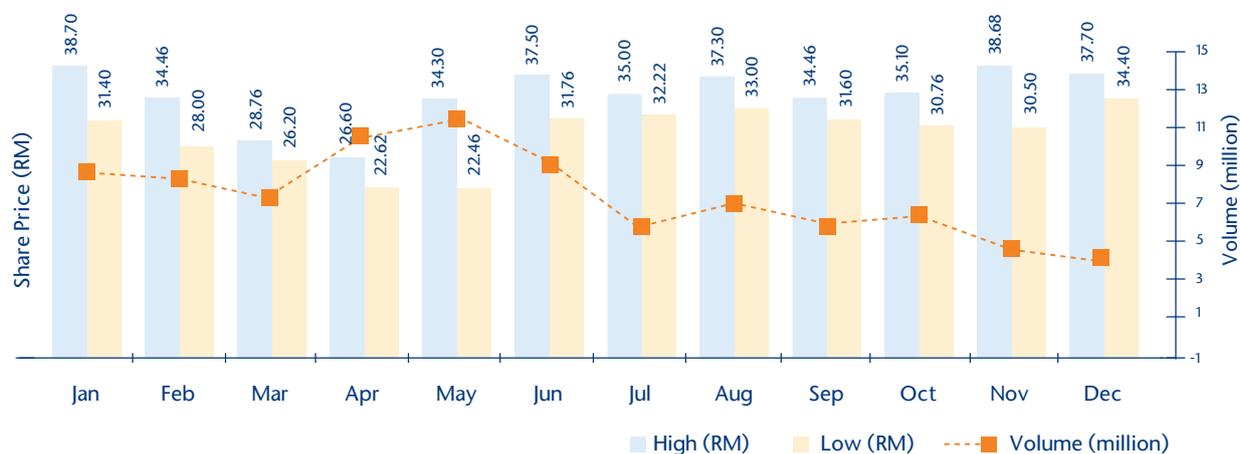
The closing cash and bank balances amounted to RM79 million, an increase of RM67 million from 2017. The increase in net cash inflow was primarily due to inventories duration savings of RM70 million leveraging the full importation model and GST removal one-off benefit of RM51 million; partly offset by the absence of proceeds from sale of factory equipment of RM90 million. As a result, the EBITDA cash conversion improved by 19 percentage points. The Group will continue to focus on improving working capital and liquidity under the new operating model.

	12 months 2018 RM million	12 months 2017 RM million	Favourable/ (Adverse) %
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	642	655	-2%
Profit from Operations	637	651	-2%
Cash from Operations	617	501	23%
EBITDA Cash Conversion	96%	77%	19pp
Increase / (Decrease) in Cash and Bank Balances	67	-21	416%

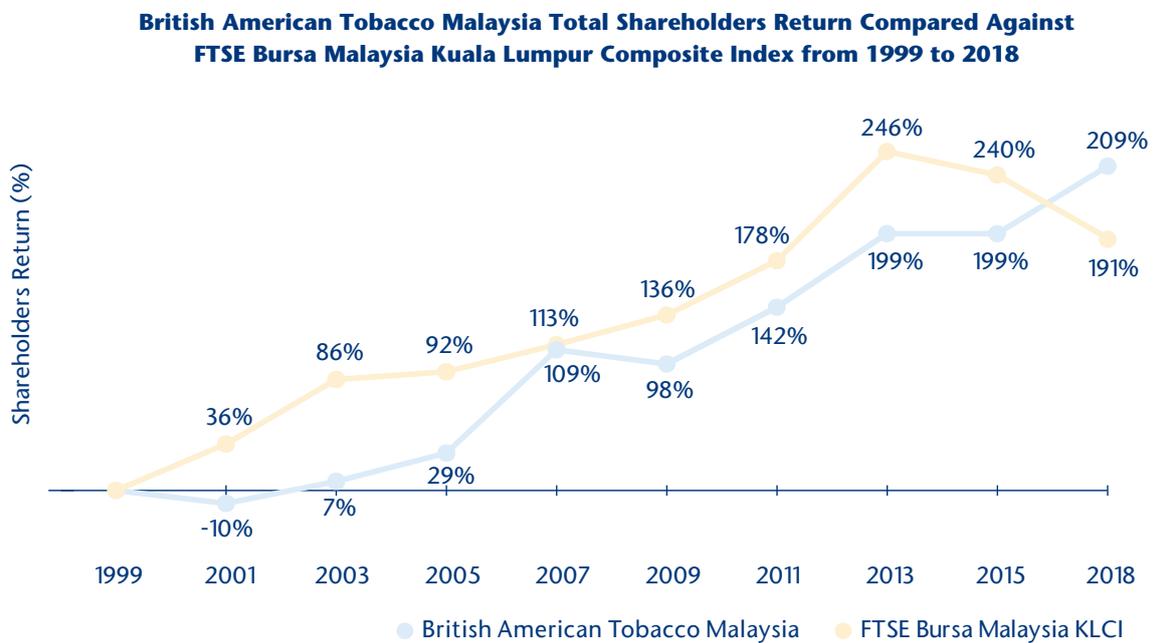
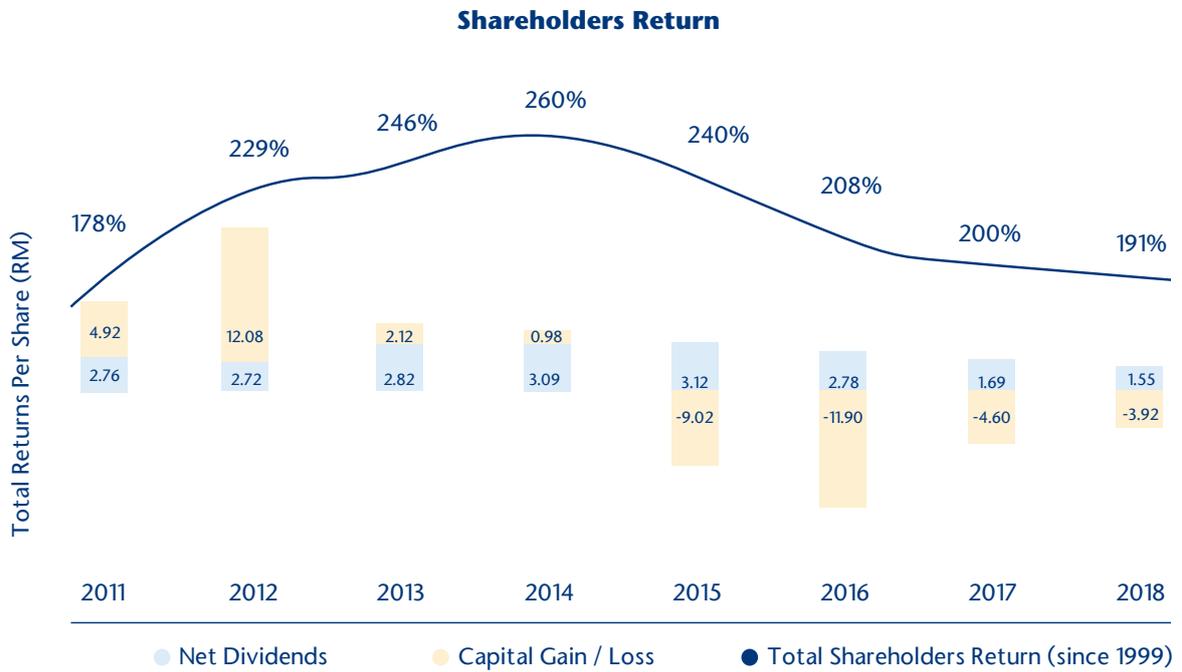
## Shareholders' Return

The Group's strategy combined with stabilised business performance as well as encouraging Government intent in curbing illegal trade translated to the share price recovery for British American Tobacco Malaysia by more than 40% as compared to the lowest price point in April 2018 (prior to the general election). The Group is encouraged by the improvement on the Group's share price during the second half of the year.

### Share Performance 2018



However, the legal market contraction in 2018 versus 2017 as a result of high illegal cigarettes at about 60 percent led to total annual shareholder return loss of RM2.37 per share.



Nonetheless, the shareholders’ return remains solid when compared to 1999, with a 5.8 percent return per annum on a compounded basis. Market capitalisation for the Group stands at above RM10 billion, marking Top 10 constituents in FTSE Bursa Malaysia Mid 70 Index. The Group will continue its commitment to deliver long term sustainable shareholders value.

The Group’s strategies and priorities on the business will remain the same, which is to invest where it matters to strengthen its brand portfolio, to increase the Group’s legal market share and to drive further cost efficiencies for delivering growth not just today, but to invest in the future as well.

## 2019 Outlook

The new Government has set a foundation for economic growth through fighting corruption, building transparency and managing affordability. The Government has publicly stated its intention to fight illegal trade through stronger effective enforcement and has put an ambition of recovering RM1bn of excise duty evaded from the illegal trade in 2019 Budget speech.

2019 business growth relies heavily on the legal volume recovery which requires continuous and intensified further enforcement

### Treasury

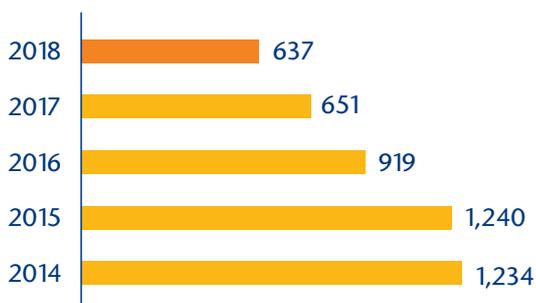
The Group’s foreign currency exposure mainly comes from purchases of finished goods. The currency exposure is minimised by partially hedging the net exposure for the next 12 months, in line with the hedging period that was allowed under the Foreign Exchange Control guideline enforced by Bank Negara Malaysia. The permitted range on the hedge ratio within the 6 months of transaction date is 50 percent to 95 percent. The primary objective of hedging strategy protects shareholders value by minimising foreign exchange rate fluctuations. This is achieved by layering the hedges monthly within the allowable boundaries set by Bank Negara Malaysia.

actions. Although early, it is encouraging to see some increase in Government enforcement actions lately. In addition, the Government decision not to impose additional excise keeping in mind the significant affordability stretch is commendable.

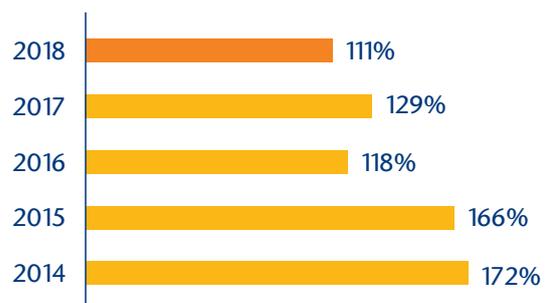
British American Tobacco Malaysia, with its more than 100 years proud legacy in the country, remains committed to our investments in the country.

### Five Year Performance History

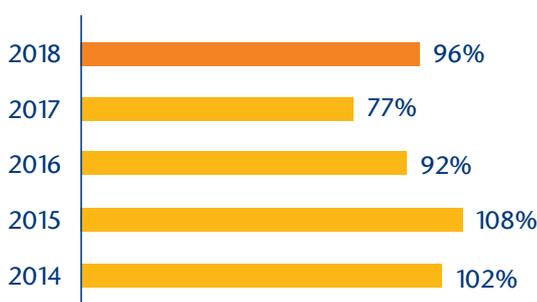
#### Profit from Operations



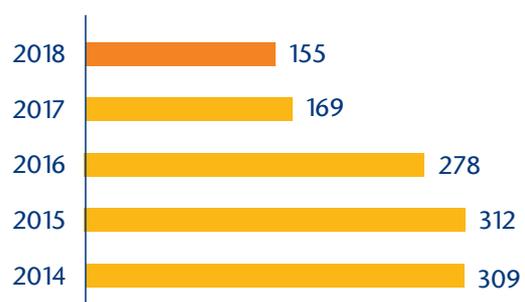
#### Return on Equity



#### EBITDA Cash Conversion



#### Net Total Dividend per Share



# Five Year Performance Highlights

## 2014

Profit from operations grew 9.6 percent versus previous year driven by strong net revenue performance despite lower domestic and contract manufacturing volumes. The Group fully redeemed the Medium-Term Notes (MTN) duly terminating the MTN Programme.

## 2015

Unprecedented massive increase in excise of 40 percent in November 2015 resulted in another large tax-led price increase. This extreme hike in cigarette excise against the backdrop of both weakened economy and consumer sentiments, coupled with implementation of the Goods and Services Tax (GST) in April 2015 further dampened the legal industry. The share of illegal cigarettes trade in 2015 has increased by 3.2 percentage points to 36.9 percent from 33.7 percent in 2014. (Source: Illicit Cigarettes Study).

## 2016

The Group announced on 17 March 2016 that it would be restructuring its business operations by sourcing tobacco products for its domestic market from other state-of-the-art British American Tobacco Group factories regionally and would cease the manufacturing operations. The restructuring was in line with the Group's efforts towards realising a new and more sustainable business model, amidst an increasingly challenging business environment. The Group has subsequently announced the sale of the land and building upon which the factory operations are located and the sale was completed in November 2016. The volume share of the illegal cigarettes trade hit an all-time high record at 57.1 percent in the month of December 2016 (Source: Illicit Cigarettes Study).

## 2017

The Group has completed the closure of its factory operations in June 2017 and has changed its sourcing from local manufacturing to full importation. The Group enters into Value for Money segment of the legal market through the launch of Rothmans in October 2017. Illegal cigarettes incidence continued to trend upwards and recorded at all time high of 59 percent.

## 2018

It was a stabilising year for British American Tobacco Malaysia after consecutive years of double-digit decline. Malaysia saw a historic changeover in Government in May 2018, resulting in visible policy changes. The Government announced abolishment of GST and reintroduced SST on 1 September 2018 to address affordability concern. Following SST implementation, a price increase of 40 sen per pack of cigarettes took place as the tobacco industry is regulated to pass on tax to consumer price. There were no excise increase in 2018, making it the third consecutive year of excise moratorium for the tobacco industry.

# Awards and Achievements



We continue to strive in ensuring all aspects of our business conducts are to the highest standards of accountability, transparency, and fairness. Testament to these efforts in setting benchmarks for high corporate governance standards, shareholder value and human resource policies and practices, we are proud to have received the local and international accolades as listed.

## 2018

1. Highest Return on Equity Over Three Years in the Consumer Products and Services Sector' at The Edge Billion Ringgit Club 2018.
2. Recognised by Top Employers Institute, an independent global certification company as one of the Top Three Best Companies within Malaysia.
3. Also secured Top Employer - Malaysia/Asia Pacific 2019 by Top Employers Institute.
4. Winner of The Best Employer Brand Leadership Award by BrandLaureate BestBrands Awards 2017-2018.
5. HR Asia's 'Best Companies to Work for in Asia 2018' at the HR Excellence Awards Malaysia 2018.
6. Winner of Excellence in Total Rewards Strategy (GOLD), Excellence in Innovative Use of HR Tech (SILVER), Excellence in Employee Engagement (SILVER) and Excellence in Employer Branding (BRONZE) at the HR Excellence Awards Malaysia 2018.
7. Winner of the "Outstanding Practice: Work" at the Life at Work Award 2018 by Talent Corporation Malaysia Berhad.
8. British American Tobacco Global Business Services Sdn Bhd (BAT GSD KL) and BAT Aspac Shared Services Sdn Bhd were also awarded HR Asia's 'Companies to Work for in Asia 2018' and two Gold Awards at the HR Excellence Awards Malaysia 2018.
3. Received the Pioneer Members Award Tribute to Selangor Members of 45 years and above from the Federation of Malaysian Manufacturers Selangor Branch as recognition of our longstanding membership with them.
4. Highest Return on Equity in the Consumer Product Sector for the Edge Billion Ringgit Club Awards 2015.
5. Silver award for Employer of Choice Award at the Malaysia HR Awards in partnership with JobStreet.com.
6. Top 10 public listed companies in Malaysia recognised for their excellence in corporate reporting at the Building Trust Awards 2015 by Pricewaterhouse Cooper.
7. Top 20 Companies shortlisted for their Reporting within An Annual Report at the ACCA Malaysia Sustainability Reporting Awards 2015.
8. Winner of the CG Award for Industry Excellence in the Consumer Services and Goods category at the MSWG-ASEAN Corporate Transparency Index, Findings and Recognition 2015 – The Malaysian Chapter.

## 2017

1. Certified as a Top Employer-Malaysia by the Top Employer Institute, an independent global certification company.
2. Winner of the CG Award for Industry Excellence in the Consumer Goods category at the MSWG-ASEAN Corporate Governance Awards 2017 for the third consecutive year in a row.
3. Winner of Excellence in Employee Engagement (GOLD), Excellence in Employer Branding (SILVER) and Excellence in Leadership Development (SILVER) and Excellence in Innovative Use of HR Tech (BRONZE) at the HR Excellence Awards 2017.
4. Winner of Most Sustainable Brand Award in the Business and Community Leadership category and winner of the Brand Transformational Leadership Award (Erik Stoel) at The BrandLaureate BestBrands Award 2016-2017.
5. Winner of Malaysia's Best Employer Brand Awards from the Employer Branding Institute.
6. Commercial Marketers & Distributors Sdn Bhd, a subsidiary of British American Tobacco Malaysia (Berhad) was awarded Best Tax Payer Award 2016 in the Private Limited Company category by the Inland Revenue Board of Malaysia.
1. Winner of the CG Award for Industry Excellence in the Consumer Goods category at the MSWG-ASEAN Corporate Governance Transparency Index, Findings and Recognition 2016 for the second consecutive year in a row.
2. Highest Return on Equity over the past 3 years in the Consumer Product Sector for the seventh consecutive year at The Edge Billion Ringgit Club Awards 2016.
3. Winner of the Best Graduate Recruitment Programme (GOLD), Best Use of Recruitment Technology (SILVER), Best Staff Referral Programme (SILVER) and Best Candidate Experience by a Corporate HR Team (BRONZE) at the Asia Recruitment Awards 2016.
4. Winner of Excellence in Recruitment (SILVER), Excellence in Innovative Use of HR Technology (SILVER) and Excellence in Employee Development (BRONZE) at the HR Excellence Awards 2016.

## 2014

1. Recognised in Life at Work Award 2014 for a talent brand and corporate programmes that promote diversity beyond gender and nationalities.
2. Acknowledged in Focus Malaysia for excellent corporate governance practices and transparency.
3. Endorsed as a profitable company in the Consumer Products Sector for the Edge Billion Ringgit Club Awards 2014.

## 2016

1. Winner of Malaysia Best Employer Brand Award at the Employer Brand Awards 2015.
2. Two Gold awards for Best Candidate Experience and Best Recruitment Evaluation Technique at the Asia Recruitment Awards 2015.

# Corporate Highlights

## January

- Launched DUNHILL Limited Edition Pack (LEP)



## February

- Financial analyst briefing on Fourth Quarter 2017 financial results
- British American Tobacco Malaysia's Chinese New Year Celebration



- Launched PETER STUYVESANT 4Mix, Malaysia's first-ever cigarette with 4 different flavor capsules in one pack

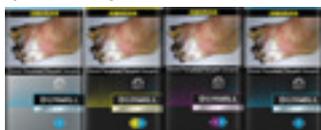


## March

- Corporate Annual Kickoff 2018



- Participated in Graduan Aspire Career Fair (United Kingdom)
- Upgraded pack for DUNHILL's capsule range



- British American Tobacco Malaysia's International Women's Day Celebration



## April

- Financial analyst briefing on First Quarter 2018 financial results
- British American Tobacco Malaysia's AGM



- Awarded The Best Employer Brand Leadership Award at the BrandLaureate Best Brands Awards 2017-2018



## May

- Partnered with Single Mum, Recreative & Innovative (SURI) to support social impact projects



- Launched DUNHILL Limited Edition Pack (LEP)



## June

- British American Tobacco Malaysia's Annual Treasure Hunt

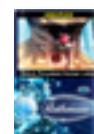


## July

- Partnered with The Picha Project to support social impact projects combined with the Company's Hari Raya Celebration



- Financial analyst briefing on Second Quarter 2018 financial results
- Launched DUNHILL Evoque with Malaysia's first bamboo charcoal filter from Korea
- Launched ROTHMANS KOOL (Menthol range)



- Participated in Graduan Aspire Career Fair (Malaysia)

## August

- Employee Wellness Day
- Employee Paintball Competition



## September

- 1 Year Anniversary of New Headquarter Office



- Participated in Graduan Aspire Career Fair (Australia)
- Launched PETER STUYVESANT Bamboo Charcoal Filter and PETER STUYVESANT Tropica, first double novel capsules in one stick

## October

- Joint Board Meeting of British American Tobacco Malaysia and Bentoel Group in Malang Indonesia.



- Set up of a new manufacturing plant in Johor



- Financial analyst briefing on Third Quarter 2018 financial results

## November

- Company Annual Dinner and Dance themed Dreamville, which also honoured long-service and retiring employees



- BAT Malaysia Challenge Inter-Games



## December

- Awarded "Outstanding Practice: Work" at the Life at Work Award 2018 by Talent Corporation Malaysia Berhad
- Winner of Top Employer - Malaysia/Asia Pacific 2019 by Top Employers Institute

- Winner of HR Asia's 'Best Companies to Work for in Asia 2018' and four other awards at the HR Excellence Awards Malaysia 2018

- Awarded 'Highest Return on Equity Over Three Years in the Consumer Products and Services Sector' at The Edge Billion Ringgit Club 2018

- British American Tobacco Global Business Services Sdn Bhd (BAT GSD KL) and BAT Aspac Shared Services Sdn Bhd won HR Asia's 'Companies to Work for in Asia 2018' and two Gold Awards at the HR Excellence Awards Malaysia 2018

- Recognised as Top Best Three of Companies certified in Malaysia by the Top Employer Institute

- British American Tobacco Malaysia's joint celebration as Top Employer and Christmas celebration

- British American Tobacco Malaysia employees volunteering at Pit Stop Community Cafe



# British American Tobacco Malaysia *in the News*

Upholding a reputation for being open, honest and transparent is important to British American Tobacco Malaysia. We connect to audiences in the broader society through various engagements with key stakeholders like media, our shareholders and investors in order to provide updates and address issues relating to our business. The following are some highlights in the news from 2018.

### BAT Malaysia seeks clearer regulations

It will hold off introducing new reduced-harm products for now

**BY SUKUNDAH RAJ**

British American Tobacco (BAT) Malaysia is seeking clearer regulations from the government to allow it to introduce new reduced-harm products in the market. BAT Malaysia is currently in discussions with the government on the regulatory framework for such products, which will be introduced in the next few years, according to the company's managing director, Peter Brabeck-Letford.

Brabeck-Letford said that the government needs to establish a clear regulatory framework for reduced-harm products, which will be introduced in the next few years. He said that the government needs to establish a clear regulatory framework for such products, which will be introduced in the next few years.

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### BAT seen to benefit from strengthening ringgit

Analysts predict that the strengthening of the ringgit will benefit BAT's operations in Malaysia.

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### 'A year of hard work' for BAT Malaysia

CEO Peter Brabeck-Letford reflects on the company's achievements in 2018.

CEO Peter Brabeck-Letford reflects on the company's achievements in 2018. He said that the company has achieved significant milestones in the past year, including the launch of new products and the strengthening of its relationships with the government.

CEO Peter Brabeck-Letford reflects on the company's achievements in 2018. He said that the company has achieved significant milestones in the past year, including the launch of new products and the strengthening of its relationships with the government.

### WINNING TOP EMPLOYER TITLE

BAT Malaysia is proud to have been named the Best Employer in its industry.

BAT Malaysia is proud to have been named the Best Employer in its industry. The company has been recognized for its commitment to its employees and its focus on creating a positive work environment.

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### 英美烟草 香烟或漲價1令吉 第三季淨利1.46億

Analysts predict that cigarette prices will increase by 1 ringgit due to rising costs.

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### BAT Malaysia bags best employer title

The company has been recognized as the Best Employer in its industry.

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### Annual General Meeting Press Conference 19 April 2018

CEO Peter Brabeck-Letford addresses the shareholders.

CEO Peter Brabeck-Letford addresses the shareholders. He discussed the company's performance in 2017 and outlined its strategy for 2018.

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### BAT M'sia bags Top Employer award yet again

The company has been named the Best Employer in its industry for the second year.

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### British American Tobacco (M) Bhd

Annual Report 2018

Annual Report 2018

Annual Report 2018

### Malaysian Business

#### BAT Malaysia Snags Top Employer Title

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# 03

## Leadership



# Corporate Information

## Board of Directors

**Tan Sri Dato' Seri (Dr.) Aseh Bin Haji Che Mat**  
PSM, SPSK, SSAP, SPTJ, SPDK, DPCM, DSAP,  
DIMP, KMN, AMN

Independent Non-Executive Director  
(Chairman)

### Hendrik Stoel

Non-Independent Executive Director  
(Managing Director)

### Datuk Oh Chong Peng

PJN, JSM

Independent Non-Executive Director

### Dato' Chan Choon Ngai

DSNS

Independent Non-Executive Director

**Datuk Zainun Aishah Binti Ahmad**  
KMN, PMP, DPMP, JSM, PJN

Independent Non-Executive Director

### Eric Ooi Lip Aun

Independent Non-Executive Director

### Datuk Christine Lee Oi Kuan

DPSM

Non-Independent Non-Executive Director

### Ricardo Martin Guardo

Non-Independent Executive Director  
(Finance Director)

## Company Secretary

**Lee Mi Ryoung**  
(MAICSA7058423)

Tel : +60 (3) 2720 8188

Fax : +60 (3) 2720 8106

Email : Lee\_Mi\_Ryoung@bat.com

## Registered Office

Level 19, Guoco Tower

Damansara City

No. 6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: +60 (3) 2720 8188

Fax: +60 (3) 2720 8106

Email : bat\_malaysia@bat.com

## Company Website

www.batmalaysia.com

## Share Registrar

Tricor Investor & Issuing House Services Sdn Bhd

Unit 32-01, Level 32, Tower A

Vertical Business Suite, Avenue 3

Bangsar South, No. 8, Jalan Kerinchi

59200 Kuala Lumpur

Tel: +60 (3) 2783 9299

Fax: +60 (3) 2783 9222

Email: lay.kiow.lim@my.tricorglobal.com

## Auditors

KPMG PLT

Chartered Accountants

Level 10, KPMG Tower

8, First Avenue

Bandar Utama

47800 Petaling Jaya

Selangor Darul Ehsan

Tel: +60 (3) 7721 3388

Fax: +60 (3) 7721 3399

## Principal Bankers

Citibank Berhad

Deutsche Bank (Malaysia) Berhad

HSBC Bank Malaysia Berhad

Malayan Banking Berhad

Sumitomo Mitsui Banking Corporation Malaysia Berhad

## Stock Exchange Listing

Main Market of Bursa Malaysia Securities Berhad

Listed Since : 27 October 1961

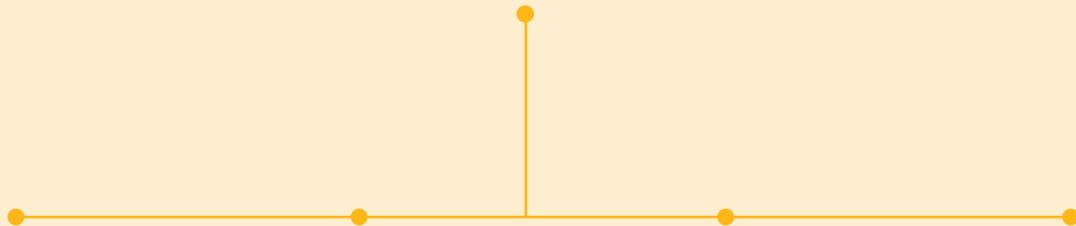
Stock Code : 4162

Stock Name : BAT

# Corporate Structure



**BRITISH AMERICAN  
TOBACCO  
MALAYSIA**



**100%**

Commercial Marketers and  
Distributors Sdn. Bhd.  
(Marketing and Importation)

**100%**

Rothmans Brands Sdn. Bhd.  
(Trademarks Holding)

**100%**

Tobacco Importers and  
Manufacturers Sdn. Berhad  
(Manufacturing and Sales)

**100%**

Commercial Marketers and  
Distributors Sdn. Bhd.  
(Incorporated in Negara  
Brunei Darussalam)  
(Dormant)

# Board of Directors



Front Row (From Left) :

Datuk Oh Chong Peng  
Tan Sri Dato' Seri (Dr.) Aseh Bin Haji Che Mat  
Erik Stoel

Back Row (From Left) :

Dato' Chan Choon Ngai  
Datuk Zainun Aishah Binti Ahmad  
Ricardo Martin Guardo  
Datuk Christine Lee Oi Kuan  
Eric Ooi Lip Aun

# Profile Of Directors



**TAN SRI DATO' SERI (DR.) ASEH  
BIN HAJI CHE MAT**  
PSM, SPSK, SSAP, SPTJ, SPDK, DPCM,  
DSAP, DIMP, KMN, AMN  
Independent Non-Executive Director  
(Chairman)

Aged 67, Malaysian (Male)

#### Date Appointed to the Board:

- 1 January 2017

#### Qualifications:

- B.A (Hons) (Economics) from the University of Malaya
- Masters in Public Administration from the University of Southern California, USA
- Certificate in International Financial Administration (USA)
- PhD (Honorary) (International Relation) from the Limkokwing University of Creative Technology, Cyberjaya
- PhD (Honorary) (Management) from the Infrastructure University Kuala Lumpur

#### Membership of Board Committee:

- Nomination Committee (Chairman)

#### Number of Board Meetings Attended in the Financial Year:

- 6/6

#### Present Directorships:

##### Listed Entities

- MWE Holdings Berhad
- Lion Diversified Holdings Berhad

##### Other Public Company

- Nil

#### Working Experience:

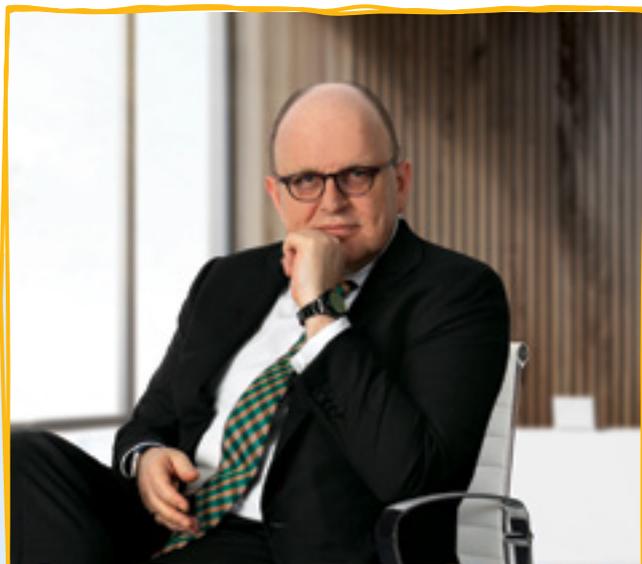
- Tan Sri Dato' Seri Dr Aseh is active in community service with his roles as Trustee and Chairman of Football Association of Malaysia Vetting, Monitoring and Integrity Committee, Chairman of Yayasan Pesara Kerajaan and President of Tiara Golf & Country Club, Malacca. He has also been active in the Administrative and Diplomatic Service (ADS) and was its longest serving President. He was the Chairman of the University Council of Limkokwing

University of Creative Technology from 2008 to 2017. Tan Sri Dato' Seri Dr Aseh was the Chairman of Social Security Organisation from August 2017 until 1 October 2018.

- Tan Sri Dato' Seri Dr Aseh joined the civil service at Ministry of Finance, Malaysia in March 1974 and subsequently held various positions as Assistant Secretary, Secretary and Principal Assistant Secretary of the Education Services Commission in Kuala Lumpur, Sarawak and Sabah.
- From 1984, he served in the Ministry of Home Affairs, Malaysia in various positions including Principal Assistant Secretary of the Security and Police Affairs Division; Undersecretary of the Security and Preventive Division, and the Management Division; and Deputy Director General and Director General of the Department of Immigration, Malaysia.
- In February 2001, Tan Sri Dato' Seri Dr Aseh was appointed Secretary General of the Ministry of Home Affairs, Malaysia, a post he held until his retirement on 22 October 2007.
- Post retirement from civil service, he held the position of Chairman of Pos Malaysia from July 2008 to 2011 and President of Putrajaya Corporation from August 2012 to July 2015. In September 2015, Tan Sri Dato' Seri Dr Aseh was appointed non-executive Chairman of Fujitsu (Malaysia) Sdn. Bhd.

#### Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.



### **HENDRIK STOEL (ERIK)**

Non-Independent Executive Director  
(Managing Director)

Aged 50, Dutch (Male)

#### **Date Appointed to the Board:**

- 1 June 2016

#### **Qualifications:**

- Degree in Marketing from the Hanzehogeschool Groningen, Netherlands
- Masters in Business Administration from the University of Northumbria at Newcastle, England

#### **Membership of Board Committees:**

- Corporate Social Responsibility Committee (Chairman)
- Executive Compensation Committee (Chairman)

#### **Number of Board Meetings Attended in the Financial Year:**

- 6/6

#### **Present Directorship:**

Listed Entity

- Nil

Other Public Company

- Nil

#### **Working Experience:**

- Erik was appointed as Managing Director of British American Tobacco (Malaysia) Berhad (Company) in June 2016.
- Prior to his appointment, he was the Area Director North Asia Area, responsible for Korea, Taiwan, Hong Kong and Macau.
- He has now more than twenty years of international experience in the British American Tobacco (BAT) Group that spans across the London Head Office, Eastern Europe, Middle East and Asia Pacific markets. One of Erik's assignments was to serve as Marketing Director of the Company in 2010-2012 before moving to Korea as BAT Korea's Marketing Director.

#### **Additional Information:**

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.



### DATUK OH CHONG PENG

PJN, JSM

Independent Non-Executive Director

Aged 74, Malaysian (Male)

#### Date Appointed to the Board:

- 1 January 1998

#### Qualifications:

- Chartered Accountant
- Fellow of the Institute of Chartered Accountants, England and Wales
- Member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants

#### Membership of Board Committees:

- Audit Committee (Chairman)
- Remuneration Committee
- Nomination Committee

#### Number of Board Meetings Attended in the Financial Year:

- 5/6

#### Present Directorships:

##### Listed Entities

- Malayan Flour Mills Berhad
- Dialog Group Berhad
- WCE Holdings Berhad
- PUC Berhad

##### Other Public Company

- Saujana Resort (M) Berhad

#### Working Experience:

- 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 is a Government appointed member of the Labuan Financial Services Authority since 1996. On 16 October 2018, Datuk Oh was appointed as Chairman of Labuan Financial Services Authority. He is also a trustee of the UTAR Education Foundation (2002) and a council member of University Tunku Abdul Rahman.
- His past appointments include being a Government appointed Committee Member of the Kuala Lumpur Stock Exchange (1990-1996), a Council member (1981-2002), a past President (1994-1996) of the Malaysian Institute of Certified Public Accountants (MICPA) and a board member of Malaysian Accounting Standards Board (MASB) (2003-2009). He was the Chairman of Land & General Berhad (1999-2007), Nanyang Press Holdings Berhad (2001-2005), Alliance Financial Group Berhad (2006-2017) and was a board member of Rashid Hussain Berhad Group of Companies (1998-2003) and Star Publications (M) Bhd (1987-2009).

#### Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.

**DATO' CHAN CHOON NGAI****DSNS**

Independent Non-Executive Director

Aged 63, Malaysian (Male)

**Date Appointed to the Board:**

- 1 February 2011

**Qualification:**

- Bachelor of Science in Mechanical Engineering degree from the University of Birmingham, United Kingdom

**Membership of Board Committee:**

- Audit Committee

**Number of Board Meetings Attended in the Financial Year:**

- 6/6

**Present Directorship:**

Listed Entity

- Nil

Other Public Company

- Nil

**Working Experience:**

- Dato' Chan was appointed to the Board of British American Tobacco (Malaysia) Berhad (Company) since 1 February 2011 after his retirement on 31 December 2010 as Operations Director of the Company. He was re-designated as Non-Independent Non-Executive Director of the Company on 1 January 2013 following the expiry of his contract of service on 31 December 2012. Subsequently, he was re-designated to Independent Non-Executive Director of the Company on 23 May 2016.
- He was appointed as the Operations Director in July 2000 of the Company and his portfolio expanded to include Business Development Services (BDS) effective on 15 November 2010.
- Dato' Chan joined Rothmans of Pall Mall (Malaysia) Berhad in 1979, as a Production Management Trainee and held

various 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). Dato' Chan was then appointed Production Director of the then Rothmans of Pall Mall (Malaysia) Berhad in October 1995. He was a director of Tien Wah Press Holdings Berhad from May 1997 to June 2003.

**Additional Information:**

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.



### DATUK ZAINUN AISHAH BINTI AHMAD

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

Aged 72, Malaysian (Female)

#### Date Appointed to the Board:

- 1 March 2012

#### Qualification:

- Bachelor of Economics degree from the University of Malaya

#### Membership of Board Committees:

- Remuneration Committee (Chairman)
- Audit Committee

#### Number of Board Meetings Attended in the Financial Year:

- 6/6

#### Present Directorships:

##### Listed Entities

- Degem Berhad
- Berjaya Food Berhad
- Boustead Holdings Berhad

##### Other Public Company

- Pernec Corporation Berhad

#### Working Experience:

- Datuk Zainun 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 Deputy Director-General of MIDA for 11 years and Director-General for 9 years before her retirement from MIDA in September 2004.

Whilst in MIDA, she also sat on various committees or authorities at national level, including being a member of the Industrial Coordination Act Advisory Council, Defence Industry Council and National Committee on Business Competitiveness Council, Malaysia Incorporated and the National Project for Majlis Penyalarsan Perindustrian before retiring in September 2004.

#### Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.



### ERIC OOI LIP AUN

Independent Non-Executive Director

Aged 61, Malaysian (Male)

#### Date Appointed to the Board:

- 1 March 2019

#### Qualifications:

- Member of the Malaysian Institute of Accountants
- Member of the Malaysian Institute of Certified Public Accountants

#### Membership of Board Committee:

- Audit Committee

#### Number of Board Meetings Attended in the Financial Year:

- N/A

#### Present Directorship:

Listed Entity

- Genting Berhad

Other Public Company

- Nil

#### Working Experience:

- Eric was a partner of PricewaterhouseCoopers (PwC), Malaysia until his retirement in June 2015 after 38 years of service. He joined the firm of Price Waterhouse (PW) (now known as PricewaterhouseCoopers) in 1977, qualified as a Certified Public Accountant in 1981, and was admitted to the partnership of PwC in Malaysia in 1991.
- In 2012, Eric assumed the responsibility to lead the middle market practices of the Asia Pacific cluster of PwC firms, focused on working with entrepreneurs, high net worth individuals and families.

- During the period from 2002 until 2008, Eric assumed the role of Assurance leader for PwC's regional grouping in Asia, and was a member of PwC's Global Assurance leadership team.
- In 1996, he assumed management and leadership positions for different parts of PW/PwC within Malaysia, across Asia and globally. He was also appointed PW Malaysia's leader for Audit and Business Advisory Services, and continued in the role following the merger between PW and Coopers & Lybrand to form PwC in 1998, a position he held through 2008.

#### Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.

**DATUK CHRISTINE LEE OI KUAN****DPSM**

Non-Independent Non-Executive Director

Aged 60, Malaysian (Female)

**Date Appointed to the Board:**

- 1 March 2012

**Qualification:**

- Degree in Law from the University of Malaya

**Number of Board Meetings Attended in the Financial Year:**

- 6/6

**Present Directorship:**

Listed Entity

- Nil

Other Public Company

- Nil

**Working Experience:**

- Datuk Christine was the Legal and External Affairs Director of British American Tobacco (Malaysia) Berhad (Company) from September 2006 until her retirement on 31 December 2018. Datuk Christine was responsible for corporate and regulatory affairs and legal matters of the Group. She was re-designated as Non-Independent Non-Executive Director of the Company on 1 January 2019 after her retirement.
- Datuk Christine started out as the Head of Legal and Company Secretary at the Company in 2001. She was appointed to the Top Team, now known as Leadership Team of the Company in 2006.
- Prior to joining the Company, Datuk Christine was the Head of Legal and Company Secretary of two public listed companies, Hong Leong Industries Berhad and Malaysian Pacific Industries Berhad.

- She was with the Attorney General's Chambers of Malaysia from 1983, serving in the Prosecution and Advisory and International Law Divisions.

**Additional Information:**

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.



### **RICARDO MARTIN GUARDO**

Non-Independent Executive Director  
(Finance Director)

Aged 41, Argentinian (Male)

#### **Date Appointed to the Board:**

- 1 September 2016

#### **Qualification:**

- Bachelor of Business Administration from the Universidad de Buenos Aires

#### **Membership of Board Committees:**

- Corporate Social Responsibility Committee
- Executive Compensation Committee
- Risk Management Committee

#### **Number of Board Meetings Attended in the Financial Year:**

- 5/6

#### **Present Directorship:**

Listed Entity

- Nil

Other Public Company

- Nil

#### **Working Experience:**

- Ricardo was appointed as Finance Director in British American Tobacco (Malaysia) Berhad (Company) in September 2016.
- Prior to his appointment, Ricardo was Head of Finance in British American Tobacco (BAT) Romania since June 2014. He served as Regional Finance Manager in BAT Asia Pacific from November 2012 to May 2014.
- He assumed the position as the Head of Finance of BAT Taiwan since July 2010. Prior to this role, he was appointed as SAP Project - Finance Leader in BAT Argentina from June 2006 to January 2008 and became its Marketing Finance Manager from February 2008 to February 2011.

- Ricardo started his career in BAT and served as Finance Controller in BAT Argentina and Uruguay from July 2002 to December 2004 and then Regional Process Auditor in BAT Americas Region from January 2005 to June 2006.

#### **Additional Information:**

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.

# Leadership Team



Front Row (From Left) :

Ricardo Martin Guardo  
Erik Stoel  
Samanmalee Priyanvada Chandrasiri

Back Row (From Left) :

Karl Yap Chee Keong  
Linda Song Yik Lin  
Vicente Costa  
C K Remeena Prabhakaran

# Profile Of Leadership Team



## **HENDRIK STOEL (ERIK)**

Managing Director

Aged 50, Dutch (Male)

### **Date Appointed to the Leadership Team:**

- 1 June 2016

For details of Erik's profile, please refer to page 41 of this Annual Report.



**RICARDO MARTIN GUARDO**

Finance Director

Aged 41, Argentinian (Male)

**Date Appointed to the Leadership Team:**

- 1 September 2016

For details of Ricardo's profile, please refer to page 47 of this Annual Report.



**LINDA SONG YIK LIN**  
Legal and External Affairs Director

Aged 52, Malaysian (Female)

**Date Appointed to the Leadership Team:**

- 1 August 2018

**Qualification:**

- Degree in Law from the University of Buckingham

**Directorship in Public Company and Listed Entity:**

- Nil

**Working Experience:**

- Linda was appointed as Legal and External Affairs Director of British American Tobacco (Malaysia) Berhad on 1 August 2018.
- Prior to her current role, she was the Regional Head of Commercial Legal for the Asia Pacific Middle East (APME) Region based in Hong Kong.
- Linda first joined BAT in 2001 as Legal Manager in Singapore. She has held various roles in the Legal function within the APME Region including Vietnam, Cambodia and Hong Kong.

**Additional Information:**

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.



**VICENTE COSTA**

Business Development Director

Aged 58, Brazilian (Male)

**Date Appointed to the Leadership Team:**

- 1 September 2018

**Qualification:**

- Master in Business Administration from the Fundação Getulio Vargas do Rio de Janeiro (Brazil)

**Directorship in Public Company and Listed Entity:**

- Nil

**Working Experience:**

- Vicente was appointed as Business Development Director of British American Tobacco (Malaysia) Berhad on 1 September 2018.
- Prior to his appointment, he was the Head of Trade in British American Tobacco (BAT) South Africa.
- In South Africa, Vicente led the strategic design and evolution of Trade Marketing & Distribution (TM&D).
- Amongst Vicente's previous roles, he worked as Americas' Regional Business Development Manager and in Souza Cruz he worked as Risk & Security Manager, Head of Strategy and Planning and Regional Marketing Manager.
- Vicente joined BAT as Sales Representative in 1980 and held various roles in BAT Group, mainly in TM&D.

**Additional Information:**

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.



**KARL YAP CHEE KEONG**  
Marketing Director

Aged 45, Malaysian (Male)

**Date Appointed to the Leadership Team:**

- 1 October 2016

**Qualification:**

- Masters in Business Administration from the Hawaii Pacific University in the United States

**Directorship in Public Company and Listed Entity:**

- Nil

**Working Experience:**

- Karl was appointed as Marketing Director of British American Tobacco (Malaysia) Berhad (Company) on 1 October 2016.
- Prior to his appointment, he was the Head of Marketing in British American Tobacco (BAT) Philippines.
- Before his move to Philippines, he held various positions in the Company as Area Head of Strategy, Planning & Insights and subsequently Area Head of Trade.
- In 2006, he joined the International Brand Group in London as Senior International Brand Manager.
- Karl first joined the Company as a Management Trainee in 1998 and held various positions in Marketing.

**Additional Information:**

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.



**SAMANMALEE PRIYANVADA CHANDRASIRI**

Human Resources Director

Aged 37, Sri Lankan (Female)

**Date Appointed to the Leadership Team:**

- 1 March 2016

**Qualifications:**

- Bachelor of Science in Management from the University of London
- Masters of Business Administration from the Edith Cowan University, Australia

**Directorship in Public Company and Listed Entity:**

- Nil

**Working Experience:**

- Samanmalee was appointed as Human Resources Director of British American Tobacco (Malaysia) Berhad on 1 March 2016 and has now been in service with the British American Tobacco (BAT) Group for 17 years.
- Prior to her current role, she was Human Resources Director of BAT Sri Lanka since 2013 where she facilitated the implementation of a more sustainable business model.
- Before her move to Sri Lanka, she was the Organisation Effectiveness Advisor for Bentoel Group in Indonesia.
- She first joined the BAT Group as a Management Trainee in BAT Sri Lanka and has held various Human Resources roles in Sri Lanka and South Asia including Area Head of Talent SAA.

**Additional Information:**

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.



**C K REMEENA PRABHAKARAN**  
Operations Director

Aged 55, Malaysian (Female)

**Date Appointed to the Leadership Team:**

- 1 March 2018

**Qualification:**

- Bachelor of Science in Mathematics, Microbiology & Genetics from the University of Malaya

**Directorship in Public Company and Listed Entity:**

- Nil

**Working Experience:**

- Remeena was appointed as Operations Director of British American Tobacco (Malaysia) Berhad on 1 March 2018.
- Prior to her current role, she was the Head of British American Tobacco's Asia Pacific Supply Service Center from July 2014 to February 2018.
- Remeena joined BAT in 2012 as the Asia Pacific Middle East (APME) Head of Category & Sourcing Manager within the Procurement function. In 2013, she was promoted as the Regional Head of Procurement.
- She was with Philip Morris International from 1997 until 2012 with her last role being the Director of Supply Chain South Cluster.

**Additional Information:**

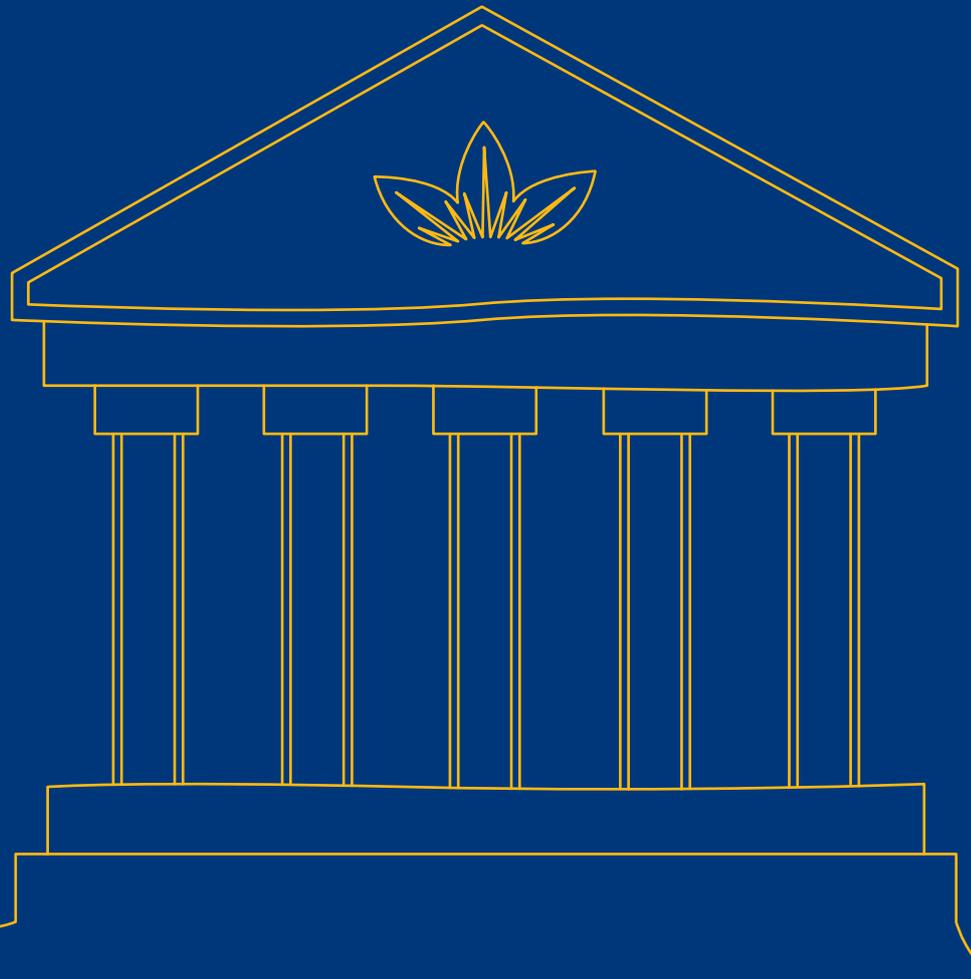
- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2018.

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# 04

# Governance

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# Standards Of Business Conduct Statement

The Standards of Business Conduct (Standards) are a set of global policies adopted locally, that represent the ethical values and behaviours that reflect the Group's culture. As the foundation of Delivery with Integrity, the Standards provide key rules and guidance with a consistent approach to the Group's management of risks in key areas of compliance and support the Group in delivering outstanding business results with integrity.

Ensure that decisions and judgements made by employees are lawful and comply with high ethical standards

Set a tone and culture for the organisation which will enable it to be regarded as a good corporate citizen



Help employees who are faced with making difficult judgements in the course of their work

Give reassurance to the Group's stakeholders with whom the Group comes into business contact

The Standards are divided into the following six chapters:

Whistleblowing	<ul style="list-style-type: none"> <li>Whistleblowing Policy</li> </ul>
Personal and Business Integrity	<ul style="list-style-type: none"> <li>Conflicts of Interest</li> <li>Bribery and Corruption</li> <li>Entertainment and Gifts</li> </ul>
Workplace and Human Rights	<ul style="list-style-type: none"> <li>Respect in the Workplace</li> <li>Human Rights and Our Operations</li> </ul>
Public Contributions	<ul style="list-style-type: none"> <li>Political Contributions</li> <li>Charitable Contributions</li> </ul>
Corporate Assets and Financial Integrity	<ul style="list-style-type: none"> <li>Accurate Accounting and Record Keeping</li> <li>Protection of Corporate Assets</li> <li>Confidentiality and Information Security</li> <li>Insider Dealing and Market Abuse</li> </ul>
National and International Trade	<ul style="list-style-type: none"> <li>Competition Law and Anti-Trust Laws</li> <li>Money Laundering and Anti-Terrorism</li> <li>Illicit Trade</li> <li>Sanctions</li> </ul>

All employees of the Group are required to complete training and annually sign-off confirming their adherence to the Standards.

### **Conflicts of Interest**

The Group has in place an effective procedure for identifying, managing and mitigating any potential conflicts of interests. In order to ensure compliance and transparency, all employees, including the Board are required to declare their compliance with the Standards annually and to disclose any conflicts of interests whenever it arises.

The Standards provide examples of situations where conflict of interest may arise. One such conflict to be declared is in relation to whether the employee and/or immediate family have an interest in or association with the operations of the Group which may lead to a conflict of interest. Other examples of areas where situations of conflict may arise are corporate opportunity, outside employment and financial interest.

These declarations are then registered and maintained in the Group's Conflict of Interest register. For the year 2018, 35 employees made 42 declarations on potential conflicts of interests, of which 35 declarations consisted of employees having family members working within the Group or within the British American Tobacco p.l.c. Group and 7 declarations in other areas.

### **Bribery and Corruption**

#### **Third-Party Anti Bribery and Corruption Procedure**

The Group has adopted zero tolerance approach on bribery and corruption. It is wholly unacceptable for the Group, its employees, business partners and suppliers to be involved or implicated in any way in bribery and corrupt practices.

The Group has implemented a new Third-Party Anti Bribery and Corruption Procedure (Procedure) which provides a framework for appropriately identifying, assessing, mitigating and monitoring bribery and corruption risk when dealing with any third party. This Procedure applies to all third parties with which the Group engages in the course of its business, including (but not limited to) all customers, distributors and suppliers (Third Parties).

All Third Parties will undergo a targeted due diligence which focuses on identifying and dealing with any Third Parties that pose any risk from a bribery and corruption perspective. Trainings were conducted to ensure adequate knowledge and competency to those employees executing this due diligence exercise. After due conduct of such due diligence, specified mandatory or discretionary risk mitigation requirements are followed. An example of such risk mitigation requirement is to ensure anti bribery contractual terms are included in the contract.

Employees are required to, at any time becoming aware of anything suspicious that may carry a bribery and corruption risk about a Third Party anywhere in the Group (whether proposed or already engaged) to promptly escalate and report their concerns.

### **Whistleblowing**

In 2018, the Group rolled out a new SPEAK UP hotline and portal that is managed by a third party, which provides additional channels via telephone and online to raise concerns around the Standards.

Complimenting the whistleblowing policy which was introduced in 2004 which set the procedures which must be followed to enable employees to voice their concerns. Under the Standards, employees have a duty to report breaches that they know, or suspect. The Group commits to keeping all reports confidential, and to conducting a full and objective investigation and assures employees that they will not suffer reprisal or victimisation for speaking up.

The Group had also put in place the Procedures on Incident Reporting and Investigation (Incident Procedures). The Incident Procedures formally set out the process and procedures for reporting, investigation and evaluation of any suspicion of wrongdoing or misconduct committed by any employee of the Group and non employee who is a business partner/service provider of the Group in a prompt and effective manner. The evaluation of any incidences reported is conducted by a formal evaluation committee comprising a majority of the Group'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 which are reported will be investigated by an investigation team mandated by the EVT to ensure that all cases which have been reported or discovered are investigated upon promptly. The resulting reports of investigation are then forwarded 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 actions 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 Group will be reported to the Audit Committee of the Group and further submitted to the Regional Audit Committee for the British American Tobacco p.l.c.'s Main Board Audit Committee. The Group maintains a register of all whistleblowing and breach of Standards incidences.

### Supplier Code of Conduct

The Supplier Code of Conduct (SCoC) complements the Standards by defining the minimum requirements in ensuring high standards of business ethics amongst all entities dealt with or contracted by the Group. The SCoC supports the Group's continuing commitment to respect human rights and uphold International standards, including the United Nations (UN) Guiding Principles on Business and Human Rights and the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. The applicable provisions in the SCoC are incorporated in agreements with the relevant contractors, service providers, suppliers and distributors of the Group. It is made clear in all these agreements that compliance to the SCoC is mandatory and that any non-compliance of the SCoC is deemed a breach and the Group has the right to terminate its agreement with the said contractors, service providers, suppliers or distributors of the Group.

*The Board and the Audit Committee of British American Tobacco (Malaysia) Berhad regularly monitors compliance with the Standards. The Legal Department/Company Secretary is charged with the responsibility of reporting the aforesaid to the Board on an annual basis. Employees have a strict duty to report incidences of non-compliance with the Standards and any other incidences of wrongdoing at work. Our business partners are also welcome to report their concerns and can do so via the Speak Up portal. The Standards are made available to our employees and the Board on the Group's intranet (Interact website) and the Group's corporate website at [www.batmalaysia.com](http://www.batmalaysia.com).*

# Statement On Corporate Governance

The Board of Directors (the Board) of the Company presents this statement to provide an overview of the corporate governance practices of the Company, on how the Company has applied the practices and complied with the principles of the Malaysian Code on Corporate Governance 2017 during the financial year 2018.

## Corporate Governance Framework

The Board 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, annual strategic plan, approval of major capital expenditure, major acquisition and disposal of businesses or equity, borrowings and any corporate restructuring, for its decision.

This statement on Corporate Governance (Statement) is to be read together with the Corporate Governance Report of the Company which is available at the Company's corporate website at [www.batmalaysia.com](http://www.batmalaysia.com).

# Principle A: Board Leadership and Effectiveness

## I. Board Responsibilities

### Roles of the Board

The Board is guided by the Terms of Reference (TOR) or its Board Charter 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 succession plan including 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

Role	Key Responsibilities
Chairman	The Chairman is responsible for the efficient and effective functioning of the Board.
Managing Director	The Managing Director assumes overall responsibilities 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, Business Development 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. establish and maintain 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 represent 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 requirements and policies requirements governing the Company and business. This is important to ensure that the said laws, regulations, listing requirements and policies requirements 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 shareholders 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 assist the Board in applying governance practices to meet the Board's needs and stakeholders' expectations.

### **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 shared 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 Board 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.

## 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](http://www.batmalaysia.com).

## Meetings 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 six times (including two Special Board meetings). All Directors attended at least 50 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 AGM are as follows:

Directors	Board	AGM
Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat (Chairman) Independent Non-Executive Director	6/6	1/1
Hendrik Stoel (Managing Director) Non-Independent Executive Director	6/6	1/1
Datuk Oh Chong Peng Independent Non-Executive Director	5/6	1/1
Datuk Zainun Aishah binti Ahmad Independent Non-Executive Director	6/6	1/1
Dato' Chan Choon Ngai Independent Non-Executive Director	6/6	1/1
Datuk Christine Lee Oi Kuan Re-designated as Non-Independent Non-Executive Director effective 1 January 2019	6/6	1/1
Ricardo Martin Guardo (Finance Director) Non-Independent Executive Director	5/6	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 Chairman 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 2018, the RC met three times. The composition of the RC and the attendance record of its members are as follows:

Director	Designation	Total Meetings Attended
Datuk Zainun Aishah binti Ahmad (Chairman)	Independent Non-Executive Director	3/3
Datuk Oh Chong Peng (Member)	Independent Non-Executive Director	3/3
Hendrik Stoel (Member) (Resigned as a Member of the Remuneration Committee effective 21 May 2018)	Non-Independent Executive Director	2/2

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' Benefits on the Recognition Scheme and the Education Assistance Programme;
- Parents @ BAT; and
- the 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 76 to 78 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 the Leadership Team.

For details on the composition, TOR, a summary of activities of the NC, selection and assessment of Directors, please refer to pages 79 to 82 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-annual 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 acts as the Secretary of 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 2018 sustainability initiatives.</p> <p>For details of the corporate responsibility activities, please refer to pages 118 to 147 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 2018 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 2018, please refer to pages 83 to 91 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). The Affected Person is prohibited from trading in securities based on price sensitive information and knowledge acquired by virtue of his/her position which has not been publicly announced. 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.

The following training programmes were attended by the Directors during the financial year ended 31 December 2018:

Directors	Briefing/Conference/Forum/Seminar /Training/Workshop attended	Date
Tan Sri Dato' Seri (Dr.) Aseh Bin Haji Che Mat	(i) Fujitsu World Tour 2017 – Asia Conference Kuala Lumpur	7 March 2018
	(ii) The Changing Role of the Company's Board & its Members in the Wake of the new MCCG Code	12 March 2018
	(iii) Media Training	12 December 2018
Datuk Oh Chong Peng	(i) SIDC Business Foresight Forum	8 August 2018
Datuk Zainun Aishah Binti Ahmad	(i) Remuneration Committee: Attracting and Retaining the Best Talent	13 August 2018
	(ii) Business Transformation Challenges-Shaping High Performance Organisations	23 October 2018
	(iii) Media Training	12 December 2018
Dato' Chan Choon Ngai	(i) Media Training	12 December 2018
Hendrik Stoel	(i) Media Training	12 December 2018
Datuk Christine Lee Oi Kuan	(i) SSM National Conference 2018	14 & 15 August 2018
	(ii) Media Training	12 December 2018
Ricardo Martin Guardo	(i) Navigating Change in Malaysia	15 November 2018

## 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, Illicit Trade, and Sanctions.

### b. Supplier Code of Conduct

The Supplier Code of Conduct complements the Standards of Business Conduct and sets out the minimum standards expected by suppliers of the Group. The standards include business integrity, anti bribery and corruption, environmental sustainability and respect for human rights (covering equal opportunities and fair treatment, health and safety, prevention of harassment and bullying, child labour, and exploitation of labour, and freedom of association).

For further information on the Standards of Business Conduct and Supplier Code of Conduct, please refer to pages 57 to 59 of this Annual Report under the Standards of Business Conduct Statement.

### 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 behaviour 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 transferring 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

The Board in the financial year 2018 consisted of seven members, comprising four Independent Non-Executive Directors, including the Chairman, three Non-Independent Executive Directors. Currently 57 percent of the Board members are Independent Directors, complying with Paragraph 15.02 of the Listing Requirements of Bursa Securities.

### Board Gender Diversity

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. For the financial year 2018, two out of the seven (30 percent) 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 40 to 47 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.

The process for selection, nomination and appointment of suitable candidates to the Board of the Company, is set out on pages 79 to 80 of this Annual Report.

### 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 judgement or the ability to act in the best interest of the Company.

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

### Tenure of Independent Director

The Board acknowledges and takes cognisance of the MCGG 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.

Datuk Oh Chong Peng has expressed his intention to retire as Independent Non-Executive Director of the Company at the conclusion of the 58th AGM. Hence, he will remain in office

until the conclusion of the 58th AGM. The Board would like to express its sincere appreciation and gratitude to Datuk Oh Chong Peng for his invaluable efforts and contributions to the Company during his tenure in office as Senior Independent Non-Executive Director and Chairman of the Audit Committee of the Company.

### Senior Independent Non-Executive Director

With the retirement of Datuk Oh Chong Peng at the conclusion of the 58th AGM, the Chairman of the Remuneration Committee, Datuk Zainun Aishah Binti Ahmad is appointed as the Senior Independent Non-Executive Director of the Company, to whom concerns of the other Directors, shareholders and other interested parties may be conveyed to.

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

Tel: +603 2720 8188

Fax: +603 2720 8106

Email: zainun\_aishah\_ahmad@bat.com

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

### Evaluation of the Performance of Board, Committees and Individual Director

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 2018 were reported to the NC on 14 February 2019 and subsequently to the Board.

Further information on the evaluation is available on page 81 to 82 under the NC Report of this Annual Report.

### Non-Executive Directors' Meeting

On 12 December 2018, the Non-Executive Directors met without the presence of the Executive Directors and management. The feedback from this meeting was then presented and deliberated at the Board Meeting held in December 2018.

### III. Remuneration

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 of British American Tobacco p.l.c. pursuant to the British American Tobacco p.l.c.'s shares schemes.

#### 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, which is available on the Company's corporate website at [www.batmalaysia.com](http://www.batmalaysia.com).

The details of the Director's remuneration comprising remuneration received/receivable from the Company and subsidiaries for the financial year ended 31 December 2018 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	1,092,603	-	-	-	2,316,813	-	456,701	-	3,865,487
Datuk Christine Lee Oi Kuan	977,715	-	-	-	2,122,704	-	21,356	-	3,121,775
Ricardo Martin Guardo	878,894	-	-	-	1,094,167	-	436,386	-	2,409,447
Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat	-	-	345,000	-	154,092	-	-	-	499,092
Datuk Oh Chong Peng	-	-	100,000	-	27,000	-	-	-	127,000
Datuk Zainun Aishah binti Ahmad	-	-	100,000	-	8,000	-	-	-	108,000
Dato' Chan Choon Ngai	-	-	100,000	-	5,000	-	-	-	105,000
<b>Total</b>	<b>2,949,212</b>	<b>-</b>	<b>645,000</b>	<b>-</b>	<b>5,727,776</b>	<b>-</b>	<b>913,813</b>	<b>-</b>	<b>10,235,801</b>

## Principle B: Effective Audit and Risk Management

### I. Audit Committee

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:

- the Groups financial reporting and accounting policies.
- risk management framework and internal control.
- related party transactions and conflict of interest situations that may arise within the Group.
- 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.
- 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 statements.

The AC evaluated the performance of the external auditors for the financial year ended 31 December 2018 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 2019.

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 76 to 78 of this Annual Report under the AC Report.

## II. Risk Management and Internal Control Framework

The Company recognises 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 minimise 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

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 specialised 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 83 to 91 and pages 76 to 78 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 on page 149 of this Annual Report. The details of the Company's and Group's financial statements for the financial year ended 31 December 2018 are presented from pages 150 to 217 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 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 Related Party Transactions Mandate") at the Company's forthcoming 58th AGM. The Proposed Renewal of the Recurrent Related Party Transactions Mandate, details are disclosed in the Circular to Shareholders dated 20 March 2019 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 2018 until the conclusion of the next AGM was approved by the shareholders of the Company during the 57th AGM held on 19 April 2018.

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 2018, 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

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 the 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 2018, the Company held four quarterly briefings, four 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

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 2018 is provided on page 64 and details of the AGM 2019 are set out on page 10.

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 the 58th AGM together with the Proxy Form 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 the 58th AGM are published in the local English and Bahasa Malaysia newspapers and made available on the Company's corporate website at [www.batmalaysia.com](http://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](http://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 the AGM will be voted by poll. Polling processes will be explained during the general meeting and will be conducted via e-voting. The poll results will be 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 2018.

This Statement was approved by the Board on 21 February 2019.

# Other Compliance Information

## 1. Utilisation of Proceeds

There was no proceeds raised by British American Tobacco (Malaysia) Berhad (the Company) from any corporate proposal during the financial year ended 31 December 2018.

## 2. Audit and Non-Audit Fees

The amount of audit fees paid or payable to the external auditors, KPMG PLT for services rendered to the Group and the Company for the financial year ended 31 December 2018 amounted to RM580,000 and RM414,000 respectively.

The amount of non-audit fees paid or payable to the external auditors, KPMG PLT for services rendered to the Group and the Company for the financial year ended 31 December 2018 amounted to RM110,000 and RM110,000 respectively.

## 3. Material Contracts Involving Directors' and Major Shareholders' Interests

There were no material contracts entered into by the Company and its subsidiaries involving interests of Directors and Major Shareholders either still subsisting at the end of the financial year ended 31 December 2018 or, if not then subsisting, entered into since the end of the previous financial year.

## 4. Recurrent Related Party Transactions of a Revenue or Trading Nature

During the Company's 57th AGM held on 19 April 2018, the Group had obtained a renewal of the Recurrent Related Party Transaction (RRPT) mandate with certain related parties (as defined in the Circular to Shareholders dated 21 March 2018). The RRPTs conducted during the financial year ended 31 December 2018 pursuant to the said mandate are disclosed in pages 206 to 209 in this Annual Report.

# Audit Committee Report

The Audit Committee (AC) is pleased to present the AC Report for the financial year ended 31 December 2018.

## Composition and Meetings

During the financial year ended 31 December 2018, the AC met five times. The composition of the AC and the attendance record of its members are as follows:

Director	Designation	Total Meetings Attended
Datuk Oh Chong Peng (Chairman)	Independent Non-Executive Director	5/5
Datuk Zainun Aishah binti Ahmad (Member)	Independent Non-Executive Director	5/5
Dato' Chan Choon Ngai (Member)	Independent Non-Executive Director	5/5

The Managing Director, Finance Director, External Auditors and Internal Auditors are invitees to the AC meetings and had attended all the meetings held during the financial year 2018 to brief the AC on pertinent issues.

Minutes of each AC meeting were recorded and tabled for confirmation at the next AC meeting and subsequently presented to the Board for notation. The Chairman of the AC would provide a report, highlighting significant points of decisions and recommendations made by the AC to the Board for consideration at the Board meetings.

## Terms of Reference

The Terms of Reference of the AC is available on the Corporate Governance section of the Company's corporate website at [www.batmalaysia.com](http://www.batmalaysia.com).

## Summary of Activities

The AC carried out the following activities during the financial year ended 31 December 2018:

### 1. Financial Reporting

Reviewed the quarterly financial results and annual audited financial statements of the Group and the Company and recommended the same to the Board for approval. The reviews were focused particularly on significant changes to accounting policies and practices, adjustments arising from the audits, compliance with the relevant accounting standards and other legal requirements to ensure that the financial statements presented a true and fair view of the Company's financial performance.

### 2. Internal Audit

- Reviewed and approved the 2018 internal audit plan to ensure adequate scope and comprehensive coverage over the activities of the Group and adequate resources within the internal audit team to carry out audit works.
- Reviewed the internal audit reports presented by the internal auditors at the quarterly AC meetings to ensure that appropriate actions had been taken to implement the audit recommendations.
- Reviewed and enhanced the internal control processes and considered recommendations including responses from Management, before proposing those control weaknesses be rectified and recommendations for improvements be implemented.

### 3. External Audit

- a. Reviewed the external auditors' report which summarised key findings arising from the audit of the financial statements for the year ended 31 December 2017 and the review of the Statement on Risk Management and Internal Control.
- b. Reviewed with the external auditors, their audit plan for the financial year ended 31 December 2018, outlining audit materiality, audit scope, methodology and timing of audit, key milestones, involvement of IT specialist, audit focus area and proposed fees for the audit services rendered by the external auditors for the financial year ended 31 December 2018.
- c. Reviewed the written assurance provided by external auditors in respect of their independence.
- d. Met with the external auditors twice without the presence of the Executive Directors and management during the year under review.

### 4. Risk Review

- a. Reviewed the Group's Risk Management Programme, including the top 20 risks for the Group and Risk Management Programme work plan, and to ensure that all major risks are well managed and reported to the Board.
- b. Reviewed and recommended to the Board for approval, the steps to improve the Company's internal control systems derived from the findings of the internal and external auditors.

### 5. Related Party Transactions

- a. Reviewed and discussed reports on related party transactions (RPT), recurrent RPT (RRPT) and possible conflict of interest transactions to ensure that all RPT and RRPT were undertaken on 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. Monitored the threshold of the RPT and RRPT to ensure compliance with the Listing Requirements of Bursa Securities.
- c. Reviewed and recommended to the Board for approval, the Circular to Shareholders in relation to the proposed renewal of shareholders' mandate for the Company and its subsidiaries to enter into RRPT of revenue or trading nature with related parties.

### 6. Annual Reporting

Reviewed and endorsed the Statement on Corporate Governance, AC Report, Standards of Business Conduct Statement, Statement on Risk Management and Internal Control and Corporate Social Responsibility Committee Report for Board's approval and inclusion in the Annual Report 2017.

### 7. Other Activities

- a. Deliberated on reports on whistleblowing and breaches of Standards of Business Conduct incidents.
- b. Deliberated on security and safety matters and loss reports.
- c. Deliberated on compliance sign-off for the Standards of Business Conduct, Internal Control and Records Management.
- d. Deliberated on environmental, health and safety review reports.
- e. Deliberated on reports on Control Navigator.
- f. Deliberated on Enterprise Risk Management Programme.
- g. Conducted AC self-evaluation assessment on the performance of the AC.

## Internal Audit Function

The function of Internal Audit for the Group is fulfilled through the Global Audit function of British American Tobacco p.l.c (BAT 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.

Ms Ng Pei Shin is a permanent invitee from the Group Internal Audit function, based in Malaysia, and she attends the AC and is the liaison between the AC and Group Internal Audit. She is an auditor by profession with over 18 years of work experience in commercial, IT, external audit and internal audit and is a Certified ISO 9001 Internal Auditor, a Member of the Information Systems Audit and Control Association (ISACA) and holds a degree in Information Systems and Management from the University of London, United Kingdom.

BAT p.l.c. Group Internal Audit is staffed by over 40 personnels with relevant professional qualifications, including the Head of Internal Audit and all of them are free from any relationships or conflicts of interest, which could impair their objectivity and independence.

BAT p.l.c. Group Internal Audit undertakes risk-based audit reviews towards the planning and conduct of audits which were consistent with the Group's established and accepted framework in designing, implementing and monitoring of its control systems. As such, the following types of audit exist, namely Process Audits (including IT), Audits of Change, End Market Accountability & Operations Audits and Other Audits. Process Audits have a scope of an end-to-end process across multiple BAT global entities. Audits of Change are focused on significant business change initiatives. The core scope of the end market accountability audits considers the Groups Top risks, whilst the Operations Audits continue to give comfort over the core of our business, the ability to produce high quality finished goods in line with the evolving needs of the business and the regulatory agenda. Other Audits are audits that are conducted arising from direct requests, either due to an incident, management request or from the AC.

The Group's Internal Audit has direct access to both the AC and the Chairman of the AC and reports to the AC on all matters of control and audit. The Group's Internal Audit assists the AC in reviewing the effectiveness of the Company's internal control systems whilst ensuring that there is an appropriate balance of controls and risks in achieving its business objectives. All proposals by management regarding the appointment, transfer and removal of the Group's Internal Audit require prior approval of the AC. Any inappropriate restrictions on audit scope are to be reported to the AC.

The Group's Internal Audit provides independent assessment on the effectiveness and efficiency of internal controls utilising a global audit methodology and tool to support the Group'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 above, and the AC. In turn, the AC formally approves the scope of work for the year and reviews the plan on a quarterly basis.

The Audit Plan considers the Company as an entity, whilst reflecting the wider Group's journey towards a globally integrated enterprise, and changes introduced by the global operating model (eg. common data standards, globally mandated ways of working). The Audit Plan could be viewed as having three elements: (1) Audits with just the Company in scope; (2) Audits for which the Company is one of many locations in scope; and (3) Audits for which the Company is not in scope, but the results of such audits will give further assurance to the Company. The Internal Audit reports are presented and reported by the Internal Auditor Manager at the AC meeting on a quarterly basis.

Furthermore, the AC can request immediate assistance from Group Internal Audit for any matter it considers appropriate.

During the financial year 2018, the subject matter of audits and findings conducted by the Group's Internal Audit were as follows:

- a. Malaysia End-Market Accountability
- b. Order to Cash-Financial Supply Chain Management<sup>1</sup>
- c. Malang Operations<sup>1</sup>
- d. IT Infrastructure<sup>1</sup>

The total cost incurred for the Group's Internal Audit for the financial year ended 31 December 2018 amounted to RM217,500.

<sup>1</sup>Audits conducted to review the processes in order to provide further assurance to the AC with regards to controls applicable to the Company though the Company was not in the scope of audit.

# Nomination Committee Report

The Nomination Committee (NC) was established as a committee of the Board of Directors. The NC comprises of two members, all of whom are Independent Non-Executive Directors and is chaired by the Chairman of the Company, who is an Independent Non-Executive Director. NC provides assistance to the Board in the following areas:

1. Review and assess the appointment/re-appointment and remuneration of Directors, Committee members and Senior Management for recommendation to the Board.
2. Oversee the establishment of a formal and transparent procedure for the performance of evaluation of Directors, Committee members and each individual Director.
3. Advise the Board on the optimal size and mix of skills, knowledge, expertise and competencies of the Board and Committees.

## Composition And Meetings

During the financial year ended 31 December 2018, the NC met once. The composition of the NC and the attendance record of its members are as follows:

Director	Designation	Total Meeting Attended
Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat (Chairman)	Independent Non-Executive Director	1/1
Datuk Oh Chong Peng (Member)	Independent Non-Executive Director	1/1

Minutes of the NC meeting is recorded and tabled for confirmation at the next NC meeting and subsequently presented to the Board for notation. The Chairman of the NC would provide a report, highlighting significant points of decisions and recommendations made by the NC for approval to the Board at the Board meeting. Matters which required NC's urgent decision are circulated to its members via circular resolutions together with the proposals containing relevant information for their consideration.

## Terms Of Reference

The Terms of Reference (TOR) of the NC is available on the Corporate Governance section of the Company's corporate website at [www.batmalaysia.com](http://www.batmalaysia.com).

## Board Appointments

The Group is committed to maintaining a transparent process for the selection, nomination and appointment of suitable candidates to the Board of the Company.

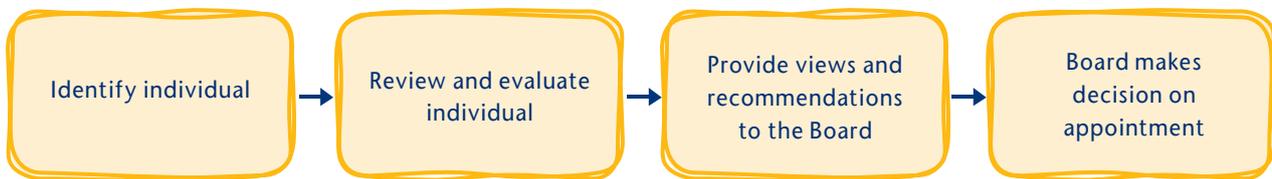
The NC is entrusted with the responsibility of assessing and considering the capabilities, professionalism, integrity, expertise and experience of candidates to be appointed as Board Members as well as Committees' Members, taking into account of the existing structure, size and composition of the Board to ensure that Board and Board Committees have an appropriate balance of skills, expertise, and knowledge for the management of the business.

The NC also takes into consideration the following:

- a. whether the individual meets the requirements for independence as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad;
- b. the candidate's general understanding of the Company's business and market; and
- c. other factors that promote diversity of views and experience.

NC may identify Director candidate(s) using executive search firms and/or via recommendation from other Directors. Shortlisted candidate(s) will attend interviews with the member of NC to assess the suitability in terms of technical expertise, skills and experience, the candidate(s)' fit with the Board, availability and terms of appointment. Once potential Director candidate(s) are shortlisted for recommendation, the Company Secretary will conduct comprehensive reference checks, including checks on financial, character integrity and professional qualification. Upon completion of the reference checks, NC will recommend the proposed candidate(s) to the Board of the Company. The Board will deliberate on the recommended candidate(s) and if deemed appropriate, shall approve the appointment of the candidate as a Director of the Company. Upon the appointment of the candidate as a new Director, a letter of appointment will be issued to the new Director.

The Board appointment process is illustrated below:



### Re-appointment and Re-election of Directors

The re-appointment and re-election of Directors are done in accordance with Articles 97(1) and (2) of the Company's Constitution which provides that one-third of Directors are subject to retirement by rotation at every AGM but shall be eligible for re-election. Provided always that all Directors shall retire from office once at least in each three years but shall be eligible for re-election. The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-election. Article 107.1 of the Company's Constitution states that the office of Director shall, ipso facto, be vacated upon his attainment of the age of 70 years, unless it has been previously approved by resolution passed by a majority of not less than three-fourths of such Members of the Company entitled to vote in a general meeting of the Company.

Upon reviewing the findings of the performance evaluation undertaken during the year under review for the Board as a whole, Board Committees, individual Directors and Independent Directors, the Board is of the view that the following Directors, who are subject to re-appointment or re-election at the 58th AGM, have the experience, competency, integrity and professionalism in performing their respective duties. With that, the Board with the recommendation of the NC collectively resolved to recommend to the shareholders to vote in favour of the following Directors for re-appointment or re-election at the 58th AGM:

- a. Re-election pursuant to Articles 97(1) and (2) of the Constitution of the Company:
  - i. Mr Hendrik Stoel
  - ii. Mr Ricardo Martin Guardo
- b. Re-election pursuant to Article 103 of the Constitution:
  - i. Mr Eric Ooi Lip Aun
- c. Re-appointment pursuant to Article 107.1 of the Constitution of the Company:
  - i. Datuk Zainun Aishah Binti Ahmad

Datuk Oh Chong Peng has expressed his intention not to seek re-appointment as a Director of the Company at the conclusion of the 58th AGM. Hence, he will remain in office until the conclusion of the 58th AGM.

## Annual Performance Evaluation

The Board, with the assistance of the NC, undertakes an annual evaluation of its performance and the performance of each of its committees as a whole and each individual director. For assessment year 2018, the process was internally facilitated and conducted through questionnaires circulated to the Board covering a variety of areas such as board skills matrix, board structure and included Director's self and peer review on fit and properness, contribution and performance, calibre and personality. A comprehensive assessment framework was used for the performance evaluation encompassing the following areas:

### Board Skills Matrix, Knowledge and Experience

Strategy & Development	Industry Experience	Legal & External Affairs
Corporate Governance	Risk Management	Internal Control
Audit	Accounting	Finance
Taxation	Human Resources	Sales & Marketing
Information Technology	Quality Assurance	

### Board and Committees Effectiveness

Board & Committee Mix & Composition	Quality of Information & Decision Making	Board & Committee Administration & Process
Board & Committee Conduct	Board & Committee Interaction & Communication	

### Directors' Self and Peer evaluation

Integrity	Dynamics & Participation	Calibre & Personality
Technical Competencies	Independence	

The evaluation was a rigorous process with individual Directors reviewing their own performance, the effectiveness of the Board as a whole, the contribution of each individual Directors, independency of Independent Non-Executive Director and the Board's mix and skillset.

The duly completed questionnaires were then collated and the results were tabled to the NC for deliberation. Thereafter, the recommendations of the NC and the results of the evaluation were tabled to the Board for consideration.

The results of the evaluation showed that the Board composed of experienced Directors with diverse background and expertise that complements each other. The Board and the Committees have been efficient and effective with the meetings conducted well for effective decision making.

### **Succession Planning**

The Board is responsible for succession planning of Senior Management of the Company. With high performance leadership culture, the Company attracts, develops and retains the next generation of leaders who are empowered to deliver and take ownership of results. The Company has in place robust development approach to create a pool of qualified individuals to ensure succession pipelines. In the event that there is no suitable internal candidate within the accelerated high-performance pool, the Company identifies external candidates. Identified candidates are tabled to the NC for assessment and successful candidates are then nominated to the Board for approval and appointment.

### **Summary of Activities**

During the financial year ended 31 December 2018, the NC held one meeting and deliberated on the following matters:

- a. Recommended the re-election and re-appointment of Directors at the 57th AGM to the Board for consideration.
- b. Reviewed the analysis/findings of the Directors' performance evaluation of the Board and Board Committees for year 2017.
- c. Reviewed the NC Report for inclusion into 2017 Annual Report.

# Statement on Risk Management and Internal Control

## Responsibility

The Board 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 as such is responsible for determining the nature and extent of the strategic risks 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 we operate, 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 control and mitigate those risks. The Group has in place a systematic application of processes (as per figure 1) 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.

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'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 high 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](http://www.batmalaysia.com).

## 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, British American Tobacco p.l.c. guidelines and all applicable laws.

The Group's risk management is led by the Finance Director and comprised of senior managers from all functions of the Group. The Risk Management Team meets formally at least twice a year to review and update the risk register as well as to assess status of risk mitigation action plans.

The Audit Committee is briefed bi-annually by the Risk Management Team 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 pro-active 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 for key business risks.
- Plan and coordinate the testing of business continuity plans.
- Organise training and education for employees on risk management.

Audit Committee	
<b>Risk Management Team</b>	<b>Internal Audit</b>
<p><b>Chairman:</b> Finance Director</p> <p><b>Members:</b></p> <ul style="list-style-type: none"> <li>• Finance</li> <li>• Marketing</li> <li>• Supply Chain</li> <li>• Human Resources</li> <li>• Information Technology</li> <li>• Environment, Health &amp; Safety</li> <li>• Legal and External Affairs</li> </ul>	<p>Internal audit provides independent assessment on the effectiveness and efficiencies of internal controls</p>

**Five Phase Enterprise Risk Management Process**



Figure 1 - 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 strategies/objectives and whether the risks are likely to occur (as per figure 2):

- LIKELIHOOD of the risks crystallising
- IMPACT of the consequence

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

Assessment against a set of pre-specified criteria on a scale of 1 to 3 is completed for both Likelihood and Impact, the combination of which provides the total risk rating ranging from 1 to 9. Risks are then categorised on the Risk Heat Map which maps the significance of the risks to the Group 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.

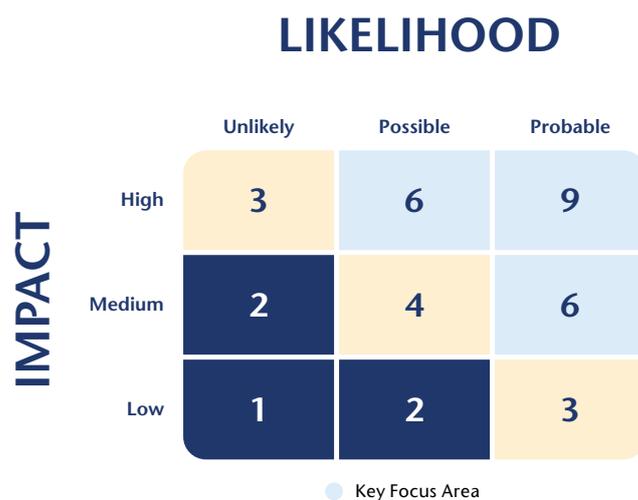


Figure 2 - Risk Heat Map

### (3) Risk Mitigation

In completing the risk register, Risk Owners 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 senior managers of the Group.

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 pro-active 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.

### (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 subject 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 compliance with the Malaysian Code of Corporate Governance and the British American Tobacco p.l.c. Key Control Checklist.

## Business Continuity and Crisis Management

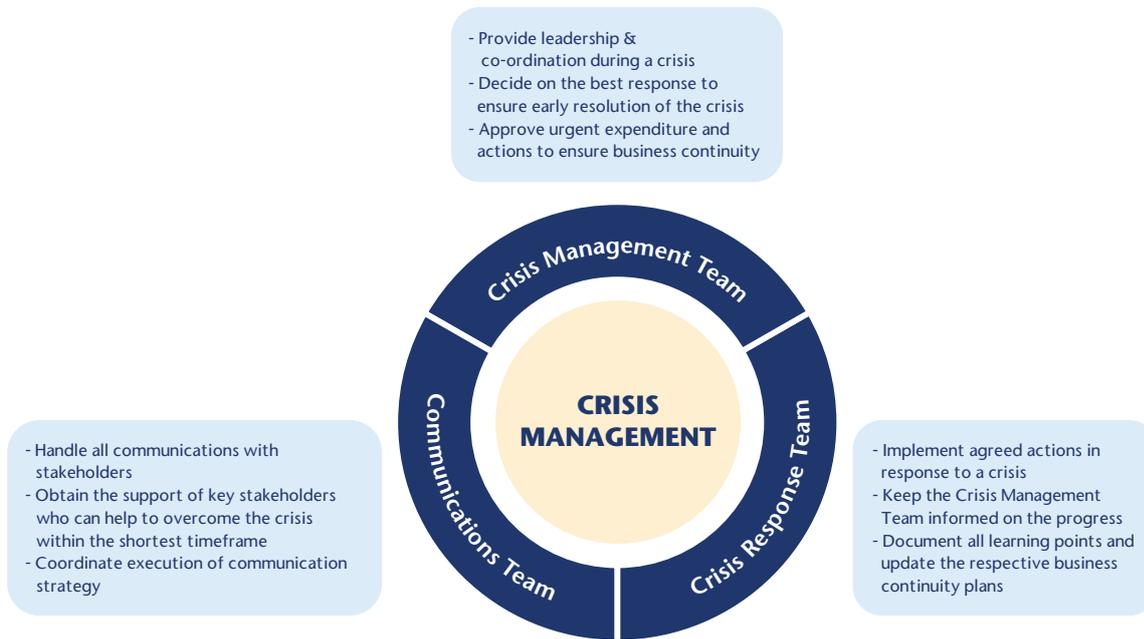


Figure 3

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

In 2018, the Group had 14 Business Continuity Plans (BCPs) in place to manage the various potential disruptions which could impact the Group. Examples are the Site Recovery Plan, Internal Supply Chain Plan, IT Recovery Plan, Bomb Threat Plan and Pandemic Plan.

These plans are reviewed and updated for content by the owners 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 making 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 as per figure 3.

### 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:

- Growth of illegal cigarette trade.
- 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.

## 2018 Risk Management Activities

### Review of The Group's Risks

The Risk Management Team met formally twice during the year, in January and July 2018, to review and assess the Group's risks, and to monitor progress of key activities for the year, including the progress of the BCPs.

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 2018. The brief included updates on the key risks of the Group, the risk mitigation plans and the status of BCPs 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.

During the year, companywide risk and control awareness programmes were conducted for all employees throughout the nation. The objective of the programmes was to raise risk and control awareness within the Group and to emphasise on the important role of control to ensure business risks are mitigated.

### Crisis Management Activation

In 2018, there was no major crisis which required the activation of the Crisis Management and Crisis Response Teams.

### Significant Risk Mitigation Activities

There were no significant Risk Mitigation activities required to be carried out in 2018.

### BCPs Desktop Review and Simulations

During the year, desktop reviews and simulations were conducted by the BCPs owners, with the support of Crisis Response Team members, across the 14 BCPs.

The reviews and simulations indicated that the existing plans were still relevant to the current business environment.

## System of Internal Control

### Control Self-Assessment (CSA) Process

Central to the Group's system of internal control is its CSA 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 or weaknesses are identified, corrective actions and timelines will be identified and agreed. The findings from the CSA and year-on-year trend analysis are reported to the Audit Committee annually.

The self-assessment is carried via a SAP enabled tool, which provides a standardised central solution that automates and monitors key risks and controls at business level. The 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.

In 2018, the Group's Control Navigator was refreshed and updated.

### 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 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 our practice for the Finance Director to review account reconciliations on a bi-annual basis.

The effectiveness of the Group's financial reporting controls is assessed through self-certification as part of the Control Navigator exercise. 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.

### Information Technology (IT)

The Group's IT security programme is centered around "Predict, Prevent, Detect and Respond" framework, where each step in the cycle plays a role in decreasing the risk of information security failure or attack (as per figure 4).

The Group with the assistance of professional information security companies can predict the higher occurrence of any information security threat and with that implement prevention activities and controls to prevent or mitigate against the likelihood of an attack. The preventive activities cover technology hygiene in terms of compliance to recognised industry security standards for system configuration, continuous testing to ensure readiness of recovery action and training users to avoid being compromised by social based attacks.

The next step in the IT Security programme is detection where technical controls are put in place to detect anomalies. After thorough assessment, the Group then responds by reacting to the breaches and mitigating any resulting damage.

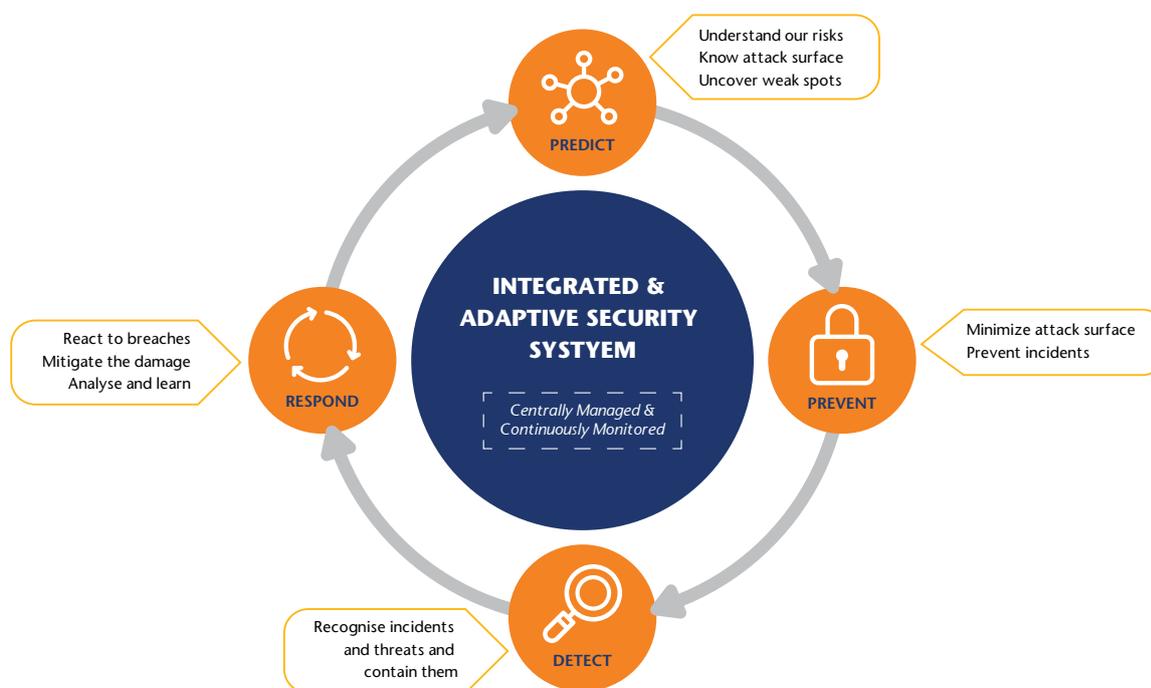


Figure 4

### 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 IT, than would otherwise be available within the Group. A permanent invitee from the Global Audit function attends the Audit Committee 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.

British American Tobacco p.l.c. Group Internal Audit undertakes risk-based audit reviews structured in line with the operating model of the British American Tobacco p.l.c. Group. As such, three types of audit exist, namely Process Audits, Project and Programmes Audits and Others. The scope of Process Audits is on processes across multiple British American Tobacco p.l.c. entities. Project and

Programmes Audits are focused on significant projects or programmes. Others are those audit reviews that are as a consequence of a direct request, either due to an incident, management request or Audit Committee concern.

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 of the Board and Audit Committee. Results of the findings on the above are reported 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 twice a year, the Audit Committee shall meet the external auditors without the Executive Directors and management being present. This year, the Audit Committee met twice with the external auditors without the Executive Directors and management being present.

#### Other 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 are regularly updated to reflect changing risks or to 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.
- 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 declarations 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 declarations from the Finance Director and Managing Director confirming their compliance with the Group's Standards of Internal Control.

## Control Matters

No significant deficiency or material weakness were reported in 2018.

### SOX

As a result of the acquisition of Reynolds American Incorporated (RAI), British American Tobacco p.l.c. is now subject to US securities law, including Sarbanes-Oxley Act of 2002 (the Act). British American Tobacco p.l.c. had assigned the eleven sections of the Act to respective functional owners as stipulated below.

<b>Public Company Accounting Oversight Board (PCAOB)</b> <i>Indirect impact</i> <b>1</b>	<b>Auditor Independence</b> <i>Internal Audit</i> <b>2</b>	<b>Corporate Responsibility</b> <i>Finance, HR and Legal and External Affairs (LEX)</i> <b>3</b>	<b>Enhanced Financial Disclosure</b> <i>Finance and LEX</i> <b>4</b>
<b>Analyst Conflicts of Interest</b> <i>No impact</i> <b>5</b>	<b>Commission Resources and Authority</b> <i>No impact</i> <b>6</b>	<b>Studies and Reports</b> <i>No impact</i> <b>7</b>	<b>Corporate and Criminal Fraud Accountability</b> <i>LEX</i> <b>8</b>
<b>White-Collar Crime Penalty Enhancements</b> <i>LEX</i> <b>9</b>	<b>Corporate Tax Returns</b> <i>Tax</i> <b>10</b>	<b>Corporate Fraud and Accountability</b> <i>LEX and HR</i> <b>11</b>	

The Group has adopted the framework designed by British American Tobacco p.l.c. during the year. The Group being part of British American Tobacco p.l.c. is required to implement additional internal controls and procedures in line with the framework.

### 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 2018 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 2018 Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 21 February 2019.

### Review of the Statement by External Auditors

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide (AAPG) 3, *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants (MIA) for inclusion in the Annual Report of the Group for the year ended 31 December 2018, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the Annual Report of the Group, in all material respects:

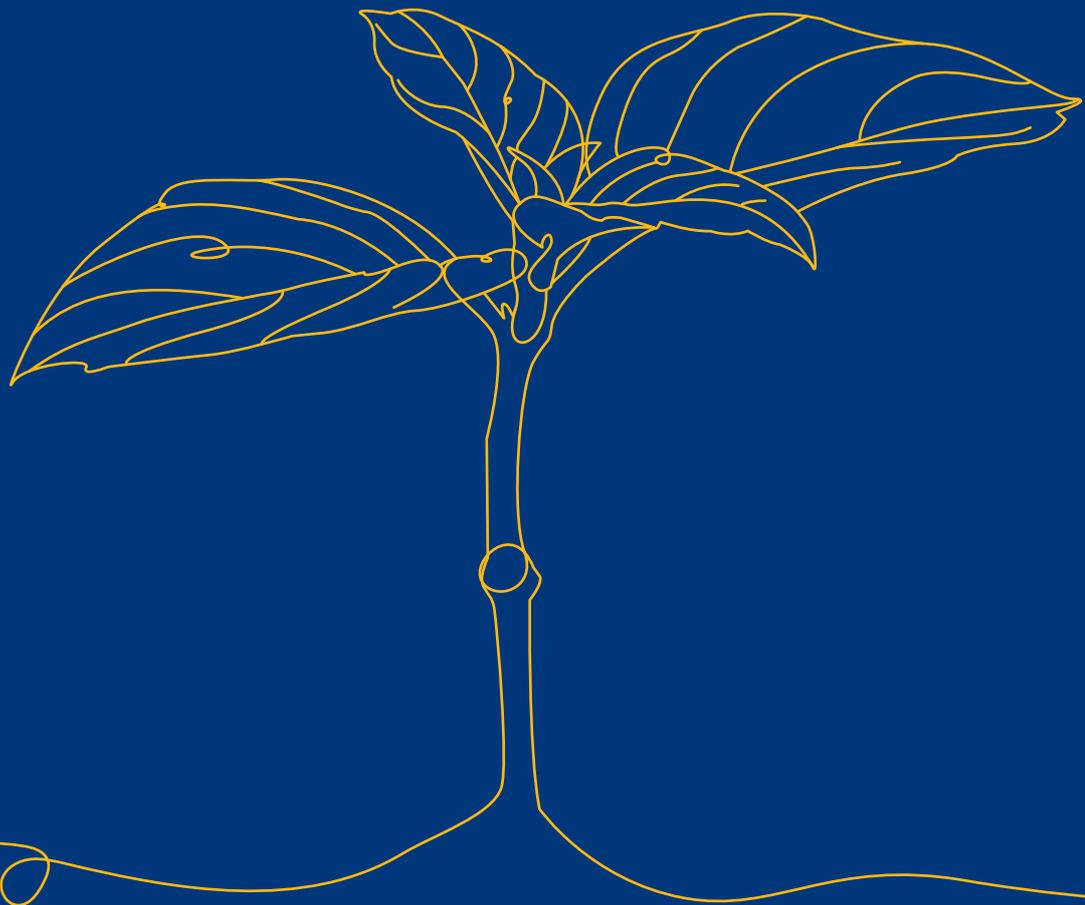
- has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- is factually inaccurate.

Audit and Assurance Practice Guide (AAPG) 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

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05

# Growth

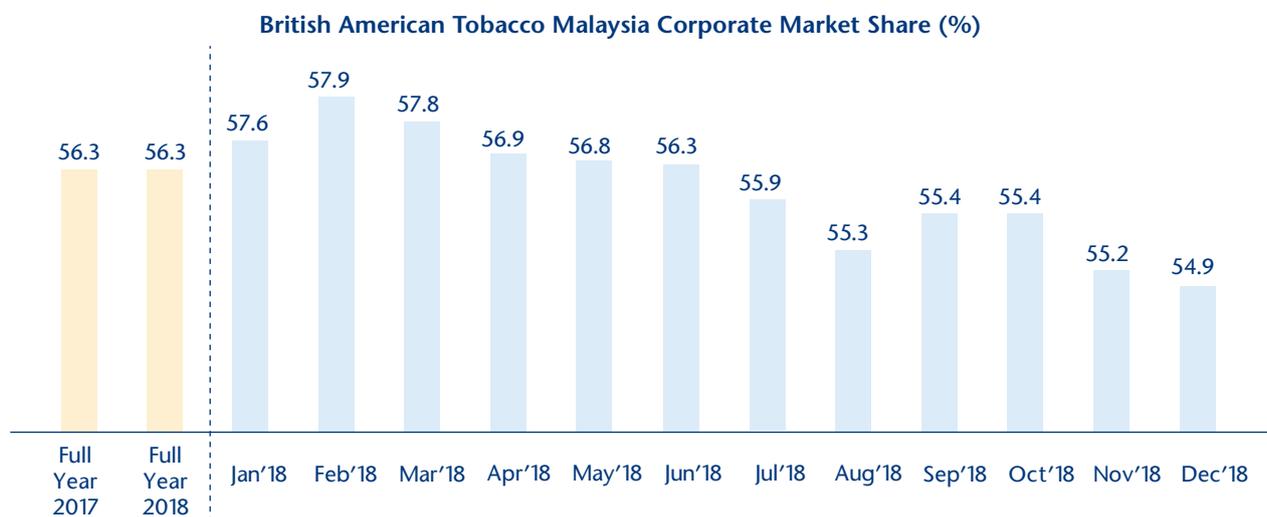


# Growth Pillar

2018 saw a unique phenomenon in the country's economic indicators following the general election. For example, consumer confidence saw a spike in optimism in Quarter 2 of 2018 coupled with a reduction in inflation due to the transition from Goods and Services Tax (GST) regime to Sales and Service Tax (SST). Whilst lower versus 2017, Gross Domestic Product (GDP) growth in 2018 remains high at over 5%.

	2015	2016	2017	2018
Inflation (%)	2.1	2.1	3.8	1.1
Exchange Rate (versus USD)	3.9	4.1	4.3	4.0
Gross Domestic Product (GDP)	5.0	4.3	5.9	5.1

Source: Department of Statistics Malaysia (DOSM)



# Premium Segment

## DUNHILL

*INSPIRED BY HERITAGE, DRIVEN BY MODERNITY*

DUNHILL has been and continues to be one of our primary products in Malaysia. Throughout 2018, DUNHILL has maintained its market share in the Premium full flavour segment, despite a strong threat from the Value for Money segment.

Inspired by DUNHILL's historic legacy and leadership in Malaysia, limited edition packs were introduced in 2018, which had a positive impact on market performance.



DUNHILL Limited Edition Packs

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

Building on the momentum of DUNHILL's limited edition pack, DUNHILL's capsule range saw a pack upgrade with new brand architecture and distinctive designs. This improved the brand's credibility and consumer acceptance, leading to growth in its segment.



DUNHILL Capsule Range Packs

### Driving Innovation and Progression



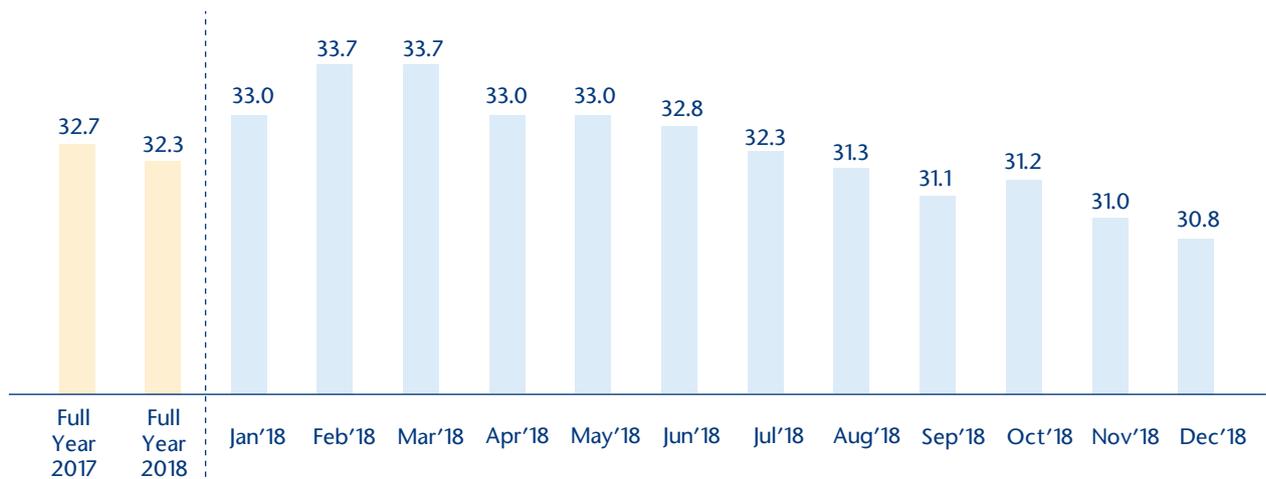
July 2018 marked the national launch of DUNHILL Evoque, the first tobacco product in Malaysia with a bamboo charcoal filter from Korea. A unique offer in a new format for discerning consumers, it further enhanced DUNHILL's standing in the premium blue segment.

DUNHILL Market Share (%)



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

DUNHILL Full Flavour Market Share (%)



## Aspirational Premium Segment

### PETER STUYVESANT and PALL MALL

REIMAGINING POSSIBILITIES THROUGH INNOVATION

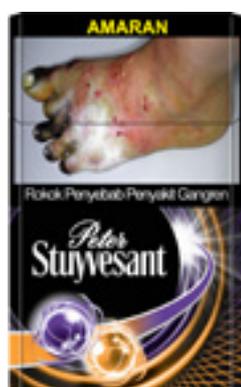
2018 was a year of innovation for PETER STUYVESANT to bring new experiences to consumers.

The journey of innovation began with the launch of the first-ever cigarette with 4 different flavours in one pack – PETER STUYVESANT 4Mix in February 2018. The product was a big step up for the brand in the segment and drove positive impact to its market share as well as improved its overall brand position.

PETER STUYVESANT continued to solidify the brand's foothold with new packaging for PETER STUYVESANT Remix Vibe and introducing PETER STUYVESANT Remix Tropica - the first ever double novel capsule in one stick.

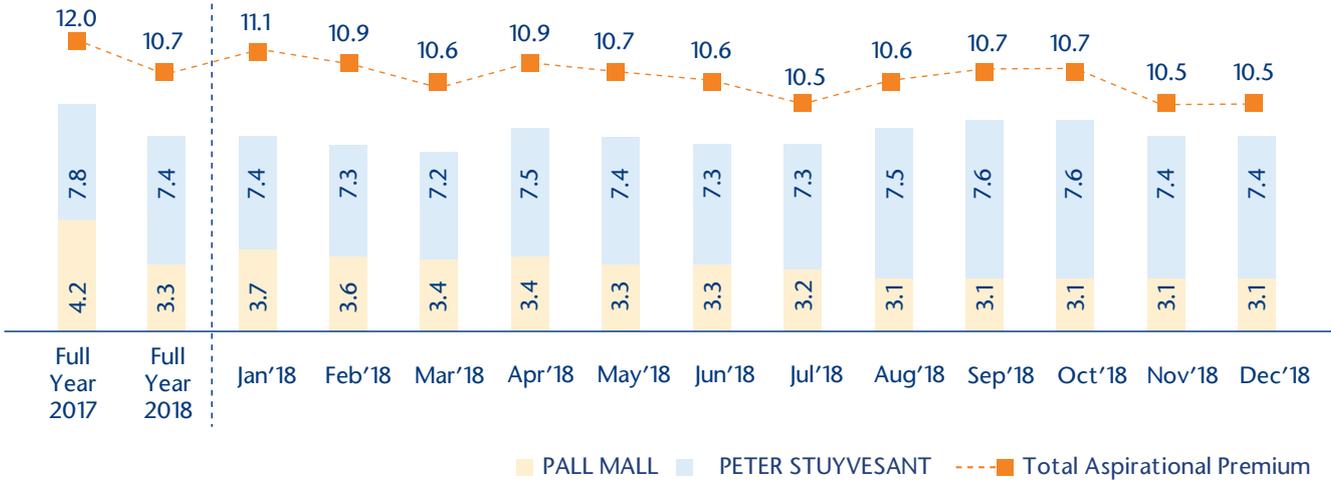


In September 2018, PETER STUYVESANT continued to bring innovation into the Aspirational Premium segment with the launch of PETER STUYVESANT Bamboo Charcoal Filter. It was the first of its kind with bamboo charcoal filter in the Aspirational Premium segment.



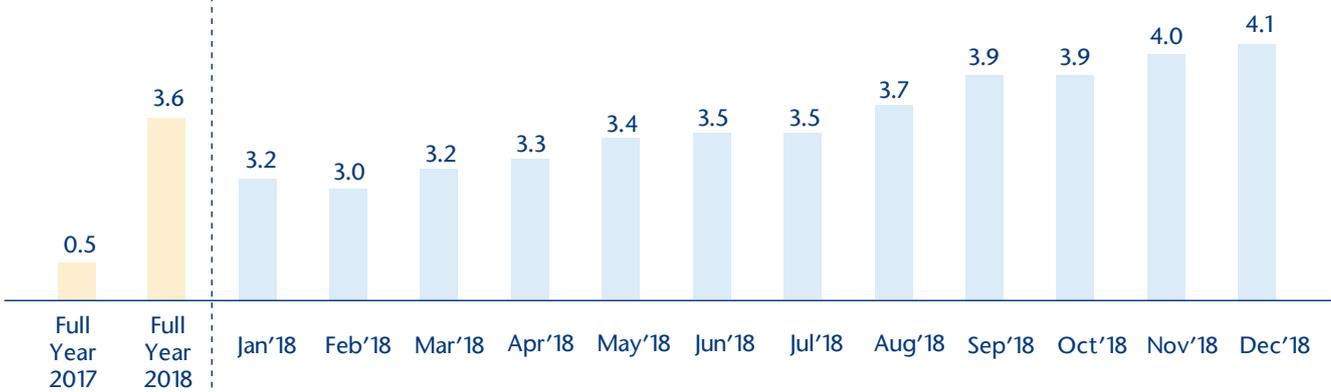
Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan

British American Tobacco Malaysia Aspirational Premium Market Share (%)



# Value For Money (VFM) Segment

ROTHMANS Market Share (%)



## ROTHMANS

DRIVING MODERN AND PROGRESSIVE VALUES

The newest edition which comes in Blue and Red offer consumers a brand with international pedigree and a strong mix at a Value For Money (VFM) price.

Post a successful launch in September 2017, ROTHMANS carved a strong foothold in the VFM segment while driving ROTHMANS leadership in the VFM blue category as the fastest growing brand.

In 2018, ROTHMANS further strengthened its position by introducing ROTHMANS KOOL. The launch successfully improved the overall brand positioning and competitiveness in the VFM segment.



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

# Trade Marketing

## TRADE MARKETING IN 2018

In 2018, external factors such as the GST removal, SST implementation and a burgeoning illegal cigarettes trade eclipsed the legal tobacco industry, which created a dynamic and unpredictable trade environment. In response to the volatile environment, the Company sought opportunities to demonstrate industry leadership by strengthening our trade partnerships and investing in the growth of our people. This, in turn, helped to increase effectiveness at the outlet level.

### Focused Investment Strategy & Accelerated Capability Building

With such pressures on the retail front, our marketing and commercial investments needed to be sharper to drive growth and gain competitive advantage. This was illustrated by our commitment to working with key retail partners and helping them to grow their businesses via trade programmes such as BizPlus. Our investment in these key customer groups aided a smooth transition from GST to Sales Tax while strengthening our position in key retail segments and investing where it matters.

2018 also saw the Company invest in strengthening our route-to-market via our distributor partnerships. Key investments in market-leading innovation through improved sales infrastructure and best-in-class training ensured greater focus and drive. We continue to have the biggest distribution model in Malaysia built on a customer service framework that aims to deliver a sustainable and competitive distribution model.



### Winning Team Culture - Transforming to Lead

Operating in an increasingly challenging environment requires the organisation to have a positive and determined attitude. Building on the corporate theme of *Transforming to Lead*, the focus for 2018 hinged on driving accountability, ownership and the market leader mentality to win.

The introduction of learning and development programmes for front-line staff such as *The Growth Academy* ensures that staff were equipped with skills to ensure the highest capability to win in today's challenging market and the right succession plans were in order for business continuity.



Ownership, accountability and a market leader mentality are values that drive individuals to deliver; edging us over competition and strengthens our position as No. 1 in the market.

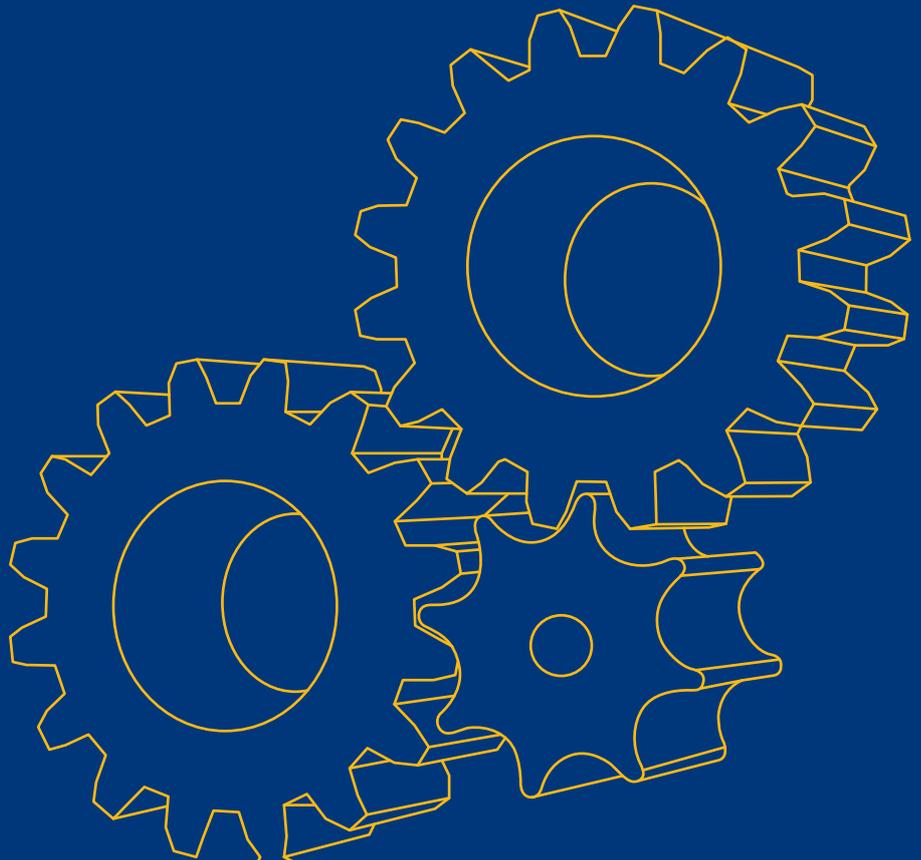
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Information Technology

06

# Productivity



# Productivity Pillar

## Key Highlights of 2018:

Reduction of Working Capital by RM70 million by optimising lead time for finished goods and tax stamps delivery.

Supply Chain integration to manage both Primary and Secondary Supply Chain.

Established a robust and sustainable duty refund process.

Set up of a new manufacturing facility in Johor.

# Supply Chain

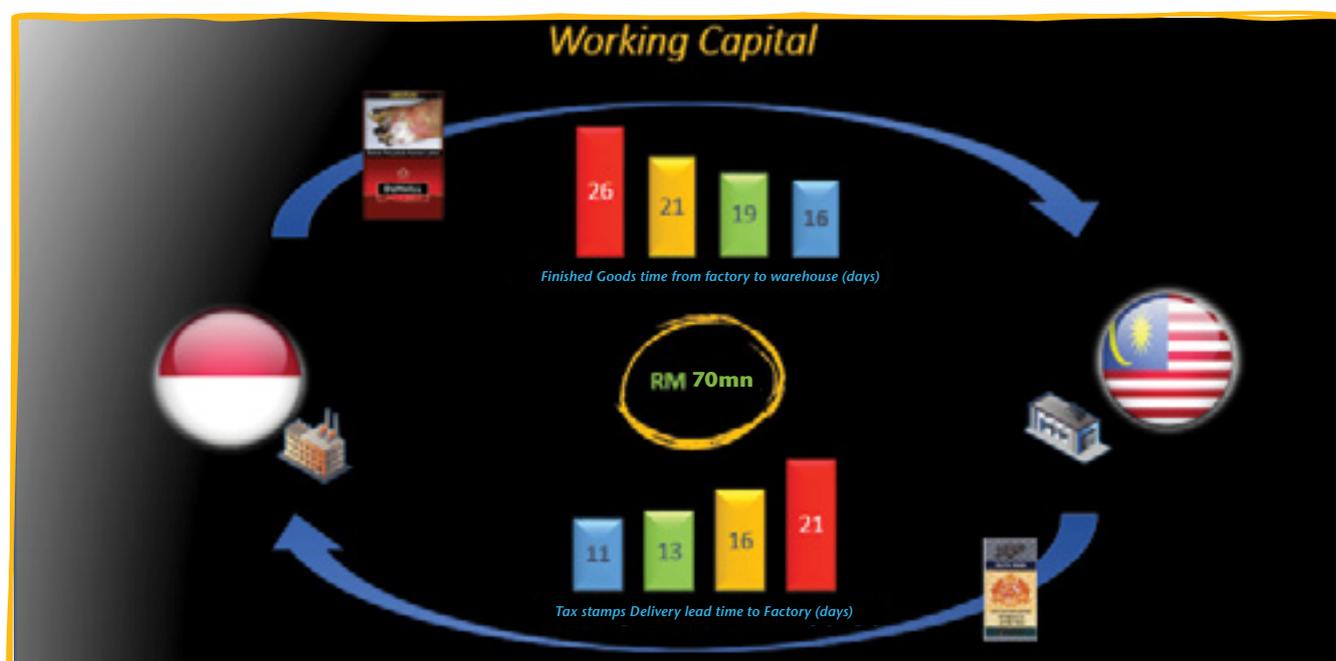
## Optimisation of Supply Chain

2018 was the first full year where British American Tobacco Malaysia's Supply Chain operated on an import-based model. Based on this model, a majority of finished goods are sourced from the British American Tobacco Group's factory in Indonesia, whilst some others are sourced from the factory in Singapore and Korea.

With an import-based model now fully in place, the team embarked on efforts to optimise the Supply Chain to ensure that the Working Capital is maximised and the supply line experiences as little disruption as possible.

The primary focus for 2018 was twofold:

- Reduce the amount of time it takes for the products to arrive in Malaysia.
- Decrease the time it takes to order and deliver tax stamps from the Government to the source factory.



Supply Chain Initiative to maximise working capital and reduce lead time

As majority of the finished goods are sourced from the British American Tobacco Group's factory in Indonesia, the British American Tobacco Malaysia Supply Chain team, in collaboration with the supply chain team in Indonesia, established a robust process to support the new import-based business model.

By proactively engaging internal and external stakeholders and looking for continuous improvement opportunities, in 2018 the team was able to:

- Achieve faster approval from the Government on tax stamps.
- Achieve a quick turnaround time for container clearance from Indonesia factory.
- Reduce clearance lead time of finished goods upon arrival in Malaysia.

In addition to having a positive impact on the working capital, the streamlined process that was initiated also contributed to the reduction of finished goods inventory requirement and helped maintain the freshness of our products.

### Supply Chain Integration

In line with achieving better control of the finished goods, the Supply Chain team streamlined to include secondary Supply Chain. With the integration, the Supply Chain team not only manages finished goods from the source factory to our national distribution warehouse operated by TASCO Berhad, but also the supply from the warehouse to the 29 sales hubs spanning both the Peninsular and East Malaysia.



*British American Tobacco Operations Team during a Line of Sight Session*

### Duty Refund Process

In 2018, the Supply Chain team worked with the Royal Malaysian Customs to establish a sustainable process to obtain a refund of duty paid. This process has allowed British American Tobacco Malaysia to obtain a refund of duty paid for tax stamp wastages during the manufacturing process at the respective source factories as well as tax stamps on finished goods which are re-exported due to damages or quality issues. The total refund of duty paid obtained in 2018 amounted to RM19 million.

### New Manufacturing Facility in Johor



Following the closure of the Virginia Park facility in 2017, to ensure business sustainability, British American Tobacco Malaysia triggered work to set up a new manufacturing facility in Malaysia to complement the import-based model.

A ready-built factory within Nusajaya Tech Park in Johor was identified with a land area of 21,420 square feet. This factory site, which is equipped with a bonded warehouse and 24-hour security, is easily accessible and has ample support services.

The new manufacturing facility is also strategically located for easy access to British American Tobacco Group’s state-of-the-art factory in Singapore. This allows the manufacturing facility in Johor to leverage on the proximity for better management of materials, machinery parts as well as resources.

Site renovation and installation of the machinery started in March 2018. Post the completion of machine installation, all machinery underwent stringent testing protocols to ensure the quality standards are met prior to production.

Teams from British American Tobacco Malaysia’s Engineering, Production, Quality, Product Development and Supply Chain worked together to ensure the new manufacturing facility is set up in accordance with British American Tobacco Group’s process and guidelines to meet the high level of quality expected by our consumers.

The team actively engaged with the Royal Malaysian Customs Johor to ensure there is a robust process in place to enable a seamless transition to allow the movement of materials and products to and from the Johor manufacturing facility. A new team of experienced talent was also set up at the manufacturing facility site to ensure that the new facility operates to its fullest capabilities. This team covers manufacturing, engineering, quality, Environmental, Health & Safety (EHS), warehousing and logistics.



*The opening ceremony of the Johor manufacturing site*



*The new team for the Johor manufacturing site*

# Future Fit Information Technology

In 2018, the Company's Information Technology agenda continued to drive future fit capabilities and cost optimisation initiatives. Guided by the British American Tobacco Group's IT strategy, the Company continued to ensure all our technology platform is kept up-to-date and contemporary.

We successfully decommissioned all Windows mobile devices and moved to Android-based devices, providing us with opportunities to explore new features in addition to lowering our cost due to a wide range of Android-based devices. This gives us a better advantage to compete and improve our selling capability in a tough market condition.

## IT Controls and Compliance

As a result of the acquisition of Reynolds American Inc. in 2017, British American Tobacco Group is also subject to certain US securities laws and regulations, including the Sarbanes-Oxley Act of 2002 (SOX). Following this, in 2018, the Company embarked on the Global IT SOX Control, which focuses on ensuring our IT systems and processes are compliant with the Sarbanes-Oxley Act of 2002 and ensuring our statutory financial reporting is accurate.

To effectively audit our systems for SOX compliance, we have identified the potential risks and a model of controls we need to ensure are in place - therefore ensuring the reliability and accuracy of our in-scope systems. SOX compliance is an ongoing activity for the British American Tobacco Group and will be reviewed routinely every year.

## Connecting People through Technology

Being a company with various sales offices set up in every state in the country, it's important to be able to keep our employees engaged and informed.

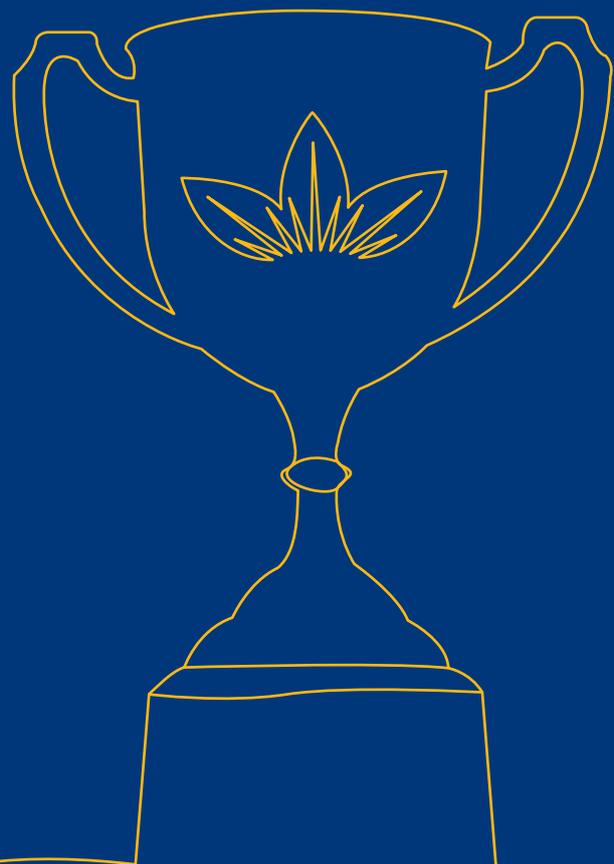
Through technology, we were able to connect to our state employees during our monthly Townhall using Microsoft Skype. With this, our employees can get real-time updates and being engaged through a video conferencing experience with the rest of employees in Headquarter.



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07

# Winning Organisation



# Winning Organisation

## Developing a Winning Organisation

In British American Tobacco Malaysia, the quality of our people and their collective experience, expertise, values, positive mindset and behaviour have enabled us to achieve strong and sustainable business growth for the Company.

We genuinely believe that the first step towards creating a winning organisation is to attract, develop and retain a diverse pool of talented people. Our Winning Organisation strategy focuses on three pillars, namely: 'Attract the Best', 'Invest in Leaders', and 'Leadership for Change' which translates into hiring the best people, developing the next generation of leaders, valuing the diversity of our employees, encouraging and rewarding entrepreneurial behaviour, and creating an engaging and open culture where individuals and teams can thrive and reap the rewards of a fulfilling career.

## Attract the Best

As a winning organisation, we strive to communicate an authentic and consistent talent branding message to future employees about the distinguishable strengths, values and beliefs of British American Tobacco Malaysia. Our talent brand ultimately influences our ability to hire the strongest candidates, who possess the required competencies, attitudes, personalities and leadership styles to thrive and flourish in the Company.

British American Tobacco Malaysia takes great pride in the passion we put towards the work we do. Passion is the driving

force behind our culture – it pushes us to constantly grow to reach untold heights. It is about the ambition to achieve unprecedented standards, the courage to stand up for our ideas and contributions, and the tenacity to keep on fighting until we reach our goals. We have been using the concept of "Passion" and "Potential" pillars from our **Talent Brand Essence** in building all our key messaging and bringing the Talent brand to life. Our internal feedback via multiple focus groups have consistently shown that these are the most meaningful components for our people.

### Talent Brand Essence



"It takes Talent to attract Talent" - Our own people are the best brand ambassadors for the organisation. Having involved our people in the conception of our talent brand, we kept our employees engaged and excited with the prospects of attracting the best Malaysian talent.

Our efforts have come to fruition, as we have clinched numerous awards for our reputation as a winning employer, our strong recruitment strategy and best practices. We are exceptionally honoured to share our achievements for the year as well as our recruitment strategy and results.

### Recognised as a Leading Talent Brand in Malaysia

British American Tobacco Malaysia upheld its accolade as a leading employer when it took home the **Top Employer – Malaysia/Asia Pacific** Award yet again. In addition, Top Employers Institute also recognised British American Tobacco Malaysia as being amongst **the Best Three Top Employer certified companies in Malaysia**. The Top Employer title is conferred to organisations which provide exceptional employee conditions, nurtures and develops talent throughout all levels of the organisation and has demonstrated its leadership status in the HR environment, by always striving to optimise its employment practices.

Being awarded as top employer once again reinforces our values and philosophy to cultivate the talent we have and empower them to be future leaders. We believe this is the cornerstone to attracting the best talent, and so we will continue to forge the best employer-employee relationship at British American Tobacco Malaysia.

British American Tobacco Malaysia also took home the “Outstanding Practice: Work” at the Life at Work Award 2018 by Talent Corporation Malaysia Berhad, which further cements the Company as an employer of choice; one that puts its people first. Further populating the list of accolades, British American Tobacco Malaysia was also named winner of **HR Asia’s ‘Best Companies to Work for in Asia 2018’** award while taking home four more awards at the **HR Excellence Awards Malaysia 2018** under the following categories:

- **Excellence in Total Rewards Strategy (Gold)**
- **Excellence in Innovative Use of HR Tech (Silver)**
- **Excellence in Employee Engagement (Silver)**
- **Excellence in Employer Branding (Bronze)**

Taking a cue from our theme of ‘Building a Fair Society’, British American Tobacco Malaysia endeavours to lead by example, not only for our people but also for other workplaces in the country to show how a positive work environment can galvanise employees to go above and beyond expectations and excel.



Represented by Samanmali Chandrasiri, HR Director (third from left), British American Tobacco Malaysia received the Top Employers Institute Certification in 2018



*British American Tobacco Malaysia HR representatives at the HR Excellence Awards Ceremony*



*Erik Stoel, Managing Director of British American Tobacco Malaysia (third from right) with his team at the HR Asia 'Best Companies to Work for in Asia 2018' award ceremony*

### Sourcing for the Best Malaysian Talent across the Globe

Sustaining a razor-sharp focus on our business is as much as establishing a well-crafted business plan as it is about improving our talent recruitment strategy and focusing our resources to groom young talent. To transform our organisation above and beyond its illustrious 100-year legacy in Malaysia, we need the brightest individuals who possess the grit, learning agility and potential to steer our business towards greatness and to keep that fighting spirit burning within the organisation.

With a mission to be sharper and more impactful in our approach to recruit fresh talent, we continued to invest in the Company's talent brand by actively participating in career fairs to ensure that we tap into the best recruitment resources for top-notch talent.

We participated in the Graduan Aspire Career Fair in July 2018, where 39 dedicated employees across multiple functions, led by Erik Stoel, Managing Director; Samanmali Chandrasiri, Human Resources Director; and Karl Yap, Marketing Director, came together passionately to advocate for British American Tobacco Malaysia as an Employer of Choice.

In the true spirit of our global business and our commitment to provide exciting career opportunities to attract talented Malaysians back home, we formed a strategic collaboration with Graduan and participated in career fairs in UK on the 25 to 27 March, and in Australia on the 27 September to 3 October 2018 respectively to proactively reach out, engage and communicate with the vast pool of potential Malaysian talent in the overseas graduate market.

Armed with captivating and emotive brand imagery, punchy taglines as well as a resonant Employer Value Proposition, we have communicated our Global Graduate Programme during career fairs to attract potential candidates.



*Our British American Tobacco Malaysia Booth at the GRADUAN Aspire 2018*



*British American Tobacco Malaysia Senior Management team engaging with the crowd at our British American Tobacco Malaysia Booth at the GRADUAN Aspire 2018.*



*Karl Yap, Marketing Director (in white) sharing about his working experience with the crowd.*



*Session post one of the Assessment Centre in UK, Etienne Goh (Fifth from right, in Black Tie) was offered to join us as a Global Graduate and he is currently part of the Marketing Team.*



*One of the Assessment Centre conducted in UK with the candidates. Robert Jalleh (third from right) has been offered a spot in the Global Graduate Programme and is currently working in the Supply Chain team.*

## Expanding the Reach of Our Talent Brand through Social Media

We underscore our global social media presence with other recruitment platforms such as LinkedIn and Graduan to increase talent brand awareness and social engagement with a wider audience. With that in mind, we consistently monitor and evaluate the strength of our talent brand by tracking our active and new followership.

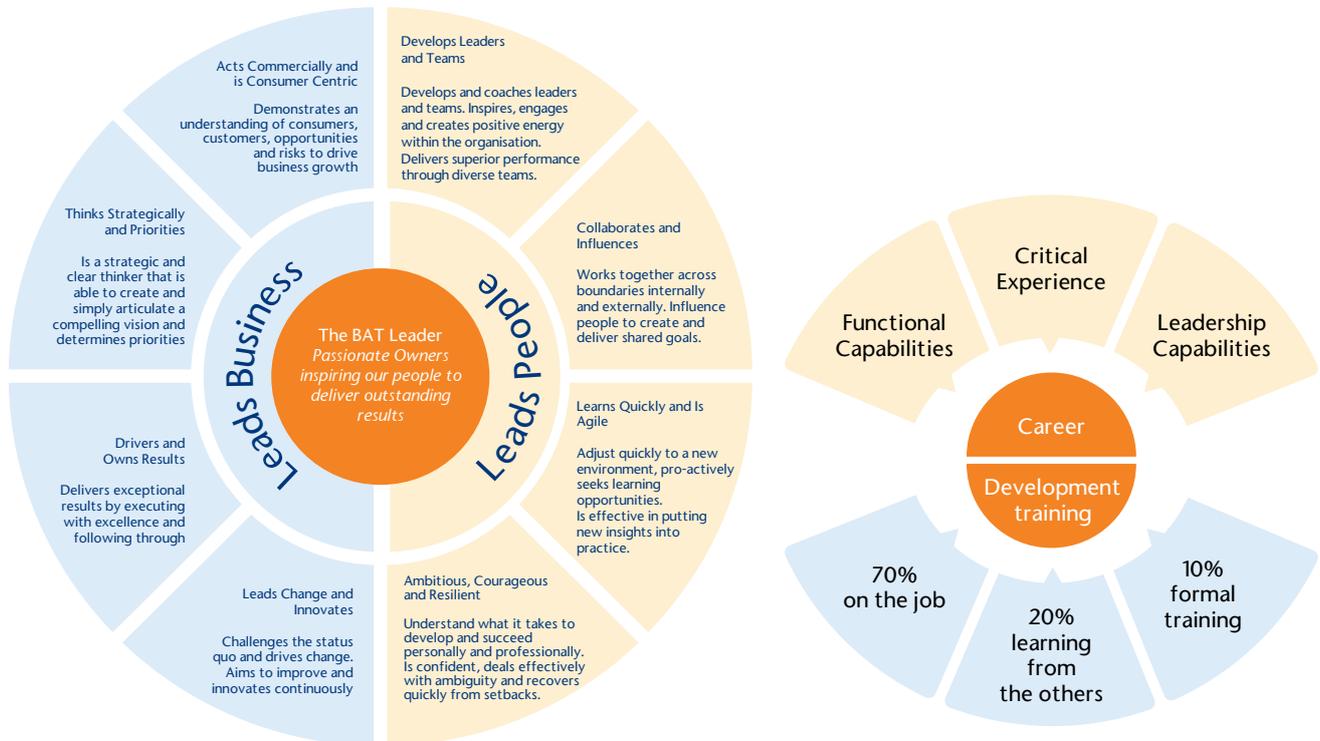
Our talent brand awareness remains stronger than ever in 2018, with a growth of 44 percent superseding our target of 24 percent of new followers. We are proud to say that in Malaysia, we are the Company with the highest number of new followers driven by our extensive effort in communicating the best of BAT Malaysia and showcasing our talent.

We are very encouraged by these favourable numbers and will continue improving our talent branding activities to achieve bigger milestones in the future.

With all the prestigious recognition as a leading talent brand in Malaysia coupled with a successful digital talent engagement strategy, British American Tobacco Malaysia has successfully hired 17 Global Graduates, 28 mid-career recruits and 37 territory executives who joined the British American Tobacco Malaysia family in 2018.

# Invest in Leaders

## Investing in Our People through Continuous Talent Development



### WHY 70:20:10

- Flexible and more effective way of learning : learning anytimeand anywhere
- Encourage self-drive and accountability for own development

### 70% on the job

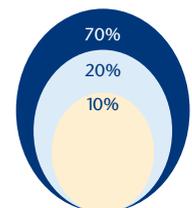
- Increase decision making/problem solving in current role
- Cross functional introduction, field/customer visits
- Interaction with senior management, e.g meeting, presentations
- Work with internal experts or consultants job rotation (role swaps), stretch assignments; project work

### 20% learning from the others

- Coaching
- Mentoring
- Communities of practice
- Assessments, 360 & feedback
- Learning through teams/networks
- External networks/contact

### 10% formal training

- E-learning
- Online course
- Conferences
- Seminar
- Class room training



British American Tobacco Malaysia is a very successful business and has delivered outstanding results year-on-year. In an industry often seen as controversial, the organisation has consistently met its objectives and overcome challenges leveraging on all four strategy pillars, and most importantly being a Winning Organisation: by ensuring we have great talent.

The recipe of the organisation's success is simple: **Excellent Brands** and **Outstanding People**. As an organisation that values our people as much as our brands, we are committed in developing our talent for the long term, as evidenced by our own homegrown employees that have filled the succession

pipeline, especially in local leadership roles while at the same time, we believe in developing leaders at all levels.

Our comprehensive approach to leadership development provides clearly defined leadership capabilities, functional competencies, career development principles, and an exciting portfolio of world-class classroom and digital learning which are the essence to deliver our ambition in developing a sustainable pool of Next Generation Leaders. Our ambition is 80 percent promotion from within and 20 percent external recruitment for all appointments.

Whether it is management or non-management positions, in BAT Malaysia we encourage our employees to experience the holistic approach of agile learning, 70:20:10 and grow from within and it remains as the foundation of the leadership development strategy of the organisation. Pertinent to BAT Malaysia’s 2018 corporate theme, “Transforming to Lead”, we aim to inculcate the desired “ACIDS” behaviour (Anticipate, Challenge & Take Risks, Inspire, Deliver with Integrity, Sharp and Impactful) across all functions within the organisation to enable our strategy to come to life in the culture of the whole organisation.

These are some of the key focus areas for the past 12 months within leadership development in BAT Malaysia, above and beyond our existing modules with a focus on embedding leadership behaviours as part of our culture:

**Field Force Growth Academy (GA)**

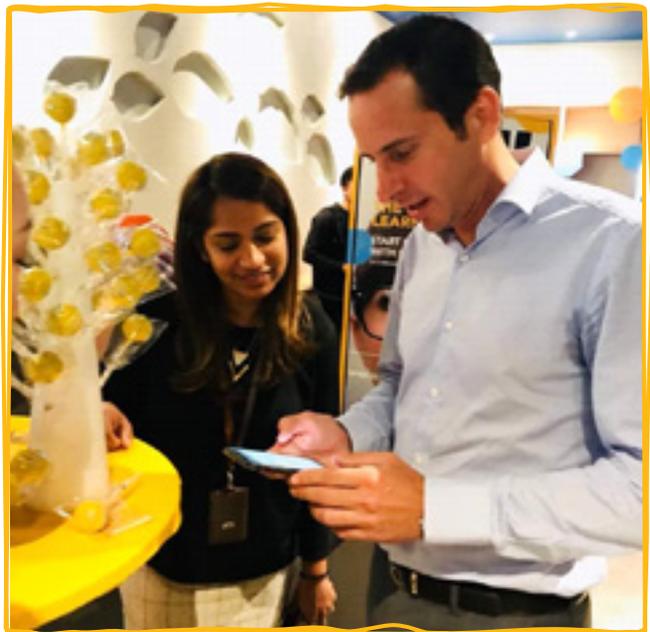
There was a need to develop our junior Field Force employees from the Marketing division who are based in 10 different state offices across Malaysia, especially in building presence, self-confidence and most importantly to refine their leadership skills as a base in shaping their routes to senior roles. Hence, we launched GA, a 12-month development programme designed exclusively for our Marketing Field Force employees to enable them to unleash their full potential and prepare themselves for future roles while enabling future talent to fit in as the industry goes through rapid changes.



Poster for the GA when we promote the programme.

**Lynda.com – Anywhere, Anytime Learning**

This is a one-stop online video learning library for everyone, including non-management employees with over 6,500 courses in leadership, business & basic and functional skills taught by industry experts. This tool aims to cultivate a learning culture in BAT Malaysia and expand employees’ knowledge.



Ricardo Guardo, Finance Director downloading and signing into Lynda.com with Samanmali Chandrasiri, HR Director guiding from the side.

**In-house Leadership Programme – Leading Self**

Trained senior managers in BAT Malaysia delivered our first ever in-house ‘Leading Self’ programme to the junior employees, which focuses on individual contributors to develop their fundamental skills and strengthen their leadership capabilities.



Group photo post a ‘Leading Self’ training session.

### INSEAD – High Impact Leadership Program

We wanted to provide a learning framework beyond the normal learning and development experience for our high potential talent. As a result, we offered two inspiring and ambitious leaders to attend an all-expenses paid programme in INSEAD, Singapore for them to elevate their leadership and bring back the learning and apply in the organisation.

The two were selected after a fun and exciting “pitching” session where they had to persuade the management team that they were deserving of the opportunity to attend the training session.

After an exciting battle amongst all the contestants, Shazli Ghani and Lavania Balasingam were named as the winners for the pitch. Both were accepted into INSEAD and successfully attended the High Impact Leadership Programme in September 2018.

*Testimonial from Shazli Ghani:*

*“British American Tobacco Malaysia gave me the fantastic opportunity to attend the one-week High Impact Leadership Programme at INSEAD in the Singapore campus. The course highlighted the need for different styles in different situations and stages of the organisation, and the impact of employing the wrong style of leadership. And above all, it highlighted the need for leaders to be flexible in their approach, all of which gave me extremely valuable insight to use in my career in British American Tobacco.”*



*Shazli Ghani (top row standing, fifth from the right) and Lavania Balasingam (second row standing, fourth from the left) attended the prestigious High Impact Leadership Programme at INSEAD, Singapore.*

British American Tobacco Malaysia also continues to build a solid base of well-balanced and high-calibre coaches and mentors possessing capabilities to drive our business and inspire our people to achieve great results. Pursuant to that, several training programmes were conducted to further strengthen our people’s functional and leadership capabilities, making up the 10 percent formal learning component in our learning strategy.

An example of these trainings was the SCQuaRE workshop, which was organised to provide managers with adequate tools to analyse and synthesise complex data and information, generate ideas from this data, and enable them to turn these ideas into compelling business propositions.

Overall, we have maintained a razor-sharp focus in growing and nurturing the next generation of leaders through structured and rigorous companywide talent assessment and review processes, with a view to strengthening our talent pipeline, provide progressive career paths to our key talent and ensuring that our talent retention strategy is robust. Management and non-management employees spent 7,868 training hours participating in training and development courses offered as listed below:

Leadership Training	Professional Skills Training	Technical Training
<ul style="list-style-type: none"> <li>• Leading Self</li> <li>• Leading Teams</li> <li>• Leading Managers</li> <li>• Women in Leadership</li> <li>• BAT Grad Academy</li> <li>• Impact &amp; Gravitas</li> <li>• Embedding Strength from Diversity</li> <li>• High Performance Leadership</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic HR Business Partnering Certificate</li> <li>• SSM National Conference – Companies Act 2016</li> <li>• MAISCA MBRS Conference SCQuaRE</li> <li>• Blue Ocean Strategy</li> <li>• Next Generation Digital Marketing</li> </ul>	<ul style="list-style-type: none"> <li>• Defensive Driving</li> <li>• POSITIVE Programme</li> <li>• In-house Customised Microsoft Excel and Microsoft Word Training for Supply Chain</li> <li>• In-house Customised Microsoft Excel for HR</li> <li>• Product Knowledge Foundation</li> <li>• Finance Excellence Programme</li> <li>• Tax Considerations for Outbound Assignees on Internal Assignment</li> </ul>

**Embedding Diversity and Inclusion within BAT Malaysia**

**LILIN** was sparked by the female talents within the organisation to drive the Company’s diversity and inclusion agenda. As part of its goals, **LILIN** aims to:

- Attract and retain a talented workforce skilled at working in an inclusive and respectful manner to ensure increased employee retention with no regrettable loss.
- Deliver on female representation targets across the organisation.
- Identify and address barriers within the organisational system for the growth of current and emerging women leaders.
- Create programmes that meet the diverse needs of female employees.

With these goals in mind, we have held various activities and events in 2018 as well as enhanced our policy framework in promoting diversity and inclusion within the organisation.

**Embedding Strength from Diversity**

In 2018, we rolled out ‘Embedding Strength from Diversity’ (SfD), an interactive workshop to help leaders become more aware of bias in themselves, their teams and in the workplace. The workshop also deep dived into cultural differences and how they might impact workplace collaboration.

The workshop, which was rolled out in phases, touched on conscious, unconscious and organisational bias as well as provided tips on how to beat bias and be more inclusive every day. During the workshop, participants were coached on how to be more culturally aware and have more productive interactions across BAT’s diverse workforces.

The session is intended to improve the quality of our people-related decision making by increasing awareness and understanding of biases. It also aims to improve team interaction and cohesion by providing techniques for practising inclusive leadership.

BAT Malaysia made the workshop unique by having our Leadership Team members share their own personal stories on Diversity. In nine face-to-face sessions, the workshop was attended by 266 employees and the remaining will be covered in 2019.



*Samanmali Chandrasiri, HR Director gave an opening speech during the SfD workshop.*



*Vicente Costa, Business Development Director shared his personal diversity experience with one of the groups during the SfD workshop.*



*SfD workshop carried out to all our Field Force, presented by our Extended Leadership Team and HR team.*

### Inspire Us by LILIN

Professional development for young up-and-coming progressive females is one of the agendas we drive in LILIN. The network organises mentoring and inspiring thought leadership engagement session by inviting senior leaders to share their experiences, leadership challenges and success stories with our female employees. Three Inspire Us sessions were held with Anna Dolgikh, Regional Head of HR in APME; Belinda Ross, Regional Head of LEX in APME; and Datuk Christine Lee as well

as Datuk Zainun Aishah Ahmad, who are members of the Board for the Company. The attendees benefited by learning from the successful career stories of these inspiring female leaders in how they navigate through the demands of corporate world and at the same time balancing the diverse roles as women.



*Inspire Us session in action, with speakers Datuk Zainun and Datuk Christine Lee.*



*Belinda Ross, Regional Head of LEX in APME post the Inspire Us session.*

### Parents@BAT for New Parents

In British American Tobacco Malaysia, we believe that our employees should never have to choose between family and career. We respect and understand the critical support that new parents need when a baby joins their family.

**Parents@BAT** was launched to give new parents the support they would need during the early years of their child's birth whilst contributing to the business and achieving personal career goals. To realise this, the Company will now provide new parents with flexible work arrangements following their return to work after maternity or adoption leave.

Starting 1 January 2019, we will introduce 120 consecutive days of fully-paid adoption leave for all permanent employees, regardless of gender, who legally adopts a child aged between 0 – 2 years of age. If the permanent employee has completed three years of service in the Company at the date of adoption, he/she will be eligible for extended adoption leave as follows:

1. Optional 60 consecutive days of half paid adoption leave; and
2. Optional 180 consecutive days of no pay leave.

The above also applies to all new mothers in the organisation with babies aged below 12 months. Additionally, a flexible working hour policy was introduced for the same category of employees. New parents are now entitled to apply for a single work-from-home day once a week with no salary adjustment or have the option for reduced working days with adjustment in salary.

### Work from Home Initiative

British American Tobacco Malaysia is committed to promote a better work-life balance. In order to accomplish this, the Company launched the Work from Home initiative where employees are entitled to apply for one Work from Home day for every two weeks. Many employees have applied and are now part of the catalyst in re-defining the way we work.

### Developing Our Talent Across The Globe

At British American Tobacco Malaysia, we believe in developing our people to undertake new global challenges. We are proud of our Malaysian talents who are achieving big milestones in other operating companies around the globe. We have also accelerated the number of short-term assignments provided to junior and mid management employees, helping them obtain international exposure at an early stage in their careers. In 2018, we had 14 of our homegrown talent working in various offices around the globe.

United Kingdom	Senior International Brand Manager – PALL MALL Senior HR Business Partner, Global R&D
Hong Kong	Senior Counsel – BATUKE (HK) & APME Regional Senior External Affairs Manager
Vietnam	Head of Marketing Regional Manager
Singapore	Head of Trade Area Manager Commercial Finance Manager
Indonesia	National Sales Manager
Myanmar	Brand Manager for KENT and LUCKY STRIKE
Japan	NGP Marketing Innovation Manager
Australia	Trade Programs Manager
Cambodia	Head of HR

### Global Graduate Programme – BAT Grad Academy

Our programme will see our graduates hitting the ground running and contributing in a real job from day one in a tough and fast-paced environment that will stretch their limits.

Ultimately, it will propel the talent into a management role in 12 months. We ensure our graduates receive world-class training and resources, along with the best learning and development opportunities that we can offer. Throughout their trainings, they will get the opportunity to connect with their peers and senior colleagues from across the globe and gain international exposure while experiencing world-class development through the BAT Grad Academy.

Four of our global graduates from British American Tobacco Malaysia had the opportunity to participate in the BAT Grad Academy which was held in Horsley, England.

Here's a testimonial from one of them, Muhammad Danial Sahak.

*"If I have a word to describe the experience in those two weeks, it would be "inspiring". The robust programme challenged participants to learn from the best, apply the learnings with a hands-on approach and of course, have fun. Prior to being in BAT as a Global Graduate, being in a highly maintained estate for 2 solid weeks with 117 highly talented individuals from 42 countries from across the globe, could only be a dream.*

*The academy opened my eyes in every aspect of life from understanding the underlying strategies of the organisation's vision, to challenging self in difficult situations to getting out of my comfort zone. The academy is a chapter in my life that I will never truly forget."*



*(From left to right) BAT Malaysia Global Graduates Nicholas Ng, Viki Goh and Joseph Leow; Anna Dolgikh, Regional HR Director; Muhammad Danial Sahak, BAT Malaysia Global Graduate; and Kelmond Ang, BAT Singapore Global Graduate.*

# Leadership for Change

In creating a high engagement organisation and driving high performance, we are strongly committed in developing our talent and promoting employees from within the organisation. We provide them the best support and motivation to face the challenging operational and market environment in the tobacco industry. We also believe in duly recognising our talent for their contribution and leadership, as well as engaging and energising them within a conducive working environment.

Above all, we believe in building a work culture where **diversity** is treasured, **positive actions** are required, **freedom of choice** is respected and **fairness** is expected.

## Rewarding Outstanding Performance and the Right Leadership Behaviours

In British American Tobacco Malaysia, we constantly recognise our employees' outstanding performance and right leadership behaviours, as we believe this will retain our talent and further grow the business. Hence, we continue to encourage a high-performance organisational culture that rewards and acknowledges the efforts of outstanding employees who have demonstrated strong business and people leadership traits, who went above and beyond the call of duty to deliver exceptional results.

In 2018, we have presented recognition awards to 116 employees for demonstrating strong business leadership and high levels of commitment towards delivering excellent work.

Other than individual awards, we also gave out two prestigious Leadership Team Awards to recognise and celebrate the most outstanding team achievements and efforts spearheaded by leadership behaviours that truly made a difference to the organisation. The awards not only recognise tangible business results, but also the demonstration of perseverance and relentless drive despite a challenging business and market environment. The Company is extremely proud that two well-deserving teams were announced the winners of this prestigious award for 2018.



Winners of the Achievement Award – P&E Team for GST/SST, posing on stage for the Leadership Team Award



Winners of the GRIT Award – NGP Team, posing onstage for the Leadership Team Award

## Recognising Long Service Employees

Behind the success of every organisation lies a myriad of exceptional people. Our outstanding Long Service Award recipients this year truly embodies our company culture. Their hunger for success and zeal for excellence set a benchmark for all to follow, particularly those who remained loyal and steadfast in achieving significant milestones during their long tenures.

In 2018, we celebrated the Long Service Award with 49 highly committed and passionate individuals during the Company's Annual Dinner and Dance on 24 November 2018. Out of the 49, 11 were awarded the Long Service Award for 10 years' service, 23 for 20 years' service, and 2 for 30 years' of service with the Company. We also acknowledged 13 outstanding individuals who would be retiring within 2018.



Karl Yap (Left), Marketing Director and Shaun Lim (Right) Premium Brand Manager were among the 49 Long Service Awards recipients

### Employee Engagement: Employees' Benefits and Wellbeing

Benefits and wellbeing of our employees is of utmost priority to the management team. With that in mind, British American Tobacco Malaysia frequently reviews its reward practices to ensure that all employees have access to competitive benefits.

#### Employee Benefits

On top of our existing benefits, the Company has further invested in our employees by enhancing the following key areas:

- **Increased Recognition Quantum**

In order to recognise outstanding performers who go the extra mile in an already challenging working environment, we have revamped our existing employee recognition award by increasing the quantum and moving it to Flexible Benefits points. This gives them the flexibility to choose the benefits they want in accordance to their personal needs and lifestyle.



Some of the recipients of our newly revamped employee recognition award

- **Education Assistance**

The Company strongly believes in the capabilities of its employees to transform and become competent leaders. This newly-approved initiative provides assistance for employees looking to further their studies, all the way up to a doctorate. The Company will subsidise up to 75 percent of the programme fees, with a cap of RM30,000 per programme. Three employees have signed up for this assistance and are currently pursuing their respective under/postgraduate degrees.

- **In-house Barista**

One of the most valued employee benefits is having our very own in-house barista – fondly known as Mavin, his main role is to keep our employees happy with his award winning brews. He also regularly organises coffee appreciation sessions and friendly competitions to keep us well engaged.

### Employees' Wellbeing

Critically important for a winning organisation, we believe that a high-performance culture entails that we not only work hard as a team but also play hard together like a family. In addition to hosting corporate events, the British American Tobacco Malaysia Sports Club was set up to organise many fun and exciting activities for our employees to participate in.

In 2018, a variety of engaging events and activities were conducted for our employees, that included:

- Recreational activities such as cooking classes, yoga classes, a paintball competition, a treasure hunt and a go-kart racing.
- Festive lunches.
- International Women's Day celebration.
- Wellness Day.
- Companywide Kick-Off Meeting in Malacca.
- BAT Challenge Inter-Games.
- Charity Work at Pitstop.
- Annual Dinner and Dance at PJ Sheraton Hotel.

The Company also revamped its communications strategy, which includes a Monthly What's Up session, for the Field Force to dial in via the TeleConference system to ensure the whole organisation is being updated on the Company's performance and important information.



A group photo of the BAT Malaysia volunteers at the Pit Stop Community Cafe

### Employee Wellness Day

On 15 August 2018, wellness was the theme of the day to create awareness of the importance of one's health. We started the day by having a Stress Management talk delivered by a certified psychologist for all employees, followed by a selection of physical activities like Zuu and Body Combat, which were conducted by professional trainers. The journey of wellness continued with 'Stretch @ Work' posters being shared with the organisation as a reminder to stay healthy, even at their workstations.

### Giving Back to the Community

With the mission of providing sustenance to the homeless and hardcore urban poor, 19 volunteers from the Company came together to help out at the Pit Stop Community Cafe. The volunteers assisted with food preparation, and served 167 of the urban poor, many of whom were elderly and with families. At the same time, more than 500 personal care essential items were donated.

### Other fun and engaging events:



Erik Stoel, Managing Director (centre, standing) posing with employees after the go-kart racing competition



Paintball event participants ready for war!



The many teams who participated in our Treasure Hunt event before the flag-off event



Employees of British American Tobacco Malaysia dressed up for Deepavali



The Sports Club committee team posing a picture with the Managing Director at the Annual Dinner and Dance



British American Tobacco Malaysia's very own in-house Santa Claus giving out Christmas gifts



One of the futsal teams during the BAT Challenge Inter-Games



Our Winning Team in high spirits during the British American Tobacco Malaysia Kick-Off Meeting!

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08

# Sustainability



# Sustainability Pillar

At British American Tobacco Malaysia, we believe that a sustainable growth for the Company can only be achieved in tandem with the sustainable growth of the country, the people and the community where we operate in. It starts with our commitment towards building a fair society where diversity is treasured, positive actions are required, freedom of choice is respected, and fairness is demanded.

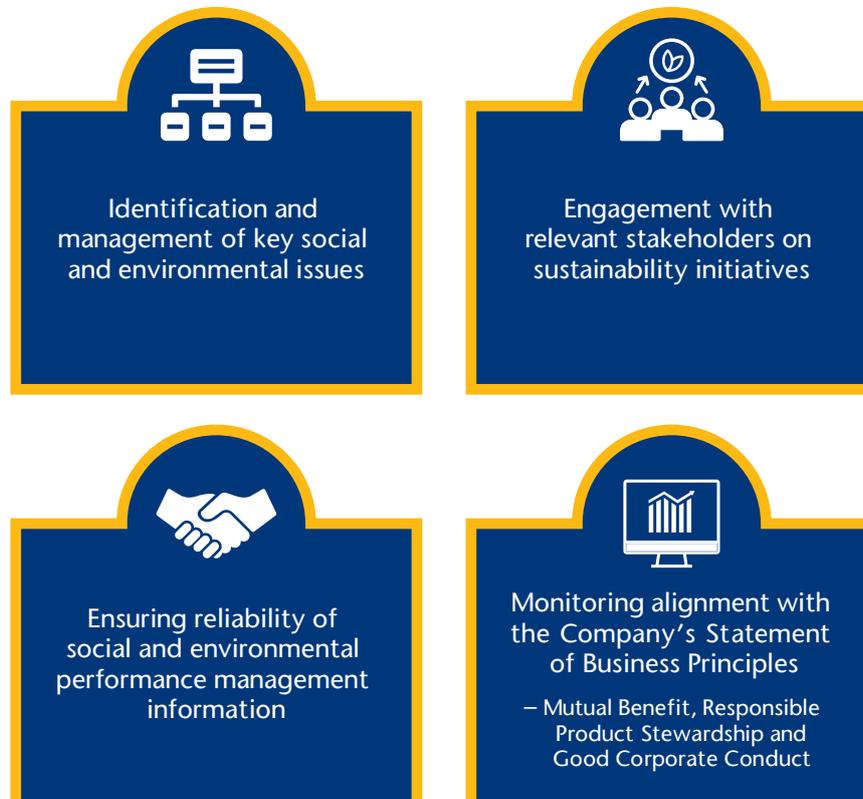
## Sustainability Agenda

### Commitment from Senior Management

The governance of our sustainability agenda is a process that is important to the Group as it enables the business to effectively embed responsible sustainability with integrity. Good governance structure also ensures that we are consistently aligned to our principles and standards of building a fair society – One that is not only about the growth of the company but also taking into consideration the impact on the country, the people and the community where we operate in.

Our commitment comes from the top. It is governed by a Corporate Social Responsibility (CSR) Committee that comprises members of the Group's functional directors (also known as the Leadership Team) and is chaired by the Managing Director. This committee reports on the Company's sustainability initiatives to the Board of Directors via the Audit Committee and meets at least twice a year. A dedicated team called the Foundation Executive Committee is also tasked to coordinate and implement sustainability initiatives.

The focus areas of the CSR Committee are outlined below:



# British American Tobacco Malaysia's Sustainability Framework

It is of utmost importance for a sustainable business to operate with integrity, responsibility and transparency. The Group's sustainability initiatives are conducted with clear alignment to Bursa Malaysia's CSR Framework, which acts as a guide for public listed companies in Malaysia. Our Sustainability Framework focuses on creating value for our shareholders and stakeholders in four key areas: Community, Workplace, Environment and Marketplace.



## British American Tobacco Malaysia Sustainability Framework

### Key Sustainability Areas for British American Tobacco Malaysia



# Community

British American Tobacco (Malaysia) Berhad (the Group) is fully committed to conducting Corporate Social Investment activities that support the sustainability of our surrounding communities.

In 2018, the Company revised its Corporate Social Investment approach in line with our new commitment towards Building a Fair Society. The refocused aim of our initiatives is about empowering and giving fair opportunities to disenfranchised communities through collaborative efforts and one where we can involve our people as much as we can, giving a deeper sense of purpose coming from the heart. We have created a new platform called British American Tobacco Malaysia Social Engagement, Empowerment, and Development (BATM SEED) platform. It focuses on four main areas: Empowerment, Social Impact, Education and Environment.



## Empowerment and Social Impact: Promoting Fair Economic Participation for All

In our efforts to initiate positive actions, British American Tobacco Malaysia collaborated with Single Mum, Recreative & Innovative (SURI), a jeans upcycling business that provides flexible employment opportunities for single mothers and introduced this initiative to its employees. The Group’s employees started a denim donation drive haul and collected over 255 pairs of denim in the span of five days. Given the opportunity, employees also showed their support by purchasing SURI’s own brand of upcycled denim bags and fashion items, known as ‘2nd Chance’.



Erik Stoel handing over the Group’s denim donation to SURI.



Erik Stoel with representative from The Picha Project.

British American Tobacco Malaysia also partnered with The Picha Project to showcase BATM SEED’s commitment in supporting social impact projects. The Picha Project is an enterprise that supports refugee families from various countries by delivering and catering traditional meals from the likes of Iraqi Falafel to Afghani Dumplings. Proceeds from the sales are donated to refugee families in Malaysia. This project is named after Picha, a young boy from Myanmar whose family was the first to join this social enterprise.

SURI and The Picha Project themselves took positive action towards building a fair society by providing underprivileged communities fair access to socio-economy participation and empowerment. BATM SEED will continue to focus on activities and projects that will support and empower communities around us.



*BAT Staff purchasing SURI's '2nd Chance' accessories.*

### **Education: Enabling Fair Access to Education Opportunities for Tomorrow's 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 more than RM18 million. While this foundation has benefitted a significant amount of people, we believe that the time is ripe to redirect our focus in line with our commitment in building a fair society. We have decided to cease the British American Tobacco Malaysia Foundation scholarships and replace it with two initiatives which are the Education Assistance Programme and Great Vision Association, an initiative we will officially start in 2019.

The Education Assistance Programme is a programme that supports our full-time employees' endeavour in pursuing higher education. This programme is open to all full-time employees who have completed at least two years of service with the Group and are seeking to complete part-time educational programmes that lead to qualifications such as PhD, Master's Degree, Degrees, Diploma and Professional Certificates. Applications are open every year from 1 July to 31 August.

### **Environment: Providing Fair Participation in the Digital World whilst Reducing E-waste**

In our effort to build a fair society where everyone can participate and benefit from the digital platform, British American Tobacco Malaysia has partnered with SOLS Tech, a non-profit organisation which collects, refurbishes and distributes donated computers and other electronic devices for free to underserved communities throughout Malaysia in an effort to narrow the digital divide, combat computer illiteracy, and provide a sustainable alternative to digital waste. In March 2018, we contributed over 170 digital assets comprising laptops, computers, monitors, accessories, printers, scanners, fax servers and other digital and technology items to SOLS Tech, which gave these devices and items a second lease of meaningful life to deserving underprivileged parties.

# Workplace

British American Tobacco Malaysia believes that creating an environment for high performance necessitates providing our employees with propositions that are relevant and addresses their needs. These compelling propositions that we offer to our employees include:



A reward structure that pays competitively for performance



Great working environment



Strong career development opportunities



Emphasis on work-life balance as well as employees' well-being



Robust talent development programmes

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

## Enhancing Health and Safety at Our Workplace

Since the introduction of the global Closing the Gap to Zero campaign back in 2012, British American Tobacco Malaysia has been fully committed to reducing the number of accidents at the workplace to zero. In line with carrying out the campaign, the Company has continued to conduct additional local-level activities which emphasised good health and safety practices in the organisation.

Outlined below are the key activities conducted:

### Safety Day

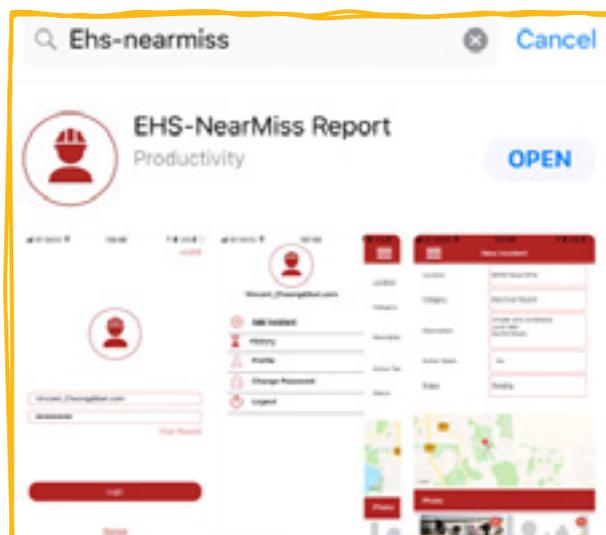
The Company organised a Safety Day on 25 May 2018 where 256 participants comprising of British American Tobacco Malaysia, Commercial Marketers and Distributors Sdn.Bhd. & Tobacco Importers and Manufacturers Sdn.Berhad employees took part in updating their safety knowledge through participating in Slip, Trip & Fall prevention training program and quiz.

### Near Miss Reporting

The safety of our employees within the workplace is one of our key priorities and one of the ways we can prevent accidents is to identify and learn from near misses and unsafe acts or conditions.

With this in mind, the Company has put in place a Near Miss Reporting programme to encourage employees to play an active role in observing and alerting the relevant team of any unsafe conditions and near misses around the workplace.

In September 2018, the company also raised the standard of our near miss reporting format by introducing a mobile app that allows employees to report any near misses - anywhere and anytime.



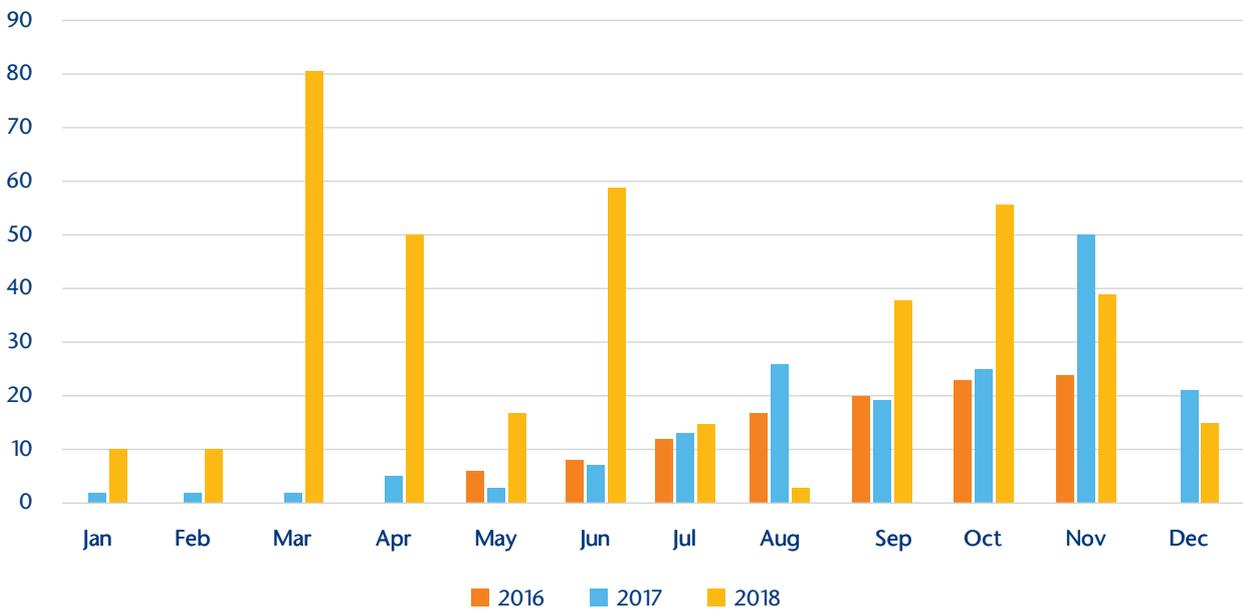
Screen capture of the EHS-Near Miss Report app.



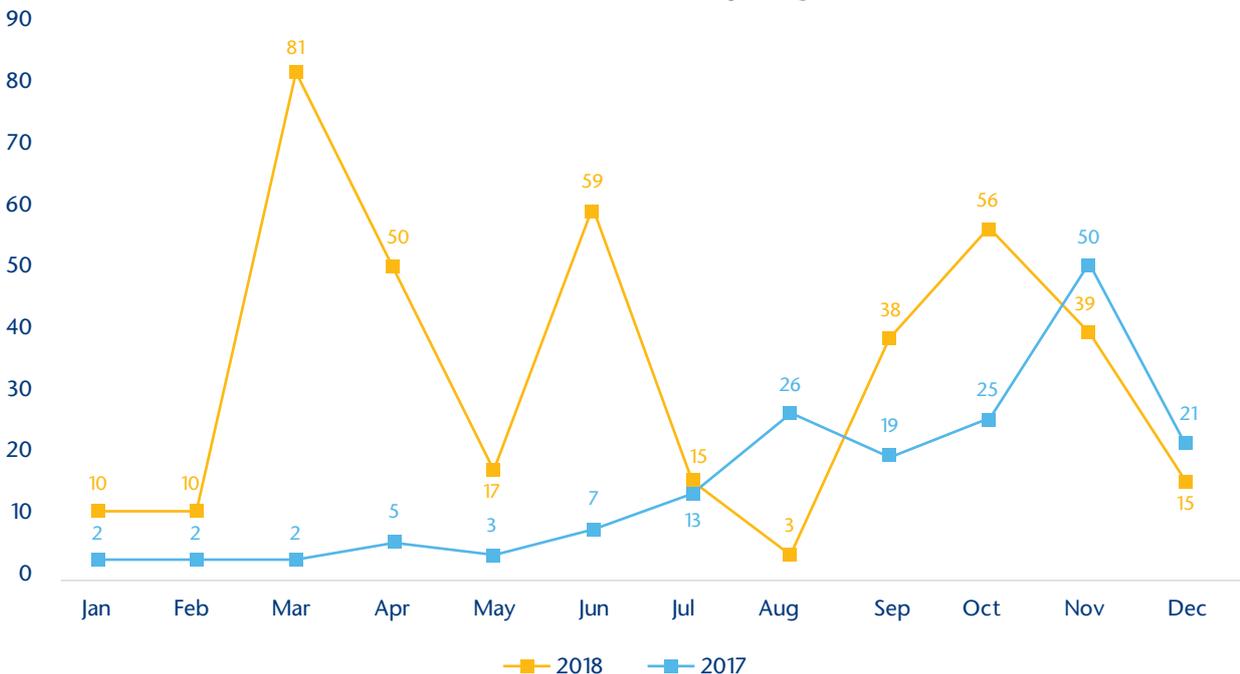
This shared ownership in ensuring a continuous effort to make British American Tobacco Malaysia a safer place to work has paid off.

As of December 2018, a total of 393 near misses were reported from various functions, preventing serious accidents from taking place. This is a very encouraging result as compared to previous year, as the near miss reporting achieved +200% participation from employees.

**Near Miss Reporting Tracker**



**2018 vs 2017 Near Miss Reporting**



### **Contractor's Environmental, Health and Safety (EHS) Enforcement and Reinforcement Programme**

This programme was developed and rolled out by the Company since May 2016 with the objective to elevate the level of EHS awareness amongst our service providers through the implementation of seven EHS essential modules that were rolled out on monthly basis. The modules comprise of topics to cover situations to do with Fall from Height Hazards, Hot Work, Entrapment Hazards, Slip Trip and Fall Hazards, Chemical and Fumigation Safety, Vehicle Impact and Permit to Work.

### **Defensive Driving Course**

The safety of our employees is of paramount importance. The Company's Field Force employees face daily risks while on the road and while loading our products from their vehicles to retail outlets. Apart from dealing with the inherent risks in driving, these days they also face risks from carrying high value legal cigarettes.

To equip the Field Force employees with the best safety measures, the Company continued to conduct defensive driving course for all new joiners as well as refresher course for experienced employees. They were trained on how to identify potential road hazards and how to handle their vehicles in the event of an emergency. Additionally, participants were also briefed on vehicle safety checks, the safe way to changing a tyre, understanding first aid treatments and protection from attacks or assaults. To date, 6 batches of training sessions were conducted and 99 employees attended this course.



*Employees attending the 2018 Defensive Driving Course.*

### **Health and Safety Course**

All new joiners of the Company are required to understand the Health and Safety protocol at the workplace as part of their Orientation and Induction course. The employees are equipped with the knowledge, guidelines and awareness of risk mitigation processes within the workplace premises be it at the office or out in the field. Topics in this course cover mostly situations relating to Slip Trip and Fall Hazards, Fire and Electrical Safety, Road Safety, Near Miss Reporting and Accident Reporting Procedures. In 2018, the Company held three sessions for approximately 38 new joiners.

### **Commitment towards Zero Lost Time Injury**

As of 31 December 2018, British American Tobacco Malaysia and its wholly-owned marketing subsidiary, Commercial Marketers and Distributors Sdn.Bhd. achieved 883,409 man-hours without a Lost Time Injury since September 2011.

The Company has a good Health and Safety record and, under the Closing the Gap to Zero campaign, made further progress in reducing accidents across the business.

# Environment

## Our Environmental Policies

British American Tobacco Malaysia’s commitment to embed environmental responsibility throughout our business operations is aligned to the principles outlined in the Global Environment, Health and Safety Policy.

### Global Environment, Health and Safety Policy

The Global Environment, Health and Safety Policy aims to apply the best international standards of practice in all aspects of our 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.**

### Minimising our Environmental Impact for a Sustainable Future

British American Tobacco Malaysia recognises the importance of understanding and taking positive actions to reduce our impact on the environment to proactively ensure environmental and business sustainability.

	2017	2018	2017 vs 2018	Remarks
Total Energy (Gj)	69,495	36,167	-48%	This was due to electricity saving initiatives implemented in site offices and by expanding our vehicle fleet to include hybrid and energy efficient vehicles for fuel consumption reduction.
Total water withdrawn (m3)	33,484	1,678	-95%	British American Tobacco Malaysia recorded 95 percent decrease in water usage in-line with the move to new office building which does not have a cafeteria or gardens.

# Marketplace

## The Illegal Trade

Illegal cigarettes continue to dominate the market, at about 60 percent of the total market.

The dire consequences of the illegal cigarettes trade go beyond economic sabotage, this lucrative trade continues to foster corruption across the illegal trade supply chain, embolden smuggling across our porous borders and fuel the criminal activities of syndicates and smugglers, threatening the security of the country and society.

This year saw a renewed desire and clearer agenda to fight illegal trade and corruption, starting from an announcement during Budget 2019 on the desire to bring back RM1 billion in revenue through enforcement, and the positive action of amending the Customs Act 1967 to impose stricter deterrent penalties on those involved in illegal cigarettes where first-time perpetrators will immediately face a minimum fine of RM100 thousand or minimum jail sentence of 6 months with effect from 2 January 2019.

What is more important now is to translate the intent into clear actions and results. With the strong penalty now in place, a strong enforcement drive by all relevant authorities is required to eradicate the illegal cigarettes trade, which will in turn, address the various ill consequences that is afflicting our nation.

## Regulatory Developments

As a responsible company, we are committed to operating to high standards of corporate conduct. British American Tobacco Malaysia has always been clear that we support regulation that is based on robust evidence and research, delivers on the intended policy aims and at the same time, allows the business to operate and be competitive in the marketplace.

On regulations, we believe it should be directed and enforceable against not only the legal segment of the industry in Malaysia, but more urgently and critically at about 60 percent of the illegal segment of the industry.

It is very obvious that illegal cigarettes have no respect for all laws, be it on pricing, product or packaging laws and enforcement must be undertaken to enforce such laws for there to exist a fair and level operating field.

As a responsible company, British American Tobacco Malaysia is fully compliant with all existing legislations enacted governing our products and business.

In 2018, the Control of Tobacco Products Regulation (CTPR) 2004 was amended once to expand places where smoking is prohibited to include eating places. Effective 1 January 2019, smoking is prohibited in any eating places whether inside or outside of building where food is prepared, served or sold and includes:

- (a) any room or area on a ship or train where food is prepared, served or sold;
- (b) any area on a vehicle where food is prepared, served or sold, and any surrounding area within a radius of three meters from the vehicle; and
- (c) any area within a radius of three meters from any table or chair which is placed for the purposes of preparing, serving or selling food.

# Disclosure Scope

Our sustainability disclosure covers British American Tobacco (Malaysia) Berhad and its wholly owned subsidiaries listed below:



**100%**

Commercial Marketers and Distributors Sdn. Bhd. (Marketing and Importation)

**100%**

Rothmans Brands Sdn. Bhd. (Trademarks Holding)

**100%**

Tobacco Importers and Manufacturers Sdn. Berhad (Manufacturing and Sales)

# Aspects & Boundaries and Materiality

We identified 9 aspects that are most material, or most important to the business by surveying our various stakeholders comprising shareholders and employees to consumers and suppliers. Issues relating to these aspects are addressed through our various engagement with our stakeholders.

Material Issues	Aspects	Boundaries	Key Stakeholders
Illegal Cigarettes	<ul style="list-style-type: none"> <li>Public Policy</li> <li>Compliance</li> </ul>	<ul style="list-style-type: none"> <li>External</li> </ul>	<ul style="list-style-type: none"> <li>Government</li> <li>Trade Associations</li> <li>Media</li> </ul>
Supply Chain	<ul style="list-style-type: none"> <li>Supplier Assessment</li> </ul>	<ul style="list-style-type: none"> <li>External</li> <li>Internal</li> </ul>	<ul style="list-style-type: none"> <li>Suppliers</li> <li>Trade partners</li> <li>Employees</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Training and Education</li> <li>Diversity and Equal Opportunity</li> <li>Occupational Health and Safety</li> </ul>	<ul style="list-style-type: none"> <li>Internal</li> </ul>	<ul style="list-style-type: none"> <li>Employees</li> </ul>
Environmental, Health and Safety	<ul style="list-style-type: none"> <li>Energy</li> <li>Water</li> </ul>	<ul style="list-style-type: none"> <li>Internal</li> <li>External</li> </ul>	<ul style="list-style-type: none"> <li>Employees</li> <li>Suppliers</li> <li>Vendors</li> </ul>
Education & Technology	<ul style="list-style-type: none"> <li>Local communities</li> </ul>	<ul style="list-style-type: none"> <li>Internal</li> <li>External</li> </ul>	<ul style="list-style-type: none"> <li>Employees</li> <li>Trade Associations</li> <li>NGOs</li> </ul>

## Materiality Matrix

Level of interest to stakeholders	High		Education & Technology	<ul style="list-style-type: none"> <li>Illegal Cigarettes</li> <li>Supply Chain</li> </ul>
	Medium			<ul style="list-style-type: none"> <li>Employees</li> <li>EHS</li> </ul>
	Low			
		Low	Medium	High
		Current or potential impact on the Company		

# Stakeholders

We have embedded a range of platforms to keep a constant pulse on concerns and issues of stakeholders. By understanding expectations and responding to concerns, we aim to deepen our stakeholder's trust in us. The following table provides a list of our key stakeholders, the engagement platforms, and some of the key issues addressed.

Stakeholders	Engagement Platforms	Issues	How We Addressed
Regulators	<ul style="list-style-type: none"> <li>Public consultations</li> <li>Regular meetings</li> </ul>	<ul style="list-style-type: none"> <li>Illegal cigarettes</li> <li>Regulations</li> </ul>	<ul style="list-style-type: none"> <li>A two-way dialogue and information sharing related to illegal cigarettes and its impact to Government, society and industry.</li> </ul>
Consumers	<ul style="list-style-type: none"> <li>Customer service channels (DUNHILL and PETER STUYVESANT Hotline)</li> <li>Corporate email</li> <li>Corporate website</li> <li>Company press releases</li> </ul>	<ul style="list-style-type: none"> <li>Product Information</li> </ul>	<ul style="list-style-type: none"> <li>Full time call centre that attends to consumer queries and provide necessary information to keep consumers updated.</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Your Voice Engagement Survey</li> <li>Multiple internal engagement channels (monthly townhall sessions, annual corporate session)</li> <li>Leadership forums with extended and middle management</li> <li>Interdepartmental corporate Away Days</li> </ul>	<ul style="list-style-type: none"> <li>Career planning and development</li> <li>Fair and transparent rewards</li> <li>Active engagement process across the organisation by Management team</li> </ul>	<ul style="list-style-type: none"> <li>Results from bi-yearly employment engagement survey incorporated into talent strategy.</li> <li>Various platforms to engage all employees.</li> </ul>
Investors and Analysts	<ul style="list-style-type: none"> <li>Annual General Meeting</li> <li>Annual Report</li> <li>Quarterly analyst briefings</li> <li>Corporate website</li> <li>Company press releases</li> </ul>	<ul style="list-style-type: none"> <li>Corporate strategy and financial performance</li> <li>Corporate governance and compliance</li> </ul>	<ul style="list-style-type: none"> <li>Numerous briefings conducted to analysts and investors on business performance and strategy.</li> </ul>
Media	<ul style="list-style-type: none"> <li>Press Conferences</li> <li>Media interviews &amp; events</li> <li>Formal and informal briefings</li> </ul>	<ul style="list-style-type: none"> <li>Corporate strategy</li> <li>Financial performance</li> <li>Products and services</li> </ul>	<ul style="list-style-type: none"> <li>Regular media engagements conducted to provide updates on business performance and strategy, products and services, and address issues of consumers' concerns.</li> </ul>

Stakeholders	Engagement Platforms	Issues	How We Addressed
Business Partners, Community & NGOs	<ul style="list-style-type: none"> <li>Engage and support business partners, corporates and NGOs in addressing issues in the community</li> </ul>	<ul style="list-style-type: none"> <li>Enabling fair access to education opportunities</li> <li>Providing fair participation in the digital world for all</li> <li>EHS best practices</li> <li>Compliance</li> </ul>	<ul style="list-style-type: none"> <li>British American Tobacco Malaysia Foundation continued to award more than RM500,000 in scholarships to 33 aspiring future leaders</li> <li>British American Tobacco Malaysia donated more than 170 digital assets to be refurbished and distributed to deserving non-governmental organisations and communities aimed at educating and empowering underprivileged youth across Malaysia.</li> <li>We conducted briefings, information sharing as well as trainings with business partners to ensure compliance with regulations and standards.</li> </ul>



# Global Reporting Initiative (GRI) G4 Indicators 2018

GRI is an independent global multi-stakeholder organisation that has developed a Sustainability Reporting Framework and Guidelines. The GRI Indicators form an integral part of the GRI vision and enables a consistent and comparable approach for organisations to report on sustainability performance.

Over the years, British American Tobacco Malaysia has been lauded for exemplary disclosure of its economic, environmental, social and governance performance in its Annual Report. As part of our continued commitment in demonstrating accountability and transparency, we are once again incorporating the more comprehensive Global Reporting Initiative (GRI) G4 Indicators in our 2018 Annual Report. This is the tenth year that the Company is continuing with this initiative in line with its sustainability agenda to demonstrate its commitment to operating responsibly.

For more information on the Global Reporting Initiative, please visit [www.globalreporting.org](http://www.globalreporting.org).

GENERAL STANDARD DISCLOSURES		
GRI – G4 Code	Issue Area	Response for 2018
<b>Strategy and Analysis</b>		
G4-1	Statement from the most senior decision-maker of the organisation.	Refer to Joint Statement to Shareholders and Management Discussion and Analysis.
<b>Organisational Profile</b>		
G4-3	Name of the organisation.	British American Tobacco (Malaysia) Berhad.
G4-4	Primary brands, products, and services.	Refer to Management Discussion and Analysis.
G4-5	Location of the organisation's Headquarters.	British American Tobacco (Malaysia) Berhad Level 19, Guoco Tower, Damansara City, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur.
G4-6	Countries of operation.	British American Tobacco (Malaysia) Berhad only operates in Malaysia.
G4-7	Nature of ownership and legal form.	Refer to Notes to the Financial Statements.
G4-8	Markets served.	Refer to Management Discussion and Analysis.
G4-9	Scale of the organisation.	Refer to Management Discussion and Analysis.
G4-10	Organisation's workforce.	Refer to Winning Organisation Pillar and GRI Specific Standard Disclosures G4-LA (1-16).
G4-11	Total employees covered by collective bargaining agreements.	There were no employees covered by collective bargaining agreements as at 31 December 2018.
G4-12	Organisation's supply chain.	Refer to Productivity Pillar.
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain.	Refer to Management Discussion and Analysis and Productivity Pillar.
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation.	Refer to Sustainability Pillar.
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	Refer to Sustainability Pillar.

G4-16	Memberships of associations.	<ul style="list-style-type: none"> <li>Confederation of Malaysian Tobacco Manufacturers (CMTM)</li> <li>Malaysian International Chamber of Commerce and Industry (MICCI)</li> <li>Federation of Malaysian Manufacturers (FMM)</li> </ul>
<b>Identified Material Aspects and Boundaries</b>		
G4-17	Entities included in the organisation's consolidated financial statements.	Refer to Notes to the Financial Statements.
G4-18	Process for defining report content and the Aspect Boundaries.	Refer to Aspects & Boundaries and Materiality.
G4-19	Material Aspects identified in the process for defining report content.	Refer to Aspects & Boundaries and Materiality.
G4-20	Aspect Boundary within the organisation.	Refer to Aspects & Boundaries and Materiality.
G4-21	Aspect Boundary outside the organisation.	Refer to Aspects & Boundaries and Materiality.
G4-22	Restatements of information provided in previous reports.	There is no restatement of information from previous report.
G4-23	Significant changes from previous reporting in the Scope and Aspect Boundaries.	Not applicable.
<b>Stakeholder Engagement</b>		
G4-24	List of stakeholder groups engaged by the organisation.	Refer to Stakeholders.
G4-25	Basis for identification and selection of stakeholders with whom to engage.	Refer to Stakeholders.
G4-26	Approach to stakeholder engagement.	Refer to Stakeholders.
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	Refer to Stakeholders.
<b>Report Profile</b>		
G4-28	Reporting period.	Unless otherwise stated, all data covers the calendar year 1 January to 31 December 2018.
G4-29	Date of most recent previous report.	Our latest annual report was published on 19 April 2018 for the period covering 1 January to 31 December 2017.
G4-30	Reporting cycle.	British American Tobacco (Malaysia) Berhad has an annual reporting cycle.
G4-31	Contact point.	Refer to Corporate Information.
G4-32	GRI Content Index.	Refer to Global Reporting Initiative (GRI) G4 Indicators 2018.
G4-33	External assurance.	No external assurance conducted.
<b>Governance</b>		
G4-34	Governance structure of the organisation.	Refer to Statement on Corporate Governance.
<b>Ethics &amp; Integrity</b>		
G4-56	Organisation's values, principles, standards and norms of behaviour.	Refer to Statement on Corporate Governance and Standards of Business Conduct Statement.

SPECIFIC STANDARD DISCLOSURES		
GRI – G4 Code	Issue Area	Response for 2018
G4-EC1	Direct economic value generated and distributed.	<p>Direct economic value generated (Revenues): RM 2,823 Million Economic Value Distributed</p> <ul style="list-style-type: none"> <li>• Operating Costs: RM498 million</li> <li>• Employee wages &amp; benefits: RM110 million</li> <li>• Payment to providers of capital: RM443 million</li> <li>• Payment to government (taxes): RM1,731 million</li> <li>• Community investment: RM1 million</li> <li>• Economic value retained: RM37 million</li> </ul>
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	<p>British American Tobacco Malaysia continuously works to address both our immediate environmental impacts and the likely environmental pressures on the business in the future by adopting a multi-pronged approach which encompasses changing employees' behaviour, investing in new technology and improving product designs that aim to lessen our environmental impacts. For further information on our environment-related activities, please refer to our ENVIRONMENT section of the Sustainability pillar.</p>
G4-EC3	Coverage of the organisation's defined benefit plan obligations.	<p>In 2018, British American Tobacco Malaysia contributed an additional four percent into the employees' accounts, above the mandatory employer Employees Provident Fund (EPF) contribution: 12 percent for salaries more than RM5,000 and 13 percent for salaries less than RM5,000. Altogether, British American Tobacco Malaysia contributed 16 percent or 17 percent to employees' EPF. Employees contribute 11 percent to EPF.</p>
G4-EC4	Financial assistance received from Government.	<p>British American Tobacco Malaysia did not receive any financial assistance from the Government in 2018.</p>
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operations.	<p>For 2018, the Company ensured that its workforce irrespective of gender or location is compensated above the prescribed amount in the Minimum Wages Order 2016.</p>
G4-EC6	Proportion of senior management hired from the local community at significant locations of operations.	<p>In 2018, the percentage of senior management in British American Tobacco Malaysia at significant locations of operations that are hired from the local community* represents 77 percent.</p> <p>Please refer below for the definition of the terms reported:</p> <ul style="list-style-type: none"> <li>• Senior management - refer to job Grades 36 and above.</li> <li>• Significant locations of operations – refer to the Marketing, Operations and Corporate Services functions.</li> </ul> <p>*Local community – refers to Malaysia.</p>
G4-EC7	Development and impact of infrastructure investments and services supported.	<p>Refer to Sustainability Pillar.</p>

G4-EC8	Significant indirect economic impacts.	<p>Listed below are some significant indirect economic impacts to British American Tobacco Malaysia in 2018:</p> <ul style="list-style-type: none"> <li>• Although the Malaysian GDP advanced 4.7 percent year-on-year by the fourth quarter of 2018 with low inflation, a significant portion of Malaysian population continue to experience low wages with high cost of living. The income stretch has continued to grow illegal cigarette trade in the market to around 60 percent, making Malaysia one of the highest countries in the world in illegal cigarette consumption.</li> <li>• The SST led price increase for cigarette in the second half of the year put additional pressure on consumers' affordability, leading to further decline in legal cigarette volumes.</li> <li>• While consumer confidence saw a positive spike post the General Elections, it started tapering off from Q3 onwards. As a result, the optimism was short-lived and the consumers remained cautious about their spending for most of the year.</li> </ul>
G4-EC9	Proportion of spending on local suppliers at significant locations of operation.	British American Tobacco is a global business and has contracts with global suppliers, although the delivery and invoicing of goods and services often take place locally, making it difficult to categorise spend as either global or local. Our Company uses the most appropriate suppliers for goods and services, taking into account numerous factors such as meeting our minimum standards, capability and capacity to supply, quality, location, price, speed of delivery and various other criteria which include local regulations.
G4-EN1	Materials used by weight or volume.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN2	Percentage of materials used that are recycled input materials.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN3	Energy consumption within the organisation.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN4	Energy consumption outside of the organisation.	<p>Total : 36,167 Gigajoules Non-renewable: Electricity 36,167 Gigajoules</p> <p>An increase of indirect energy consumption by 276 percent was recorded in 2018. This was due to Virginia Park factory closure and Finished Goods product freight previously reported under energy consumption within the organisation.</p>
G4-EN5	Energy intensity.	<p>The intensity calculation is based on total energy used in British American Tobacco Malaysia's supply chain operations and marketing functions being the two biggest functions of the business divided by the total sales of volume sold.</p> <p>Total energy used was inclusive of direct and indirect energy.</p>
G4-EN6	Reduction of energy consumption.	British American Tobacco Malaysia head office relocation to Guoco Tower in Damansara City (certified Green Building) is part of our ongoing efforts to reduce energy consumption for electricity and air conditioning energy usage.
G4-EN7	Reductions in energy requirements of products and services.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN8	Total water withdrawal by source.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.

G4-EN9	Water sources significantly affected by withdrawal of water.	British American Tobacco Malaysia facilities sourced water from the 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.
G4-EN10	Percentage and total volume of water recycled and reused.	British American Tobacco Malaysia did not reuse any recycled water in 2018.
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
G4-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.
G4-EN13	Habitats protected or restored.	There is no leaf plantation activity in Malaysia and British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
G4-EN14	Total 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.
G4-EN15	Direct green-house gas (GHG) emissions (Scope 1).	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN16	Energy indirect green-house gas (GHG) emissions (Scope 2).	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN17	Other indirect green-house gas (GHG) emissions (Scope 3).	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN18	Green-house gas (GHG) emissions intensity.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN19	Reduction of green-house gas (GHG) emissions.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN20	Emissions of ozone-depleting substances (ODS).	All British American Tobacco Malaysia air conditioning equipment is chlorofluorocarbon (CFC) free.
G4-EN21	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions.	British American Tobacco has no significant air emission incident reported to date.
G4-EN22	Total water discharge by quality and destination.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN23	Total weight of waste by type and disposal method.	2018: Hazardous Waste: 0 tonnes Non-Hazardous Waste: 20 tonnes  Due to the closure of Virginia Park factory operations in 2017, the hazardous waste is recorded as zero and non-hazardous waste is much reduced as it is only confined to office waste and Point-of-Sales-Materials (POSM) waste.
G4-EN24	Total number and volume of significant spills.	British American Tobacco Malaysia did not record any significant spills in 2018.
G4-EN25	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.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.

G4-EN26	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.	Not applicable due to Virginia Park - factory operations closure in 2017 and Nusajaya JB plant setup phase in 2018.
G4-EN27	Extent of impact mitigation of environmental impacts of products and services.	<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 processes and practices:</p> <ol style="list-style-type: none"> <li>1. Introduction of the use of hybrid &amp; EEV vehicles for company usage to reduce carbon emission.</li> <li>2. Implementation of Telematics System to all company vehicles to monitor fuel consumption and driver driving vehicles to achieve fuel efficiency and reduce idling which would cause higher carbon emission.</li> <li>3. Installation of timer meter in all commercial site office for reduction of energy consumption.</li> <li>4. Installation of LED lighting for finished goods central warehouse in Bangi &amp; EDX warehouse for reduction of energy consumption.</li> <li>5. Development of point of sales material for retail promotion using recycled materials (cardboard or acrylic).</li> </ol>
G4-EN28	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.
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	British American Tobacco Malaysia was in full compliance with environmental laws and regulations in 2018.
G4-EN30	Significant environmental impacts of transporting products and other goods and materials 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.
G4-EN31	Total environmental protection expenditures and investments by type.	<p>Total spend in 2018: RM9,355,000</p> <p>Breakdown for total environmental protection expenditures and investments:</p> <ol style="list-style-type: none"> <li>1. Purchase of Hybrid and EEV vehicles for company usage: RM9,080,000</li> <li>2. Purchase of Telematics system device: RM75,000</li> <li>3. Energy Metering for Commercial site office &amp; warehouse: RM 68,000</li> <li>4. Installation of LED lighting (high bay light) for finished goods warehouses: RM132,000</li> </ol>
G4-EN32	Percentage of new suppliers that were screened using environmental criteria.	<p>100 percent of our new and existing direct materials suppliers are screened using environmental criteria as part of our supplier programmes.</p> <p>We use the Supply Chain Due Diligence process, where it includes assessing risks based on type of supplier, prioritising suppliers exposed to the highest risk, and monitoring &amp; reviewing high-risk suppliers through self-assessment questionnaires, including environmental criteria or on-site audits &amp; reviews that are delivered by appointed expert vendor, Intertek.</p>

G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken.	There were no significant environmental impacts in the supply chain recorded in British American Tobacco Malaysia in 2018.
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal mechanisms.	There were no recorded grievances about environmental impacts filed against British American Tobacco Malaysia in 2018.
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region.	<p>As at 31 December 2018:</p> <p>The total number of employees who left employment in 2018 by age group:</p> <ol style="list-style-type: none"> <li>1. Less than 30 years old : 21</li> <li>2. 30 – 50 years old : 37</li> <li>3. Above 50 years old : 23</li> </ol> <p>The total number of employees who left employment in 2018 by gender:</p> <ol style="list-style-type: none"> <li>1. Male : 65</li> <li>2. Female : 16</li> </ol> <p>The total number of employees who left employment in 2018 by region:</p> <ol style="list-style-type: none"> <li>1. North : 7</li> <li>2. South : 10</li> <li>3. East Malaysia : 2</li> <li>4. Central East : 2</li> <li>5. Central West : 16</li> <li>6. HQ : 44</li> </ol> <p>The total number of employees who left employment in 2018 by ethnicity:</p> <ol style="list-style-type: none"> <li>1. Malay : 27</li> <li>2. Chinese : 47</li> <li>3. Indian : 5</li> <li>4. Others : 2</li> </ol>
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	<p>The following benefits were provided to British American Tobacco Malaysia's full-time management and non-management employees:</p> <ol style="list-style-type: none"> <li>1. Medical benefits</li> <li>2. Annual, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, caregivers, enrichment and pilgrimage leave</li> <li>3. Bonus</li> <li>4. Group Term Life Insurance Scheme</li> <li>5. Company vehicle and monthly cash allowance (depending on grade)</li> <li>6. Corporate club membership (depending on grade)</li> <li>7. Flexible Benefits</li> </ol>

G4-LA3	Return to work and retention rates after parental leave, by gender.	<p>As at 31 December 2018:</p> <p>Total number of employees that were entitled to parental leave, by gender:</p> <ol style="list-style-type: none"> <li>1. Female: 116</li> <li>2. Male : 365</li> </ol> <p>Total number of employees that took parental leave, by gender:</p> <ol style="list-style-type: none"> <li>1. Female: 9</li> <li>2. Male : 16</li> </ol> <p>Total number of employees who returned to work after parental leave ended, by gender.</p> <ol style="list-style-type: none"> <li>1. Female: 9</li> <li>2. Male : 16</li> </ol>
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	As of 31 December 2018, there are no unionised employees in the Company.
GR-LA5	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) are members of the 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>
GR-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region and by gender.	In 2018, British American Tobacco Malaysia and its wholly-owned subsidiaries, Commercial Marketers and Distributors Sdn. Bhd. achieved 883,409 man-hours without a Lost Time Injury since September 2011.
GR-LA7	Workers with high incidence or high risks of diseases related to their occupation.	There was no record of workers having high incidence or high risk of diseases relating to their occupation in British American Tobacco Malaysia reported in 2018.
GR-LA8	Health and safety topics covered in formal agreements with trade unions.	As of 31 December 2018, there are no unionised employees in the Company.

<p>GR-LA9</p>	<p>Average hours of training per year per employee by gender, and by employee category.</p>	<p>International and Regional trainings were provided to 406 employees and 4,040 hours were invested. Local trainings were provided to 319 employees and a total of 3,528 hours were invested. The training programmes offered are listed as follows:</p> <ol style="list-style-type: none"> <li>1. Local Training: 10 hours</li> <li>2. International and Regional Training: 11 hours</li> </ol> <p>The hours calculated are based on the average hours per participant. The central programmes were under the purview of British American Tobacco Malaysia’s Human Resources function and covered all other functions within the Company. The Global Leadership Curriculum (GLC) includes all the leadership programmes wholly owned by British American Tobacco p.l.c. while the non-GLC courses cover all the trainings conducted by externally-hired trainers, based on the employees’ respective development needs.</p>
<p>GR-LA10</p>	<p>Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.</p>	<p>There are two types of GLC programmes implemented to upgrade employee skills which are Junior to Middle Development Programme, and Senior Development Programme. Some examples of these programmes are as below:</p> <ol style="list-style-type: none"> <li>1. Leadership Training             <ol style="list-style-type: none"> <li>(i) Leading Self</li> <li>(ii) Leading Teams</li> <li>(iii) Leading Managers</li> <li>(iv) Women in Leadership</li> <li>(v) The BAT Academy</li> <li>(vi) Impact &amp; Gravitass</li> </ol> </li> <li>2. Skills Training             <ol style="list-style-type: none"> <li>(i) SCQuaRE</li> <li>(ii) POSITIVE Refresh</li> <li>(iii) My Peak Performance</li> <li>(iv) Microsoft Excel</li> <li>(v) Train the Facilitator</li> </ol> </li> <li>3. Human Resources             <ol style="list-style-type: none"> <li>(i) Human Resources Development Programme</li> </ol> </li> <li>4. Finance             <ol style="list-style-type: none"> <li>(i) Finance Excellence Programme</li> </ol> </li> </ol> <p>British American Tobacco Malaysia also offers online training courses on Lynda where employees can access at their convenience to further bridge the gaps of three leadership capabilities which were identified as key focus areas in 2018:</p> <ol style="list-style-type: none"> <li>1. Thinks Strategically and Prioritises</li> <li>2. Leads Change and Innovates</li> <li>3. Develops Leaders and Teams</li> </ol>

GR-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employment category.	<p>100 percent of employees, both management and non-management employees, received a formal performance appraisal and review during the reporting period.</p> <p>Demographic as at 31 December 2018:</p> <p>Management</p> <ol style="list-style-type: none"> <li>1. Male : 72.14 percent (347)</li> <li>2. Female: 23.91 percent (115)</li> </ol> <p>Non-management</p> <ol style="list-style-type: none"> <li>1. Male : 3.74 percent (18)</li> <li>2. Female: 0.21 percent (1)</li> </ol>
GR-LA12	Composition of governance bodies and breakdown of employees per employee 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:</p> <ol style="list-style-type: none"> <li>1. Male : 70 percent (5 out of 7 Directors)</li> <li>2. Female: 30 percent (2 out of 7 Directors)</li> </ol> <p>The percentage of British American Tobacco Malaysia's Board of Directors by age groups:</p> <ol style="list-style-type: none"> <li>1. Under 30 years old: None</li> <li>2. 30-50 years old : 30 percent (2 out of 7 Directors)</li> <li>3. Over 50 years old : 70 percent (5 out of 7 Directors)</li> </ol> <p>The percentage of employees in British American Tobacco Malaysia by gender:</p> <ol style="list-style-type: none"> <li>1. Male : 75.9 percent (365 out of 481 employees)</li> <li>2. Female: 24.1 percent (116 out of 481 employees)</li> </ol> <p>The percentage of employees in British American Tobacco Malaysia by age groups:</p> <ol style="list-style-type: none"> <li>1. Under 30 years old: 17.7 percent (85 out of 481 employees)</li> <li>2. 30-50 years old: 63.4 percent (305 out of 481 employees)</li> <li>3. Over 50 years old: 18.9 percent (91 out of 481 employees)</li> </ol>
GR-LA13	Ratio of basic salary and remuneration or women to men by employee category by significant locations of operation.	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. Male and female Management Trainees were paid equal basic salaries.
GR-LA14	Percentage of new suppliers that were screened using labour practices criteria.	We use the Supply Chain Due Diligence process, where it includes assessing risks based on type of supplier, prioritising suppliers exposed to the highest risk, and monitoring & reviewing high-risk suppliers through self-assessment questionnaires, including on-site audits & reviews that are delivered by appointed expert vendor, Intertek. Our suppliers are required to sign on the Supplier Code of Conduct which include adhering to our policy to labour practices.
GR-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken.	There were no significant impacts for labour practices in the supply chain recorded in British American Tobacco Malaysia in 2018.
GR-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms.	No grievances were lodged by the National Union of Tobacco Industry Workers (NUTIW).

GR-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that have underwent 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 Supply Chain Due Diligence executed by our appointed expert vendor, Intertek, in selecting 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. Our suppliers are also required to sign on the Supplier Code of Conduct which include adhering to our policy on human rights.
GR-HR2	Total hours of employee training on human rights policies or procedures concerning aspect of human rights that are relevant to operations including the percentage of employees trained.	<p>Trainings on human rights policies and procedures were provided to eight employees and 104 hours were invested. Below are some examples of trainings that were attended:</p> <ol style="list-style-type: none"> <li>1. Introduction to MBRS</li> <li>2. SAFETY &amp; HEALTH OFFICER TRAINING COURSE (Federation of Malaysia Manufacturing)</li> <li>3. PDC Seminar on Civil Procedure</li> <li>4. KPMG TAX Workshop &amp; Seminar Ser 2018</li> <li>5. SSM National Conference 2018</li> </ol>
GR-HR3	Total number of incidents of discrimination and corrective actions taken.	<p>There was no incident of discrimination at British American Tobacco Malaysia in 2018.</p> <p>The Respect in the Workplace section of the Standards of Business Conduct makes clear British American Tobacco Malaysia's commitment to treating all colleagues and business partners inclusively, with dignity, and with respect. This includes specific provisions for promoting equality and diversity and preventing harassment and bullying. It details how all aspects of harassment and bullying are completely unacceptable and that British American Tobacco Malaysia is committed to removing any such actions or attitudes from the workplace. The Standards of Business Conduct provides for a comprehensive whistleblowing procedure which enables any employee to raise any concern including that of discrimination.</p>
GR-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.	There were no significant risks in exercising freedom of association or collective bargaining in British American Tobacco Malaysia in 2018.

GR-HR5	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	<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.</p> <p>Topics covered by our Employment Principles include:</p> <ol style="list-style-type: none"> <li>1. Equality of opportunity and non-discrimination.</li> <li>2. Internal communications and the free flow of ideas.</li> <li>3. Worker representation and freedom of association.</li> <li>4. Fairness at work and the unacceptability of harassment and bullying.</li> <li>5. Do not condone or employ child labour.</li> <li>6. Forced or bonded labour is completely unacceptable.</li> <li>7. Performance responsibility.</li> <li>8. Environmental, Health and Safety and responsibility.</li> <li>9. Community contributions and skills development for employees and communities in markets where our companies operate.</li> <li>10. Personal development and learning.</li> <li>11. Reasonable working hours and family friendly policies.</li> <li>12. Fair, clear and competitive remuneration and benefits.</li> </ol>
GR-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	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 Supply Chain Due Diligence process 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. Our suppliers are also required to sign on the Supplier Code of Conduct which include adhering to our policy on human rights.
GR-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations.	The Human Rights and Our Operations section of the Standards of Business Conduct ensures that British American Tobacco Malaysia conducts the operations in a way that respects the human rights of its employees, the people that British American Tobacco Malaysia works with and the communities in which British American Tobacco Malaysia operates in.

GR-HR8	Total number of incidents of violations involving rights of indigenous people and actions taken.	<p>There was no incident of violation involving rights of indigenous people at British American Tobacco Malaysia in 2018.</p> <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> <ol style="list-style-type: none"> <li>1. Equality of opportunity and non-discrimination.</li> <li>2. Internal communications and the free flow of ideas.</li> <li>3. Worker representation and freedom of association.</li> <li>4. Fairness at work and the unacceptability of harassment and bullying.</li> <li>5. Do not condone or employ child labour.</li> <li>6. Forced or bonded labour is completely unacceptable.</li> <li>7. Performance responsibility.</li> <li>8. Environmental, health and safety responsibility.</li> <li>9. Community contributions and skills development for employees and communities in markets where our companies operate.</li> <li>10. Personal development and learning.</li> <li>11. Reasonable working hours and family friendly policies.</li> <li>12. Fair, clear and competitive remuneration and benefits.</li> </ol>
GR-HR9	Total number and percentage of operations that have been subject to human right reviews or impacts assessments.	<p>The Human Rights and Our Operations section of the Standards of Business Conduct make it clear that British American Tobacco Malaysia must identify specific human rights risks that may be relevant for, or impacted by, British American Tobacco Malaysia's operations.</p> <p>In doing so, British American Tobacco Malaysia will seek the views of stakeholders, including employees and their representatives. British American Tobacco Malaysia will take appropriate steps to ensure that the operations do not contribute to human rights abuses and to remedy any adverse human rights impacts directly caused by our actions.</p>
GR-HR10	Percentage of new suppliers that were screened using human rights criteria.	100 percent of our new and existing strategic suppliers are reviewed through our major supplier programme, the Supply Chain Due Diligence process. This tool helps us assess whether our suppliers are meeting our human rights criteria and over time help achieve measurable improvements. If we identify human rights breaches in relation to a supplier, but there is no clear commitment to corrective action, persistent inaction, or a lack of improvement, then our Standards of Business Conduct make it clear that our work with that supplier should cease.
GR-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken.	There were no human rights impacts in the supply chain recorded in British American Tobacco Malaysia in 2018.
GR-HR12	Number of grievance about human rights impacts filed, addressed and resolved through formal grievance mechanism.	<p>In 2018, there was no grievance about human rights impacts filed in British American Tobacco Malaysia.</p> <p>The Standards of Business Conduct sets out a comprehensive whistleblowing procedure that enables anyone working for or with British American Tobacco Malaysia, in confidence, to raise concerns about possible improprieties or wrongdoing, including workplace and human rights issues. They can do so without fear of reprisal, provided that such concerns are not raised in bad faith.</p>

GR-SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes.	No environmental impact assessment has been performed amongst British American Tobacco suppliers in 2018.
GR-SO2	Operations with significant actual and potential negative impacts on local communities.	There were no significant impacts on local communities recorded in British American Tobacco Malaysia in 2018.
GR-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	<p>It is a mandatory policy, set out in the Standards of Business Conduct, that British American Tobacco Malaysia and all employees (including all Directors) observe and comply with the laws and regulations applicable to them and that they act with high standards of business integrity.</p> <p>The Standards of Business Conduct include specific provisions on gifts and business entertainment, and provide employees with guidance on what they may and may not offer or accept in this regard. Gifts and business entertainment (other than of a modest amount) must be notified to the Head of Legal and Secretarial Services and recorded in its books. Additionally, certain types of gift and entertainment are specified as unacceptable as they would represent a corrupt act.</p> <p>In 2018, a new Third-Party Anti Bribery and Corruption Procedure have been rolled out to appropriately identify, assess, mitigate and monitor bribery and corruption risk when dealing with third parties who are providing services to and on behalf of British American Tobacco Malaysia. This new procedure requires all third parties to have undergone the requirements under the procedure.</p>
GR-SO4	Communication and training on anti-corruption policies and procedures.	<p>All employees have access to and are made aware of the Standards of Business Conduct via its intranet and employee onboarding training, which includes detailed information on anti-corruption and bribery.</p> <p>In addition, employees who are managing third party were trained on the new Third-Party Anti Bribery and Corruption Procedure.</p> <p>Reinforcement messages to all employees on the compliance to the Standards of Business Conduct was done in April and November 2018.</p>
GR-SO5	Confirmed incidents of corruptions and actions taken.	There was no incidence of corruption reported at British American Tobacco Malaysia in 2018.
GR-SO6	Total value of political contributions by country and recipient/beneficiary	<p>There was no political contribution made by British American Tobacco Malaysia in 2018.</p> <p>The Political Contributions section of the Standards of Business Conduct set out the policy on political donations. Contributions from British American Tobacco Malaysia to political parties and organisations, their officers, elected politicians and candidates for elective office are actively discouraged, and may only be made subject to specific controls. Contributions are not permitted to be made in order to achieve any improper business or other advantage or to influence any decision by a public official to the advantage of British American Tobacco Malaysia.</p> <p>In addition, they must not be intended personally to benefit the recipient or his or her family, friends, associates or acquaintances and must be permissible under all applicable laws.</p>

GR-SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	<p>There was no legal action against British American Tobacco Malaysia for anti-competitive behaviour, anti-trust, or monopoly practices in 2018.</p> <p>The Standard of Business Conduct embeds the principles of fair competition rules in conducting business. In addition, British American Tobacco Malaysia's Competition Guidelines also ensures that business activities are not in any manner anti-competitive and not in breach of the Competition Act 2010.</p>
GR-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	There was no significant fines or any non-monetary sanctions imposed on British American Tobacco Malaysia in 2018 for non-compliance with law and regulations.
GR-SO9	Percentage of new suppliers that were screened using criteria for impacts on society.	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.
GR-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken.	Information not reported due to a lack of data systems needed to generate the required information.
GR-SO11	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms.	<p>There was no grievances about impacts on society filed at British American Tobacco Malaysia in 2018.</p> <p>The Standards of Business Conduct sets our Whistleblowing Policy which enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal, provided that such concerns are not raised in bad faith.</p>
GR-PR1	Percentage of significant products and service categories for which health and safety impacts are assessed for improvement.	<p>It is imperative that we follow a robust approach in product assessment to ensure that there is no further increase of health risks because we acknowledge that consumption of tobacco carries with it real risks of diseases to health.</p> <p>100 percent of our tobacco products are assessed to ensure compliance to the emission standard for cigarette as provided under the Control of Tobacco Product Regulations 2004.</p>
GR-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.

		2018		
		yes	no	
GR-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling and percentage of significant products and services categories subject to such information requirements.	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
		<p>100 percent of our cigarette packs and cartons are printed with Pictorial Health Warnings (PHWs) as required under the Control of Tobacco Product Regulations (CTPR) 2004.</p> <p>Furthermore, the CTPR 2004 also requires the PHWs to be printed as far as possible on an equal number of packaging for each brand and variant of cigarette.</p> <p>British American Tobacco Malaysia is committed to 100 percent compliance with these regulations under the CTPR 2004, in addition to adherence to our International Marketing Principles (IMP).</p> <p>For more information on our IMP, please see <a href="http://www.bat.com/imp">www.bat.com/imp</a></p>		
GR-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 2018, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required new health warnings and further textual warnings and/or labelling requirements on every cigarette packet.		
GR-PR5	Results of surveys measuring customer satisfaction.	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.		
GR-PR6	Sale of ban or disputed products.	British American Tobacco Malaysia does not sell products that are the subject of stakeholder questions or public debate apart from combustible tobacco products.		
GR-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 in 2018.		
GR-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 in 2018.		
GR-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.		

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# Financial Statements

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# Directors' Responsibility Statement

The Directors are required by the Companies Act 2016 (the Act) to prepare the financial statements for each financial year which have been made out in accordance with the provisions of the Act and the applicable approved accounting standards set out by Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at the end of the financial year as well as of the results and cash flows of the Group and of the Company for the financial year.

In preparing the financial statements, the Directors are satisfied that the applicable approved accounting standards in Malaysia have been complied with and reasonable and prudent judgments and estimates have been made.

The Directors are responsible to ensure that the Group and the Company keep accounting records which disclose the financial position of the Group and of the Company with reasonable accuracy, enabling them to ensure that the financial statements comply with the Act.

The Directors have overall responsibility for taking such steps necessary to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# Directors' Report

for the year ended 31 December 2018

The Directors have pleasure in submitting their report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

## Principal Activities

The Company is principally engaged in providing day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos, cigars and other tobacco products. The details of the subsidiaries are as stated in Note 13 to the financial statements.

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

## Results

	Group RM'000	Company RM'000
Profit for the year attributable to owners of the Company	468,531	481,210

## Reserves and Provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

## Dividends

Since the end of the previous financial year, the Company paid:

- i. fourth interim ordinary dividend of 43.0 sen per ordinary share totalling RM122,777,900 in respect of the financial year ended 31 December 2017 on 22 March 2018.
- ii. first interim ordinary dividend of 33.0 sen per ordinary share totalling RM94,224,900 in respect of the financial year ended 31 December 2018 on 19 June 2018.
- iii. second interim ordinary dividend of 35.0 sen per ordinary share totalling RM99,935,500 in respect of the financial year ended 31 December 2018 on 23 August 2018.
- iv. third interim ordinary dividend of 40.0 sen per ordinary share totalling RM114,212,000 in respect of the financial year ended 31 December 2018 on 16 November 2018.

The Directors declared a fourth interim ordinary dividend of 47.0 sen per ordinary share at the Board of Directors' meeting on 21 February 2019 amounting to RM134,199,100 in respect of the financial year ended 31 December 2018 which will be paid on 19 March 2019 to shareholders registered in the Company's Register of Members at the close of business on 8 March 2019. These financial statements do not reflect the fourth interim ordinary dividend which will be accounted for in the financial year ending 31 December 2019.

The Board of Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2018.

## Directors of the Company

Directors who served during the financial year until the date of this report are:

Tan Sri Dato' Seri (Dr) Aseh Bin Haji Che Mat (Chairman)

Datuk Oh Chong Peng

Dato' Chan Choon Ngai

Datuk Zainun Aishah Binti Ahmad

Hendrik Stoel

Datuk Lee Oi Kuan (f)

Ricardo Martin Guardo

The name of the directors of the Company's subsidiaries in office since the beginning of the financial year to the date of this report are:

Yap Chee Keong

Song Yik Lin (f) (appointed on 23 October 2018)

Ricardo Martin Guardo

## Directors' Interests in Shares

The interests in the ordinary shares and share options of the Company and of its related corporations of those who were Directors at the end of the financial year as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
	At 1.1.2018	Bought	Sold	At 31.12.2018

### Company

Shareholdings in the name of the Director:

Datuk Oh Chong Peng	1,000	-	-	1,000
Dato' Chan Choon Ngai	1,000	-	-	1,000
Datuk Lee Oi Kuan (f)	100	-	-	100

	Number of ordinary shares in British American Tobacco p.l.c.			
	At 1.1.2018	Bought	Sold	At 31.12.2018

### Ultimate Holding Company

- British American Tobacco p.l.c.

Shareholdings in the name of the Director:

Hendrik Stoel	6,473	9,451	(1,837)	14,087
Datuk Lee Oi Kuan (f)	19,802	6,541	(5,464)	20,879
Ricardo Martin Guardo	745	2,098	(302)	2,541

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.2018	Awarded	Vested	At 31.12.2018

### Ultimate Holding Company

- British American Tobacco p.l.c.

Deferred Share Bonus Scheme & International Share Reward Scheme

Shareholdings in the name of the Director:

Hendrik Stoel	4,448	2,039	(1,137)	5,350
Datuk Lee Oi Kuan (f)	2,854	1,391	(951)	3,294
Ricardo Martin Guardo	2,331	1,425	(473)	3,283

	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.2018	Granted	Exercised	Lapsed	At 31.12.2018

### Ultimate Holding Company

- British American Tobacco p.l.c.

Long-Term Incentive Plan

Shareholdings in the name of the Director:

Hendrik Stoel					
LTIP – Nil (22 March 2023)	368	-	(368)	-	-
LTIP – Nil (28 March 2024)	2,583	-	(2,583)	-	-
LTIP – Nil (27 March 2025)	5,154	-	(4,952)	(202)	-
LTIP – Nil (12 May 2026)	5,266	-	-	-	5,266
LTIP – Nil (27 March 2027)	4,988	-	-	-	4,988
LTIP – Nil (26 March 2028)	-	6,962	-	-	6,962

Datuk Lee Oi Kuan (f)					
LTIP – Nil (27 March 2025)	4,877	-	(4,686)	(191)	-
LTIP – Nil (12 May 2026)	3,597	-	-	-	3,597
LTIP – Nil (27 March 2027)	3,670	-	-	-	3,670
LTIP – Nil (26 March 2028)	-	4,974	-	-	4,974

Ricardo Martin Guardo					
LTIP – Nil (27 March 2025)	1,600	-	(1,537)	(63)	-
LTIP – Nil (12 May 2026)	1,424	-	-	-	1,424
LTIP – Nil (27 March 2027)	3,301	-	-	-	3,301
LTIP – Nil (26 March 2028)	-	5,038	-	-	5,038

## Directors' Interests in Shares (continued)

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 equity interest in the Company and is the Company's ultimate holding company). Further details on the employee share schemes offered by British American Tobacco p.l.c. are provided in Note 23 to the financial statements.

## Directors' Benefits

Since the end of the previous financial year, no Director has received nor become entitled to receive any benefit (other than the benefits included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 5) 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.

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 requirements under the Companies Act 2016, 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 the ultimate holding company) as disclosed in Note 23 to the financial statements.

## Issue of Shares and Debentures

There were no changes in the issued and paid-up capital of the Company during the financial year. There were no debentures issued during the financial year.

## Options Granted over Unissued Shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

## Indemnity and Insurance Costs

During the financial year, Directors and Officers of the Group are covered under the Directors' and Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, *inter alia*, Directors and Officers of the Group subject to the terms of the policy. The total indemnity coverage and premiums paid in respect of Directors' and Officers' Liability Insurance for the Directors and Officers of the Group were RM4,268,000 and RM22,000 respectively.

There were no indemnity and insurance costs effected for auditors of the Group and of the Company during the financial year.

## Other Statutory Information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i. all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- ii. any current assets which were unlikely to be realised in the ordinary course of business have 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:

- i. that would render the amounts written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent; or
- ii. that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading; or
- iii. which have arisen render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- iv. not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

## Other Statutory Information (continued)

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

- i. any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liability of any other person; or
- ii. any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## Holding Companies

The Directors regard British American Tobacco Holdings (Malaysia) B.V. (incorporated in Netherlands) as its immediate holding company and British American Tobacco p.l.c. (incorporated in England and Wales) as its ultimate holding company.

## Auditors

The auditors, KPMG PLT, have indicated their willingness to continue in office. The Directors had endorsed the recommendation of the Audit Committee for KPMG PLT to be reappointed as auditors.

The auditors' remuneration is disclosed in Note 4 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors:



**Hendrik Stoel**  
Managing Director



**Ricardo Martin Guardo**  
Finance Director

Petaling Jaya

Date: 21 February 2019

# Income Statements

for the year ended 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
			<b>Restated</b>		
Revenue	3	2,822,946	2,916,166	505,815	632,584
Cost of sales		(1,927,812)	(1,971,684)	-	-
Gross profit		895,134	944,482	505,815	632,584
Other operating income		22,189	9,513	2,532	575
Distribution and marketing costs		(170,133)	(201,036)	-	-
Administrative (expenses)/income		(106,860)	(87,674)	(10,102)	16,127
Other operating expenses		(3,792)	(5,448)	-	(68)
Restructuring expenses	29	-	(9,245)	-	(4,555)
Profit from operations	4	636,538	650,592	498,245	644,663
Finance costs		(13,529)	(11,367)	(15,652)	(13,367)
Profit before tax		623,009	639,225	482,593	631,296
Tax expense	7	(154,478)	(146,590)	(1,383)	(7,168)
<b>Profit for the year</b>		<b>468,531</b>	<b>492,635</b>	<b>481,210</b>	<b>624,128</b>

The notes on pages 162 to 211 are an integral part of these financial statements.

# Statements of Other Comprehensive Income

for the year ended 31 December 2018

Note	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
	468,531	492,635	481,210	624,128
Profit for the year				
Other comprehensive income, net of tax:				
Items that may be subsequently reclassified to income statement				
- changes in fair value of cash flow hedges	21	(17,038)	-	-
- deferred tax on fair value changes on cash flow hedges	14	4,091	-	-
Total other comprehensive income/(expense) for the financial year, net of tax	2,186	(12,947)	-	-
<b>Total comprehensive income for the financial year</b>	<b>470,717</b>	<b>479,688</b>	<b>481,210</b>	<b>624,128</b>
Profit attributable to:				
<b>Owners of the Company</b>	<b>468,531</b>	<b>492,635</b>	<b>481,210</b>	<b>624,128</b>
Total comprehensive income for the financial year attributable to:				
<b>Owners of the Company</b>	<b>470,717</b>	<b>479,688</b>	<b>481,210</b>	<b>624,128</b>
<b>Basic earnings per ordinary share (sen)</b>	<b>8</b>	<b>172.5</b>	<b>168.5</b>	<b>218.6</b>

The notes on pages 162 to 211 are an integral part of these financial statements.

# Balance Sheets

as at 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Restated</b>					
<b>Assets</b>					
Property, plant and equipment	10	44,031	34,836	14,666	15,058
Computer software	11	1,429	1,524	3	3
Goodwill	12	411,618	411,618	-	-
Subsidiaries	13	-	-	973,395	973,395
Deferred tax assets	14	31,311	37,666	7,135	8,317
<b>Total non-current assets</b>		<b>488,389</b>	<b>485,644</b>	<b>995,199</b>	<b>996,773</b>
Assets held for sale	15	116	399	116	399
Inventories	16	162,282	236,636	-	-
Tax recoverable		9,416	6,595	3,494	2,263
Trade and other receivables	17	361,479	303,705	36,246	17,167
Derivative financial instruments	21	797	-	-	-
Cash and bank balances		78,627	11,554	73,330	4,134
<b>Total current assets</b>		<b>612,717</b>	<b>558,889</b>	<b>113,186</b>	<b>23,963</b>
<b>Total assets</b>		<b>1,101,106</b>	<b>1,044,533</b>	<b>1,108,385</b>	<b>1,020,736</b>
<b>Equity</b>					
Share capital	18	142,765	142,765	142,765	142,765
Cash flow hedge reserve		374	(1,812)	-	-
Retained earnings		278,528	241,148	389,177	339,118
<b>Total equity</b>		<b>421,667</b>	<b>382,101</b>	<b>531,942</b>	<b>481,883</b>
<b>Liabilities</b>					
Trade and other payables	19	235,867	276,757	576,443	538,853
Borrowings	20	410,000	378,000	-	-
Derivative financial instruments	21	198	2,408	-	-
Current tax liabilities		33,374	5,267	-	-
<b>Total current liabilities</b>		<b>679,439</b>	<b>662,432</b>	<b>576,443</b>	<b>538,853</b>
<b>Total liabilities</b>		<b>679,439</b>	<b>662,432</b>	<b>576,443</b>	<b>538,853</b>
<b>Total equity and liabilities</b>		<b>1,101,106</b>	<b>1,044,533</b>	<b>1,108,385</b>	<b>1,020,736</b>

The notes on pages 162 to 211 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

Group	Note	Non-distributable			Distributable	Total RM'000
		Share capital RM'000	Cash flow hedge reserve RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
At 1 January 2018, as previously reported		142,765	(1,812)	-	241,170	382,123
Adjustment on initial application of MFRS 9, net of tax	31	-	-	-	(22)	(22)
At 1 January 2018, as restated		142,765	(1,812)	-	241,148	382,101
Profit for the year		-	-	-	468,531	468,531
Other comprehensive income/ (expense):						
- changes in fair value of cash flow hedges	21	-	2,876	-	-	2,876
- deferred tax on fair value changes on cash flow hedges	14	-	(690)	-	-	(690)
Total comprehensive income		-	2,186	-	468,531	470,717
Transactions with owners:						
Expense arising from equity-settled share-based payment transactions	23	-	-	4,463	-	4,463
Recharge of share-based payments	23	-	-	(4,463)	-	(4,463)
Dividend for financial year ended 31 December 2017						
- fourth interim	9	-	-	-	(122,778)	(122,778)
Dividends for financial year ended 31 December 2018						
- first interim	9	-	-	-	(94,225)	(94,225)
- second interim	9	-	-	-	(99,936)	(99,936)
- third interim	9	-	-	-	(114,212)	(114,212)
Total transactions with owners of the Company		-	-	-	(431,151)	(431,151)
<b>At 31 December 2018</b>		<b>142,765</b>	<b>374</b>	<b>-</b>	<b>278,528</b>	<b>421,667</b>

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2018 (continued)

Group	Note	Non-distributable			Distributable	Total RM'000
		Share capital RM'000	Cash flow hedge reserve RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
At 1 January 2017		142,765	11,135	-	459,505	613,405
Profit for the year		-	-	-	492,635	492,635
Other comprehensive (expense)/ income:						
- changes in fair value of cash flow hedges	21	-	(17,038)	-	-	(17,038)
- deferred tax on fair value changes on cash flow hedges	14	-	4,091	-	-	4,091
Total comprehensive (expense)/ income		-	(12,947)	-	492,635	479,688
Transactions with owners:						
Expense arising from equity-settled share-based payment transactions	23	-	-	5,382	-	5,382
Recharge of share-based payments	23	-	-	(5,382)	-	(5,382)
Dividends for financial year ended 31 December 2016						
- fourth interim	9	-	-	-	(219,858)	(219,858)
- special dividend	9	-	-	-	(131,344)	(131,344)
Dividends for financial year ended 31 December 2017						
- first interim	9	-	-	-	(114,212)	(114,212)
- second interim	9	-	-	-	(122,778)	(122,778)
- third interim	9	-	-	-	(122,778)	(122,778)
Total transactions with owners of the Company		-	-	-	(710,970)	(710,970)
<b>At 31 December 2017</b>		<b>142,765</b>	<b>(1,812)</b>	<b>-</b>	<b>241,170</b>	<b>382,123</b>

# Statement of Changes in Equity

for the year ended 31 December 2018

Company	Note	Non-distributable		Distributable	Total RM'000
		Share capital RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
At 1 January 2018		142,765	-	339,118	481,883
Profit for the year		-	-	481,210	481,210
Total comprehensive income		-	-	481,210	481,210
Transactions with owners:					
Expense arising from equity-settled share-based payment transactions	23	-	2,740	-	2,740
Recharge of share-based payments	23	-	(2,740)	-	(2,740)
Dividend for financial year ended 31 December 2017					
- fourth interim	9	-	-	(122,778)	(122,778)
Dividends for financial year ended 31 December 2018					
- first interim	9	-	-	(94,225)	(94,225)
- second interim	9	-	-	(99,936)	(99,936)
- third interim	9	-	-	(114,212)	(114,212)
Total transactions with owners of the Company		-	-	(431,151)	(431,151)
<b>At 31 December 2018</b>		<b>142,765</b>	<b>-</b>	<b>389,177</b>	<b>531,942</b>

# Statement of Changes in Equity

for the year ended 31 December 2018 (continued)

Company	Note	Non-distributable		Distributable	Total RM'000
		Share capital RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
At 1 January 2017		142,765	-	425,960	568,725
Profit for the year		-	-	624,128	624,128
Total comprehensive income		-	-	624,128	624,128
Transactions with owners:					
Expense arising from equity-settled share-based payment transactions	23	-	3,555	-	3,555
Recharge of share-based payments	23	-	(3,555)	-	(3,555)
Dividends for financial year ended 31 December 2016					
- fourth interim	9	-	-	(219,858)	(219,858)
- special dividend	9	-	-	(131,344)	(131,344)
Dividends for financial year ended 31 December 2017					
- first interim	9	-	-	(114,212)	(114,212)
- second interim	9	-	-	(122,778)	(122,778)
- third interim	9	-	-	(122,778)	(122,778)
Total transactions with owners of the Company		-	-	(710,970)	(710,970)
<b>At 31 December 2017</b>		<b>142,765</b>	<b>-</b>	<b>339,118</b>	<b>481,883</b>

# Statement of Cash Flows

for the year ended 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Operating activities</b>					
Cash receipts from customers and fellow subsidiaries		2,950,649	3,167,321	66,442	81,037
Cash paid to suppliers, employees and fellow subsidiaries		(2,333,412)	(2,666,030)	(87,830)	(74,796)
Dividends received from subsidiaries		-	-	498,924	627,223
Cash from operations	22	617,237	501,291	477,536	633,464
Income tax paid		(123,530)	(128,941)	(1,432)	(2,073)
<b>Net cash flow from operating activities</b>		<b>493,707</b>	<b>372,350</b>	<b>476,104</b>	<b>631,391</b>
<b>Investing activities</b>					
Property, plant and equipment					
- additions	10	(19,566)	(23,855)	(2,570)	(17,775)
- disposals		2,324	9,899	53	4,031
Assets held for sale					
- disposals		2,000	93,214	2,000	-
Interest income received		1,288	1,477	787	549
<b>Net cash flow (used in)/from investing activities</b>		<b>(13,954)</b>	<b>80,735</b>	<b>270</b>	<b>(13,195)</b>
<b>Financing activities</b>					
Dividends paid to shareholders	9	(431,151)	(710,970)	(431,151)	(710,970)
Interest expense paid		(13,529)	(11,367)	(15,652)	(13,367)
Drawdown from revolving credit	20	447,000	893,000	-	-
Repayment of revolving credit	20	(415,000)	(645,000)	-	-
Drawdown from subsidiary for cash pooling		-	-	39,625	104,723
<b>Net cash flow used in financing activities</b>		<b>(412,680)</b>	<b>(474,337)</b>	<b>(407,178)</b>	<b>(619,614)</b>
Net increase/(decrease) in cash and bank balances		67,073	(21,252)	69,196	(1,418)
Cash and bank balances at 1 January		11,554	32,806	4,134	5,552
<b>Cash and bank balances at 31 December</b>		<b>78,627</b>	<b>11,554</b>	<b>73,330</b>	<b>4,134</b>

The notes on pages 162 to 211 are an integral part of these financial statements.

# Notes to the Financial Statements

British American Tobacco (Malaysia) Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of the registered office and principal place of business of the Company are as follows:

## Registered Office and Principal Place of Business

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

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the Group and individually referred to as ‘the Group and the Company’).

The Company is principally engaged in providing day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos, cigars and other tobacco products. The details of the subsidiaries are as stated in Note 13 to the financial statements.

The Directors regard British American Tobacco Holdings (Malaysia) B.V. (incorporated in Netherlands) and British American Tobacco p.l.c. (incorporated in England and Wales), as its immediate and ultimate holding company respectively.

These financial statements were authorised for issue by the Board of Directors on 21 February 2019.

## 1. Basis of Preparation

### a. Statement of Compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRSs), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, interpretations and amendments that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Group and the Company:

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019***

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020***

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021***

- MFRS 17, *Insurance Contracts*

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed***

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

## 1. Basis of Preparation (continued)

### a. Statement of Compliance (continued)

The Group and the Company plan to apply the abovementioned accounting standards, interpretations and amendments, where applicable:

- from the annual period beginning on 1 January 2019 for those accounting standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2019; and
- from the annual period beginning on 1 January 2020 for those accounting standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2020.

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual period beginning on 1 January 2021 as it is not applicable to the Group and the Company.

The initial application of the accounting standards, interpretations or amendments are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Company except as mentioned below:

#### MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases - Incentives* and Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group and the Company have assessed the estimated impact that the initial application of MFRS 16 will have on its consolidated financial statements for year ended 31 December 2018. The estimated impact on initial application is based on assessment undertaken to date and the actual impacts of adopting the standard may change because the new accounting policies are subject to change until the Group and the Company present its first financial statements that include the date of initial application.

The estimated impact on the financial statements for the year ended 31 December 2018 on initial application of MFRS 16 are as follows:

Group	As reported at 31 December 2018 RM'000	Estimated adjustments RM'000	Estimated adjusted opening balance at 1 January 2019 RM'000
Non-current assets			
Right-of-use assets	-	30,123	30,123
Non-current liabilities			
Lease liabilities	-	23,964	23,964
Current liabilities			
Lease liabilities	-	6,159	6,159
Total lease liabilities	-	30,123	30,123

## 1. Basis of Preparation (continued)

### a. Statement of Compliance (continued)

#### MFRS 16, Leases (continued)

Company	As reported at 31 December 2018 RM'000	Estimated adjustments RM'000	Estimated adjusted opening balance at 1 January 2019 RM'000
Non-current assets			
Right-of-use assets	-	26,380	26,380
Non-current liabilities			
Lease liabilities	-	22,728	22,728
Current liabilities			
Lease liabilities	-	3,652	3,652
Total lease liabilities	-	26,380	26,380

### b. Basis of Measurement

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

### c. Functional and Presentation Currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

### d. Use of Estimates and Judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 10 – depreciation of property, plant and equipment
- Note 12 – impairment of goodwill
- Note 14 – deferred tax

## 2. Significant Accounting Policies

The accounting policies set out below have been applied consistently to the years presented in these financial statements and have been applied consistently by the Group, unless otherwise stated.

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

- financial instruments;
- revenue recognition; and
- impairment losses of financial instruments

as compared to those adopted in previous financial statements. The impacts arising from the changes are disclosed in Note 31.

## 2. Significant Accounting Policies (continued)

### a. Basis of Consolidation

#### i. Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, 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. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Company's balance sheet at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

#### ii. Business Combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

#### iii. Acquisitions of Non-controlling Interests

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against the Group reserves.

#### iv. Loss of Control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated balance sheet. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

#### v. Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## 2. Significant Accounting Policies (continued)

### b. Foreign Currency

#### Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at financial year end are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of equity instruments where they are measured at fair value through other comprehensive income or a financial instrument designated as a cash flow hedge, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve (FCTR) in equity.

### c. Financial Instruments

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

#### i. Recognition and Initial Measurement

A financial asset or a financial liability is recognised in the balance sheet when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

##### Current financial year

Financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a financing component is initially measured at the transaction price.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

##### Previous financial year

Financial instrument was recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

## 2. Significant Accounting Policies (continued)

### c. Financial Instruments (continued)

#### ii. Financial Instrument Categories and Subsequent Measurement

##### *Financial Assets*

##### **Current financial year**

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

##### **a. Amortised Cost**

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the income statement. Any gain or loss on derecognition is recognised in the income statement.

##### **b. Fair Value through Other Comprehensive Income**

##### **i. Debt Investments**

Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the income statement. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to income statement.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(k)(i)) where the effective interest rate is applied to the amortised cost.

##### **ii. Equity Investments**

This category comprises investment in equity that is not held for trading, and the Group and the Company irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in the income statement unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses accumulated in other comprehensive income are not reclassified to income statement. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to income statement.

##### **c. Fair Value through Profit or Loss**

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the income statement.

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (see Note 2(k)(i)).

## 2. Significant Accounting Policies (continued)

### c. Financial Instruments (continued)

#### ii. Financial Instrument Categories and Subsequent Measurement (continued)

##### *Financial Assets (continued)*

##### **Previous financial year**

In the previous financial year, financial assets of the Group and the Company were classified and measured under MFRS 139 as follows:

##### **a. Financial Assets at Fair Value through Profit or Loss**

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in the income statement.

##### **b. Loans and Receivables**

Loans and receivables category comprises debt instruments that are not quoted in an active market, cash and bank balances and trade and other receivables (excluding prepayments).

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(k)(i)).

##### *Financial Liabilities*

##### **Current financial year**

##### **a. Fair Value through Profit or Loss**

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Group or the Company may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

- (a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;
- (b) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or
- (c) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the income statement.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognised the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income, unless the treatment of the effect of changes in the own credit risk would create or enlarge an accounting mismatch.

## 2. Significant Accounting Policies (continued)

### c. Financial Instruments (continued)

#### ii. Financial Instrument Categories and Subsequent Measurement (continued)

##### *Financial Liabilities (continued)*

##### **Current financial year (continued)**

##### **b. Amortised Cost**

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the income statement. Any gains or losses is also recognised in the income statement.

##### **Previous financial year**

In the previous financial year, financial liabilities of the Group and the Company were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in the income statement.

#### iii. Hedge Accounting

At inception of a designated hedging relationship, the Group and the Company document the risk management objective and strategy for undertaking the hedge. The Group and the Company also document the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

##### *Cash Flow Hedge*

##### **Current financial year**

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction and could affect the income statement. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in equity and the ineffective portion is recognised in the income statement. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into the income statement in the same year during which the hedged forecast cash flows affect the income statement. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into the income statement immediately.

The Group designates only the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts (forward points) and/or the foreign currency basis spread are separately accounted for as cost of hedging and recognised in a cost of hedging reserve within equity.

## 2. Significant Accounting Policies (continued)

### c. Financial Instruments (continued)

#### iii. Hedge Accounting (continued)

##### *Cash Flow Hedge (continued)*

##### **Current financial year (continued)**

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to income statement in the same period or periods as the hedged expected future cash flows affect the income statement.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to income statement.

##### **Previous financial year**

In the previous financial year, cost of hedging was expensed to income statement.

#### iv. Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the income statement.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

#### v. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

### d. Property, Plant and Equipment

#### i. Recognition and Measurement

Items of property, plant and equipment, except for freehold land, are measured at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land is stated at valuation less any accumulated impairment losses.

Leasehold land of the Group and of the Company are held on a short-term lease, being a lease with an unexpired period of less than 50 years.

## 2. Significant Accounting Policies (continued)

### d. Property, Plant and Equipment (continued)

#### i. Recognition and Measurement (continued)

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within 'other operating income' and 'other operating expenses' respectively in the income statement.

#### ii. Subsequent Costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to income statement. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

#### iii. Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative years 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

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted as appropriate.

## 2. Significant Accounting Policies (continued)

### e. Leased Assets

#### i. Finance Lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment or as investment property if held to earn rental income or for capital appreciation or for both.

#### ii. Operating Lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised in the balance sheet. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or for both, is classified as investment property and measured using fair value model.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to income statement in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

### f. Intangible Assets

#### i. Goodwill

Goodwill arising on business combinations is measured at cost less any accumulated impairment losses.

#### ii. Other Intangible Assets

Intangible assets, other than goodwill, that are acquired by the Group and the Company, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

#### iii. Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

#### iv. Amortisation

Goodwill and other intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that it may be impaired.

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives for the current and comparative years are as follows:

Computer software	3 years
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Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

## 2. Significant Accounting Policies (continued)

### g. Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### h. Contract Asset/Contract Liability

A contract asset is recognised when the Group's or the Company's right to consideration is conditional on something other than the passage of time. A contract asset is subject to impairment in accordance to MFRS 9, *Financial Instruments* (see Note 2(k)(i)).

A contract liability is stated at cost and represents the obligation of the Group or the Company to transfer goods or services to a customer for which consideration has been received (or the amount is due) from the customers.

### i. Contract Cost

#### i. Incremental Cost of Obtaining a Contract

The Group or the Company recognises incremental costs of obtaining contracts when the Group or the Company expects to recover these costs.

#### ii. Cost to Fulfil a Contract

The Group or the Company recognises a contract cost that relate directly to a contract or to an anticipated contract as an asset when the cost generates or enhances resources of the Group or the Company, will be used in satisfying performance obligations in the future and it is expected to be recovered.

These contract costs are initially measured at cost and amortised on a systematic basis that is consistent with the pattern of revenue recognition to which the asset relates. An impairment loss is recognised in the income statement when the carrying amount of the contract cost exceeds the expected revenue less expected cost that will be incurred. Where the impairment condition no longer exists or has improved, the impairment loss is reversed to the extent that the carrying amount of the contract cost does not exceed the amount that would have been recognised had there been no impairment loss recognised previously.

### j. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks, bank overdraft and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short-term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

### k. Impairment

#### i. Financial Assets

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

## 2. Significant Accounting Policies (continued)

### k. Impairment (continued)

#### i. Financial Assets (continued)

##### Current financial year

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost or fair value through other comprehensive income. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balances and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivable are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in the income statement and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in the income statement and the allowance account is recognised in other comprehensive income.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures for recovery amounts due.

##### Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss and investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in the income statement and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

## 2. Significant Accounting Policies (continued)

### k. Impairment (continued)

#### i. Financial Assets (continued)

##### Previous financial year (continued)

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in the income statement and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in the income statement for an investment in an equity instrument classified as available-for-sale was not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement.

#### ii. Other Assets

The carrying amounts of other assets (except for inventories and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets with indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value-in-use and its fair value less costs of disposal. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (group of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to income statement in the financial year in which the reversals are recognised.

## 2. Significant Accounting Policies (continued)

### I. Equity Instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

#### i. Issue Expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

#### ii. Ordinary Shares

Ordinary shares are classified as equity.

### m. Compound Financial Instruments

A compound financial instrument is a non-derivative financial instrument that contains both a liability and an equity component.

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, when the number of shares to be issued does not vary with changes in their fair value.

The proceeds are first allocated to the liability component, determined based on the fair value of a similar liability that does not have a conversion feature or similar associated equity component. The residual amount is allocated as the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and losses and gains relating to the financial liability are recognised in the income statement. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

### n. Employee Benefits

#### i. Short-term Employee Benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group or the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### ii. State Plans

The Group's and the Company's contributions to statutory pension funds are charged to income statement in the financial year to which they relate. Once the contributions have been paid, the Group and the Company have no further payment obligations.

#### iii. Share-based Payment Transactions

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 50 percent equity interest in the Company and is 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.

## 2. Significant Accounting Policies (continued)

### n. Employee Benefits (continued)

#### iv. Termination Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

### o. Provisions

A provision is recognised if, as a result of a past event, the Group or the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

#### i. Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

#### ii. Restructuring

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

### p. Revenue and Other Income

#### i. Revenue

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group or the Company recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group or the Company transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided as the Group or the Company performs;
- (b) the Group's or the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) the Group's or the Company's performance does not create an asset with an alternative use and the Group or the Company has an enforceable right to payment for performance completed to date.

The Group operates on a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products. Revenue of the Group is recognised at a point in time when it transfers controls of tobacco products to the customers. Payment terms given to the customers range from 1 to 60 days from invoice date.

#### ii. Dividend Income

Dividend income is recognised in the income statement on the date that the Group's or the Company's right to receive payment is established.

#### iii. Interest Income

Interest income is recognised as it accrues using the effective interest method in the income statement except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

## 2. Significant Accounting Policies (continued)

### q. Borrowing Costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### r. Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that they relate to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

### s. Earnings per Ordinary Share

The Group presents basic earnings per share data for its ordinary shares (EPS).

Basic EPS is calculated by dividing the income statement attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

### t. 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.

## 2. Significant Accounting Policies (continued)

### t. Segment Reporting (continued)

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's results by brand without a high degree of estimation.

### u. Contingent Liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the balance sheet and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### v. Fair Value Measurement

Fair value of an asset or a liability, except for share-based payment, lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

### 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. Non-current Assets Held for Sale or Distribution to Owners

Non-current assets, or disposal group comprising assets and liabilities that are expected to be recovered primarily through sale or distribution to owners rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted associates and joint venture ceases once classified as held for sale or distribution.



## 5. Directors' Remuneration

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Fees	645	645	645	645
Other emoluments	9,591	7,953	9,591	7,953
	10,236	8,598	10,236	8,598

The estimated monetary value of benefits in kind provided to Directors of the Group and of the Company during the financial year amounted to RM914,000 (2017: RM621,000) and RM914,000 (2017: RM621,000) respectively.

Included within other emoluments are share-based payments amounting to RM615,000 (2017: RM374,000) which were made to certain Directors of the Group and of the Company (during their employment with the Group and the Company) by way of their participation in employee share schemes offered by British American Tobacco p.l.c. as disclosed in Note 23.

Details of the movements of certain Directors' equity-settled share-based payments arrangements during the financial year ended 2018, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows, representing costs incurred by the Group and the Company during the tenure of the Directors' service with the Group and the Company.

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.2018	Awarded	Vested	At 31.12.2018
<b>Executive Directors</b>				
Deferred Share Bonus Scheme	9,426	4,785	(2,506)	11,705
International Share Reward Scheme	207	70	(55)	222
	9,633	4,855	(2,561)	11,927

Details of the movements of the Directors' participation in the equity-settled Long-Term Incentive Plan are as follows, representing costs incurred by the Group and the Company during the tenure of the Directors' service with the Group and the Company.

Grant price	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.2018	Granted	Exercised	Other movements*	At 31.12.2018
£32.58	2,583	-	(2,583)	-	-
£35.05	368	-	(368)	-	-
£36.25	11,631	-	(11,175)	(456)	-
£42.34	10,287	-	-	-	10,287
£52.11	11,959	-	-	-	11,959
£38.94	-	16,974	-	-	16,974
	36,828	16,974	(14,126)	(456)	39,220

\* Other movements relate to options that would have lapsed or movement of Directors during the financial year.

## 6. Staff Costs

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Wages, salaries and bonuses	88,919	81,798	22,351	18,039
Defined contribution plan	9,212	9,764	1,318	944
Voluntary redundancy package	2,988	3,559	673	67
Other staff related expenses	9,206	6,120	3,390	2,917
	110,325	101,241	27,732	21,967

The Group voluntarily provides 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 5 to the financial statements.

Voluntary redundancy package is a result of factory rightsizing as well as redundancies in the ordinary course of the business.

Staff costs recharged by the Company to the subsidiaries amounted to RM17,703,000 for the year ended 31 December 2018 (2017: RM18,354,000).

## 7. Tax Expense

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Current tax expense</b>				
- current year	153,523	157,871	212	177
- over provision in prior year	(4,710)	(2,300)	(11)	-
	148,813	155,571	201	177
<b>Deferred tax expense/(credit)</b>				
- reversal and origination of temporary differences	5,665	(8,981)	1,182	6,991
	154,478	146,590	1,383	7,168

	Group		Company	
	2018 %	2017 %	2018 %	2017 %
<b>Reconciliation of tax expense</b>				
Statutory tax rate	24	24	24	24
Expenses not deductible for tax purposes	2	1	1	1
Income not subject to tax	(1)	(2)	(25)	(24)
Average effective tax rate	25	23	-	1

## 8. Earnings Per Share

Basic earnings per share is calculated by dividing the profit for the year by the number of ordinary shares in issue.

	Group	
	2018	2017
Profit for the year (RM'000)	468,531	492,635
Number of ordinary shares in issue ('000)	285,530	285,530
Basic earnings per ordinary share (sen)	164.1	172.5

The Group does not have in issue any financial instrument or other contract that may entitle its holders to ordinary shares and therefore, diluted earnings per share is not disclosed.

## 9. Dividends

Dividends paid or declared in respect of the financial year are as follows:

	Sen per share RM	Total amount RM'000
<b>2018</b>		
Fourth interim	43.0	122,778
First interim	33.0	94,225
Second interim	35.0	99,936
Third interim	40.0	114,212
Total amount	151.0	431,151
<b>2017</b>		
Fourth interim	77.0	219,858
Special Dividend	46.0	131,344
First interim	40.0	114,212
Second interim	43.0	122,778
Third interim	43.0	122,778
Total amount	249.0	710,970

The first, second and third interim dividends are paid and accounted for in shareholders' equity as an appropriation of retained earnings in the financial year they are declared.

The Directors declared a fourth interim ordinary dividend of 47.0 sen per ordinary share at the Board of Directors' meeting on 21 February 2019 amounting to RM134,199,100 in respect of the financial year ended 31 December 2018 which will be paid on 19 March 2019 to shareholders registered in the Company's Register of Members at the close of business on 8 March 2019. These financial statements do not reflect the fourth interim ordinary dividend which will be accounted for in the financial year ending 31 December 2019.

The Board of Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2018.

## 10. Property, Plant and Equipment

Group	Freehold land RM'000	Leasehold land RM'000	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
<b>Cost</b>								
At 1 January 2017	105	434	1,790	777	62,603	36,195	3,577	105,481
Additions	-	-	-	275	18,950	2,911	1,719	23,855
Disposals	-	-	-	(4,022)	(4,031)	(5,203)	-	(13,256)
Write-off	-	-	(533)	(1,334)	(45,255)	-	-	(47,122)
Reclassifications	-	-	-	4,687	-	-	(4,687)	-
Reclassifications to assets held for sale	-	(212)	(559)	-	-	-	-	(771)
At 31 December 2017/ 1 January 2018	105	222	698	383	32,267	33,903	609	68,187
Additions	-	-	-	4,939	4,264	10,363	-	19,566
Disposals	-	-	-	-	(697)	(8,079)	-	(8,776)
Write-off	-	-	-	(108)	(10,469)	(1,279)	-	(11,856)
Reclassifications	-	-	-	609	-	-	(609)	-
Reclassifications to assets held for sale	-	-	(355)	-	-	-	-	(355)
At 31 December 2018	105	222	343	5,823	25,365	34,908	-	66,766
<b>Accumulated depreciation and impairment</b>								
At 1 January 2017	-	123	1,490	777	60,098	15,384	-	77,872
Charge for the year	-	5	28	8	1,950	3,587	-	5,578
Disposals	-	-	-	-	-	(3,288)	-	(3,288)
Write-off	-	-	(533)	(669)	(45,237)	-	-	(46,439)
Reclassifications to assets held for sale	-	(55)	(317)	-	-	-	-	(372)
At 31 December 2017/ 1 January 2018	-	73	668	116	16,811	15,683	-	33,351
Charge for the year	-	2	17	240	3,572	3,122	-	6,953
Disposals	-	-	-	-	(698)	(5,205)	-	(5,903)
Write-off	-	-	(125)	(108)	(10,303)	(891)	-	(11,427)
Reclassifications to assets held for sale	-	(22)	(217)	-	-	-	-	(239)
At 31 December 2018	-	53	343	248	9,382	12,709	-	22,735
<b>Carrying amounts</b>								
At 1 January 2017	105	311	300	-	2,505	20,811	3,577	27,609
At 31 December 2017/ 1 January 2018	105	149	30	267	15,456	18,220	609	34,836
At 31 December 2018	105	169	-	5,575	15,983	22,199	-	44,031

## 10. Property, Plant and Equipment (continued)

Company	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Machinery and equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
<b>Cost</b>							
At 1 January 2017	105	434	1,790	777	14,907	2,204	20,217
Additions	-	-	-	-	17,775	-	17,775
Write-off	-	-	(533)	(669)	(6,541)	-	(7,743)
Disposal	-	-	-	-	(4,031)	-	(4,031)
Reclassifications to assets held for sale	-	(212)	(559)	-	-	-	(771)
At 31 December 2017/ 1 January 2018	105	222	698	108	22,110	2,204	25,447
Additions	-	-	-	-	1,443	1,127	2,570
Disposal	-	-	-	-	-	(624)	(624)
Write-off	-	-	-	(108)	(6,051)	-	(6,159)
Reclassifications to assets held for sale	-	-	(355)	-	-	-	(355)
At 31 December 2018	105	222	343	-	17,502	2,707	20,879
<b>Accumulated depreciation and impairment</b>							
At 1 January 2017	-	123	1,490	777	13,936	770	17,096
Charge for the year	-	5	29	-	1,085	286	1,405
Write-off	-	-	(533)	(669)	(6,538)	-	(7,740)
Reclassifications to assets held for sale	-	(55)	(317)	-	-	-	(372)
At 31 December 2017/ 1 January 2018	-	73	669	108	8,483	1,056	10,389
Charge for the year	-	2	17	-	2,281	292	2,592
Disposal	-	-	-	-	-	(406)	(406)
Write-off	-	-	(126)	(108)	(5,889)	-	(6,123)
Reclassifications to assets held for sale	-	(22)	(217)	-	-	-	(239)
At 31 December 2018	-	53	343	-	4,875	942	6,213
<b>Carrying amounts</b>							
At 1 January 2017	105	311	300	-	971	1,434	3,121
At 31 December 2017/ 1 January 2018	105	149	29	-	13,627	1,148	15,058
At 31 December 2018	105	169	-	-	12,627	1,765	14,666

## 11. Computer Software

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Cost</b>				
At 1 January	37,031	37,031	30,187	30,187
Write-off	(35,031)	-	(30,100)	-
At 31 December	2,000	37,031	87	30,187
<b>Accumulated amortisation</b>				
At 1 January	35,507	35,331	30,184	30,106
Charge for the year	95	176	-	78
Write-off	(35,031)	-	(30,100)	-
At 31 December	571	35,507	84	30,184
<b>Carrying amounts</b>				
At 31 December	1,429	1,524	3	3

## 12. Goodwill

	Group	
	2018 RM'000	2017 RM'000
Carrying amount at 31 December	411,618	411,618

Goodwill arose from the acquisition of the business of Malaysian Tobacco Company Berhad, 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 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 units 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 (2017: five years) based on historical growth rate, taking into account industry developments and at the pre-tax discount rate of 11.3 percent (2017: 12.4 percent). Based on the assessment, the recoverable amount exceeded the carrying amount of the goodwill. Accordingly, no impairment charges were recognised in 2018 (2017: Nil). Any reasonable change in the key assumptions used will not result in any significant change to the recoverable amount.

### 13. Subsidiaries

	Company	
	2018 RM'000	2017 RM'000
<b>Cost</b>		
Unquoted shares in subsidiaries	975,262	975,262
Impairment losses	(1,867)	(1,867)
	<b>973,395</b>	<b>973,395</b>

The reduction in the cost of investments in the subsidiaries is due to the impairment losses recognised by the Company for its investment cost in Rothmans Brands Sdn. Bhd.

The subsidiaries, all of which are wholly-owned, are as follows:

#### Incorporated in Malaysia

Operating	Principal activities
Commercial Marketers and Distributors Sdn. Bhd.	Marketing and importation of cigarettes, pipe tobaccos, cigars and other tobacco products
Rothmans Brands Sdn. Bhd.	Holding of trademarks
Tobacco Importers and Manufacturers Sdn. Berhad	Manufacture and sale of cigarettes and other tobacco related products

#### Incorporated in Negara Brunei Darussalam

Commercial Marketers and Distributors Sdn.Bhd.*	Dormant
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\* Not audited by KPMG PLT

## 14. Deferred Tax

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax assets					
At 1 January		37,666	27,193	8,317	15,308
(Charged)/Credited to income statement	14(i)	(5,665)	6,382	(1,182)	(6,991)
(Charged)/Credited to statements of other comprehensive income	14(ii)	(690)	4,091	-	-
At 31 December		31,311	37,666	7,135	8,317
Represented by:					
Property, plant and equipment		2,657	3,412	-	-
Tax losses		3,675	3,455	2,837	3,577
Provisions		26,187	32,819	5,166	5,367
Cash flow hedge		-	579	-	-
Deferred tax assets (before offsetting)		32,519	40,265	8,003	8,944
Offsetting		(1,208)	(2,599)	(868)	(627)
Deferred tax assets (after offsetting)		31,311	37,666	7,135	8,317

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax liabilities					
At 1 January		-	2,599	-	-
Credited to income statements	14(i)	-	(2,599)	-	-
At 31 December		-	-	-	-
Represented by:					
Property, plant and equipment		1,094	2,599	868	627
Cash flow hedge		114	-	-	-
Deferred tax liabilities (before offsetting)		1,208	2,599	868	627
Offsetting		(1,208)	(2,599)	(868)	(627)
Deferred tax liabilities (after offsetting)		-	-	-	-

## 14. Deferred Tax (continued)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax assets				
Deferred tax assets to be recovered after more than 12 months	5,238	1,393	1,969	2,951
Deferred tax assets to be recovered within 12 months	26,073	36,273	5,166	5,366
At 31 December	31,311	37,666	7,135	8,317
(i) (Charged)/Credited to income statements:				
- (Charged)/Credited in respect of deferred tax assets	(5,665)	6,382	(1,182)	(6,991)
- Credited in respect of deferred tax liabilities	-	2,599	-	-
Net (charge)/credit to income statements	(5,665)	8,981	(1,182)	(6,991)
(ii) (Charged)/Credited to statements of other comprehensive income:				
- Credited in respect of deferred tax assets	-	4,091	-	-
- Charged in respect of deferred tax liabilities	(690)	-	-	-
Net (charge)/credit to statements of other comprehensive income	(690)	4,091	-	-

## 15. Assets Held for Sale

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	399	96,599	399	-
Transfer from property, plant and equipment	116	399	116	399
Disposals	(399)	(93,121)	(399)	-
Write-off	-	(3,478)	-	-
At 31 December	116	399	116	399

The movements to assets held for sale was mainly attributed to the building of the Group.

## 16. Inventories

	Group	
	2018 RM'000	2017 RM'000
Raw materials	519	-
Finished goods	161,763	236,636
	162,282	236,636
<b>Recognised in the income statement:</b>		
Inventories recognised as cost of sales	1,724,351	1,875,298
Write-down to net realisable value	5,633	4,519

## 17. Trade and Other Receivables

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
			<b>Restated</b>		
Trade receivables	17.1	191,844	132,710	-	-
Allowance for doubtful debts	17.1	(99)	(68)	-	-
Trade receivables, net		191,745	132,642	-	-
Amounts due from fellow subsidiaries*	17.2	20,164	24,946	4,538	581
Amounts due from subsidiaries	17.3	-	-	26,228	12,323
Other receivables, deposits and prepayments	17.4	149,570	146,117	5,480	4,263
		169,734	171,063	36,246	17,167
Total receivables		361,479	303,705	36,246	17,167

\* Fellow subsidiaries through a common ultimate major shareholder, British American Tobacco p.l.c.

### 17.1 Trade Receivables

Credit terms of trade receivables range from 1 to 60 days (2017: 1 to 60 days).

### 17.2 Amounts Due from Fellow Subsidiaries

The Group's amounts due from fellow subsidiaries are unsecured and interest free which have a credit term of 30 to 60 days (2017: 30 to 60 days).

The Company's amounts due from fellow subsidiaries arose mainly from payments made on behalf of certain fellow subsidiaries. These amounts are unsecured and interest free.

### 17.3 Amounts Due from Subsidiaries

The Company's amounts due from subsidiaries are unsecured and interest free which have a credit term of 30 days (2017: 30 days).

### 17.4 Other Receivables, Deposits and Prepayments

Included in other receivables, deposits and prepayments are prepaid excise duties of RM132,604,000 (2017: RM142,712,000) mainly due to the full importation model after the cessation of the manufacturing operations of its subsidiary. In 2017, the Group made a provision for impairment of prepaid excise duties of RM20,525,000 related to unutilised tax stamps and tax stamps wastage that was pending refund from the Royal Malaysian Customs (RMC). During the year, the Group was able to successfully recover an amount of RM19,300,000 from RMC in respect of the provision for impairment loss recognised in 2017.

## 18. Share Capital

	Group and Company			
	Number of shares 2018	Amount 2018	Number of shares 2017	Amount 2017
	'000	RM'000	'000	RM'000
Ordinary shares issued and fully paid	285,530	142,765	285,530	142,765

## 19. Trade and Other Payables

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade payables	19.1	17,763	35,853	-	-
Trade accruals		54,816	65,599	-	-
Amounts due to subsidiaries	19.2	-	-	551,843	512,217
Amounts due to fellow subsidiaries*	19.3	43,936	41,186	700	1,668
Other payables and accruals		119,352	134,119	23,900	24,968
		235,867	276,757	576,443	538,853
Other payables and accruals comprise the following:					
Accruals for employee expenses		34,012	20,129	9,501	4,470
Accruals for administrative expenses		72,234	88,281	7,551	18,499
Provision for employee expenses		11,688	9,115	5,430	277
Provision for restructuring expenses		-	14,805	-	-
Other non-operating creditors		1,418	1,789	1,418	1,722
		119,352	134,119	23,900	24,968

\* Fellow subsidiaries through a common ultimate major shareholder, British American Tobacco p.l.c.

### 19.1 Trade Payables

Credit terms of trade payables and suppliers of property, plant and equipment granted to the Group vary from cash term to 120 days (2017: cash term to 120 days).

### 19.2 Amounts Due to Subsidiaries

The Company's amounts due to subsidiaries are unsecured and interest free which have a credit term of 30 days (2017: 30 days).

### 19.3 Amounts Due to Fellow Subsidiaries

The Group's and the Company's amounts due to fellow subsidiaries are repayable within credit terms of 30 to 60 days (2017: 30 to 60 days). These amounts are unsecured and interest free.

## 20. Borrowings

Group	2018 RM'000	2017 RM'000
Current		
Revolving credit – unsecured	410,000	378,000

The Group's borrowings relate to revolving credits maturing between one week to three months. The Group's borrowings are denominated in Ringgit Malaysia and the fair value of borrowings is disclosed in Note 25.

### Reconciliation of movement of liabilities to cash flow arising from financing activities

	Net changes from financing cash flows			
	2017 RM'000	Drawdown RM'000	Repayment RM'000	2018 RM'000
<b>Group</b>				
Revolving credit – unsecured	378,000	447,000	(415,000)	410,000

## 21. Derivative Financial Instruments

Group	2018		2017	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Forward foreign exchange contract				
- cash flow hedges	797	198	-	2,408

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.

During the year, a gain of RM610,000 (2017: RM2,153,000) arising from cash flow hedges was recognised in the income statement.

The Group's cash flow hedges are principally net exposure in the respective foreign currencies of future payment for finished goods and services, generally over the next six 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 (2017: 6 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. During the year, a gain of RM2,876,000 (2017: loss of RM17,038,000) was recognised in the other comprehensive income and a loss of RM1,624,000 (2017: RM873,000) was reclassified from equity to the income statement.

## 21. Derivative Financial Instruments (continued)

The notional principal amounts of the outstanding forward foreign exchange contracts are as follows:

Hedging Instruments Group	Currency	RM'000 equivalent	Average contracted rate
<b>2018</b>			
Currency to be received over the next 12 months			
USD28,450,000 (net)	US Dollar	117,416	1 USD = RM4.1271
<b>2017</b>			
Currency to be received over the next 6 months			
USD20,300,000 (net)	US Dollar	84,856	1 USD = RM4.1801
GBP750,000 (net)	Pound Sterling	4,193	1 GBP = RM5.5907

## 22. Cash from Operations

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Profit for the year</b>	468,531	492,635	481,210	624,128
Adjustments for:				
Interest income	(1,288)	(1,477)	(787)	(549)
Property, plant and equipment:				
- depreciation	6,953	5,578	2,592	1,405
- write-off	429	683	36	3
- loss on disposal	549	69	165	-
Computer software:				
- amortisation	95	176	-	78
Assets held for sale:				
- gain on disposal	(1,601)	(93)	(1,601)	-
- write-off	-	3,478	-	-
Net foreign exchange (gain)/loss	(70)	(3,952)	(145)	57
Unutilised credits written off	-	(120)	-	-
Allowance for doubtful debts/(written back)	31	(114)	-	-
Inventories written down	5,633	4,519	-	-
Interest expense	13,529	11,367	15,652	13,367
Tax expense	154,478	146,590	1,383	7,168
Changes in working capital:				
- inventories	68,721	(26,208)	-	-
- trade and other receivables	(57,974)	(6,235)	(19,065)	6,468
- trade and other payables	(40,779)	(125,605)	(1,904)	(18,661)
	617,237	501,291	477,536	633,464

## 23. Share-based Payments

The Group operates a number of British American Tobacco 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 ten years. Payout is subject to performance conditions based on earnings per share relative to inflation (50 percent of grant), total shareholder return (25 percent of grant) and net turnover (25 percent of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to a comparator group. 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.

Prior to 2014, payout was 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).

### 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 Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,000 in any year) under the equity-settled scheme are subject to a three year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

### Share-based Payment Expense

The amounts recognised in the income statement in respect of share-based payments were as follows:

	Note	Equity-settled	
		2018 RM'000	2017 RM'000
<b>Group</b>			
LTIP	23.1	1,938	3,278
DSBS	23.2	2,460	2,043
Other schemes	23.3	65	61
Total recognised in the income statement		4,463	5,382

	Note	Equity-settled	
		2018 RM'000	2017 RM'000
<b>Company</b>			
LTIP	23.1	1,400	2,359
DSBS	23.2	1,308	1,157
Other schemes	23.3	32	39
Total recognised in the income statement		2,740	3,555

## 23. Share-based Payments (continued)

### 23.1 Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2018 and 31 December 2017, were as follows:

Group	Equity-settled Number of options in thousand	
	2018	2017
Outstanding at start of financial year	52	39
Granted during the period	25	23
Exercised during the period	(16)	(4)
Forfeited during the period	(4)	(6)
Outstanding at end of financial year	57	52
Exercisable at end of financial year	3	3

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £36.66 (2017: £51.83) for equity-settled options.

The outstanding shares for the year ended 31 December 2018 had a weighted average contractual life of 8.32 years (2017: 8.22 years) for the equity-settled scheme.

Company	Equity-settled Number of options in thousand	
	2018	2017
Outstanding at start of financial year	36	23
Granted during the period	18	18
Exercised during the period	(9)	(2)
Forfeited during the period	-	(3)
Outstanding at end of financial year	45	36
Exercisable at end of financial year	-	-

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £40.35 (2017: £52.94) for equity-settled options.

The outstanding shares for the year ended 31 December 2018 had a weighted average contractual life of 8.41 years (2017: 8.40 years) for the equity-settled scheme.

## 23. Share-based Payments (continued)

### 23.2 Deferred Share Bonus Scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2018 and 31 December 2017, were as follows:

Group	Equity-settled Number of options in thousand	
	2018	2017
Outstanding at start of financial year	23	22
Granted during the period	13	8
Exercised during the period	(6)	-
Forfeited during the period	-	(7)
Outstanding at end of financial year	30	23
Exercisable at end of financial year	-	-

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £41.23 (2017: £47.35) for equity-settled options.

The outstanding shares for the year ended 31 December 2018 had a weighted average contractual life of 1.41 years (2017: 0.02 years) for the equity-settled scheme.

Company	Equity-settled Number of options in thousand	
	2018	2017
Outstanding at start of financial year	10	8
Granted during the period	7	5
Exercised during the period	(3)	-
Forfeited during the period	-	(3)
Outstanding at end of financial year	14	10
Exercisable at end of financial year	-	-

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £41.18 (2017: Nil) for equity-settled options.

The outstanding shares for the year ended 31 December 2018 had a weighted average contractual life of 1.46 years (2017: 1.33 years) for the equity-settled scheme.

## 23. Share-based Payments (continued)

### 23.3 Other Schemes

#### Share Reward Scheme and International Share Reward Scheme

##### Group

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 542 (2017: 588).

##### Company

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 402 (2017: 506).

#### 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	2018		2017	
	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	18.0	18.0	18.0	18.0
Average expected term to exercise (years)	3.5	3.0	3.5	3.0
Risk-free rate (%)	1.0	1.0	0.3	0.3
Expected dividend yield (%)	5.0	5.0	3.2	3.2
Share price at date of grant (£)	38.94	38.94	52.11	52.11
Fair value at grant date (£)	29.39	33.50	41.01	47.27

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	2018 %	2017 %
Average share price volatility FMCG comparator group	18	19
Average correlation FMCG comparator group	31	31

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the return index (the share price index plus the dividend reinvested) over a five year period. The respective FMCG and FTSE 100 share price volatility and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions, they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This payout calculation is based on expectations published in analysts' forecasts.

## 24. Segment Reporting

The Company is domiciled in Malaysia. The revenue from external customers in Malaysia is RM2,822,946,000 (2017: RM2,916,166,000), and the total revenue from fellow subsidiaries from other countries is Nil (2017: RM47,265,000). The Group does not have any non-current assets that are located in countries other than Malaysia.

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.

The following are customers with revenue equal or more than 10 percent of the Group's total revenue:

	2018 RM'000	2017 RM'000
- Customer A	608,768	603,791
- Customer B	359,908	341,884
- Customer C	347,669	337,356

## 25. Financial Instruments

### 25.1 Categories of Financial Instruments

The table below provides an analysis of financial instruments categorised under MFRS 9 as follows:

- (a) Financial assets measured at amortised cost (FAAC); and
- (b) Financial liabilities measured at amortised cost (FLAC).

2018	Carrying amount RM'000	FAAC / FLAC RM'000	Derivative used for hedging RM'000
<b>Financial assets</b>			
<b>Group</b>			
Trade and other receivables (excluding prepayments)	223,378	223,378	-
Cash and bank balances	78,627	78,627	-
Derivative financial assets	797	-	797
	302,802	302,005	797
<b>Company</b>			
Trade and other receivables (excluding prepayments)	31,179	31,179	-
Cash and bank balances	73,330	73,330	-
	104,509	104,509	-
<b>Financial liabilities</b>			
<b>Group</b>			
Borrowings	410,000	410,000	-
Trade and other payables	235,867	235,867	-
Derivative financial liabilities	198	-	198
	646,065	645,867	198
<b>Company</b>			
Trade and other payables	576,443	576,443	-

## 25. Financial Instruments (continued)

### 25.1 Categories of Financial Instruments (continued)

The table below provides an analysis of financial instruments categorised under MFRS 139 as follows:

(a) Loans and receivables (L&R); and

(b) Financial liabilities measured at amortised cost (FL).

2017	Carrying amount RM'000	L&R / FL RM'000	Fair value through profit or loss RM'000
<b>Financial assets</b>			
<b>Group</b>			
Trade and other receivables (excluding prepayments)	176,285	176,285	-
Cash and bank balances	11,554	11,554	-
	187,839	187,839	-
<b>Company</b>			
Trade and other receivables (excluding prepayments)	14,619	14,619	-
Cash and bank balances	4,134	4,134	-
	18,753	18,753	-
<b>Financial liabilities</b>			
<b>Group</b>			
Borrowings	378,000	378,000	-
Trade and other payables	276,757	276,757	-
Derivative financial liabilities	2,408	-	2,408
	657,165	654,757	2,408
<b>Company</b>			
Trade and other payables	538,853	538,853	-

## 25. Financial Instruments (continued)

### 25.2 Net Gains and Losses Arising from Financial Instruments

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Net gains/(losses) on:				
Derivative used for hedging				
- recognised in income statement	610	-	-	-
- recognised in other comprehensive income	2,876	-	-	-
Fair value through profit or loss				
- recognised in income statement	-	2,153	-	-
- recognised in other comprehensive income	-	(17,038)	-	-
Financial assets measured at amortised cost	1,066	-	800	-
Loans and receivables	-	4,297	-	551
Financial liabilities measured at amortised cost	(13,268)	(10,121)	(15,520)	(13,426)
	(8,716)	(20,709)	(14,720)	(12,875)

### 25.3 Financial Risk Management

The Group and the Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity and cash flow risk
- Market risk

### 25.4 Credit Risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from the individual characteristics of its receivables from customers, amounts due from fellow subsidiaries, short-term deposit and bank balances and outstanding forward exchange contracts. There are no significant changes as compared to prior periods.

#### Trade Receivables

##### *Risk Management Objective, Policies and Processes for Managing the Risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount with clear approving authority and limits.

Approximately 44 percent (2017: 53 percent) of the Group's trade receivables are derived from its sales to five (2017: five) of its key customers. The Group closely monitors collections from these customers. The gross carrying amounts of credit impaired trade receivables and contract assets are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables and contract assets that are written off could still be subject to enforcement activities. The Group does not foresee any credit risk arising from amounts due from fellow subsidiary companies.

## 25. Financial Instruments (continued)

### 25.4 Credit Risk (continued)

#### Trade Receivables (continued)

##### *Exposure to Credit Risk, Credit Quality and Collateral*

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the balance sheet.

A significant portion of these receivables are regular customers that have been transacting with the Group.

The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

Loans and advances are only provided to subsidiaries which are wholly-owned by the Company.

##### *Concentration of Credit Risk*

The exposure of credit risk for trade receivables, net of allowance for impairment losses, as at the end of the reporting period by geographic region covered Malaysia only.

##### *Recognition and Measurement of Impairment Loss*

The Group uses an allowance matrix to measure the expected credit losses of trade receivables from individual customers.

To measure the expected credit losses, trade receivables have been grouped based on credit risk and days past due.

Where a trade receivable has a low credit risk, it is excluded from the allowance matrix and its expected credit losses are assessed individually by considering historical payment trends and financial strength of the receivable.

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2018.

Group 2018	Gross RM'000	Loss Allowance RM'000	Net RM'000
Current (not past due)	177,903	(89)	177,814
Past due 1 – 30 days	11,014	(7)	11,007
Past due 31 – 60 days	(297)	-	(297)
Past due 61 – 90 days	(655)	-	(655)
Past due more than 90 days	3,879	(3)	3,876
	191,844	(99)	191,745

##### *Comparative under MFRS 139, Financial Instruments*

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired as at 31 December 2017 is as follows:

Group 2017	Gross RM'000	Collective impairment RM'000	Net RM'000
Not past due	124,745	-	124,745
Past due 0 – 60 days	7,496	-	7,496
Over 61 days	469	(46)	423
	132,710	(46)	132,664

## 25. Financial Instruments (continued)

## 25.4 Credit Risk (continued)

**Trade Receivables (continued)***Movements in the Allowance for Impairment in Respect of Trade Receivables*

The movements in the allowance for impairment in respect of trade receivables during the year are as follows:

Group	MFRS 9 2018 RM'000
<b>Balance at 1 January before adjustment</b>	46
Adjustment on initial application of MFRS 9	22
<b>Balance at 1 January after adjustment</b>	68
Net measurement of loss allowance	31
<b>Balance at 31 December</b>	99

**Amounts Due from Fellow Subsidiaries**

The ageing of amounts due from fellow subsidiaries as at the end of the financial year ended was:

	2018 RM'000	2017 RM'000
<b>Group</b>		
Not past due	20,043	23,583
Past due 0 – 90 days	121	399
Past due 91 – 180 days	-	13
Past due 181 – 365 days	-	14
Over 365 days	-	937
	20,164	24,946
<b>Company</b>		
Not past due	4,538	581

Generally, the Group and the Company consider amounts due from fellow subsidiaries as low credit risk. The Company determines the probability of default for these amounts due from fellow subsidiaries individually using internal information. As at the end of the financial year ended, there was no evidence that the amounts due from fellow subsidiaries are not recoverable.

**Cash and Bank Balances**

The cash and bank balances are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amounts in the balance sheet.

**Other Receivables**

Expected credit loss of other receivable is determined individually after considering the financial strength of the other receivable. Based on management's assessment, the probability of the default of these receivables is low and hence, no loss allowance has been made.

## 25. Financial Instruments (continued)

### 25.5 Liquidity and Cash Flow Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables and borrowings.

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 and bank balances 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.

The Group utilises cash pooling and zero balancing bank account structures in addition to borrowings to ensure that there is maximum mobilisation of cash within the Group. The key objectives of Treasury in respect of cash and bank balances are to concentrate cash at the centre for better cash management.

The table below summarises the maturity profile of the Group's and of the Company's liabilities based on contractual undiscounted repayment obligations.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Maturity of borrowings				
- within 1 year	410,000	378,000	-	-
Trade and other payables				
- within 1 year	235,867	276,757	576,443	538,853
Derivative financial instruments				
- within 1 year	198	2,408	-	-

### 25.6 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates and other prices that will affect the Group's and the Company's financial position or cash flows.

#### 25.6.1 Currency Risk

The Group is subject to currency exchange risk as a result of its purchases of finished goods and services in foreign currencies. The Group's primary currency exchange risk exposures are to the US Dollar (USD), British Pound (GBP) and Euro (EUR). The currency profile of the assets and liabilities of the Group are disclosed in the respective notes to the financial statements.

The objective of the Group's foreign exchange policies is 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 95 percent of its exposure on foreign currency payables and on cash flows to be used in anticipated transactions denominated in foreign currencies for the subsequent six months. The Group's hedging period of six months is in line with the hedging period that was allowed under the Foreign Exchange Control guidelines enforced by Bank Negara Malaysia.

## 25. Financial Instruments (continued)

## 25.6 Market Risk (continued)

## 25.6.1 Currency Risk (continued)

*Exposure to Foreign Currency Risk*

The Group's and the Company's exposure to foreign currency (a currency which is other than the functional currency of the Group) risk, based on carrying amounts as at the end of the reporting period were:

	2018 Denominated in			2017 Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000	USD RM'000	GBP RM'000	EUR RM'000
<b>Group</b>						
Trade receivables	-	(3)	-	90	-	481
Trade payables	(1,598)	(295)	75	(53)	(2)	(15)
Cash and bank balances	1,318	554	128	1,647	2,529	366
Amounts due from fellow subsidiaries	196	17,879	-	20,151	3,404	-
Amounts due to fellow subsidiaries	(20,934)	(63)	-	(18,290)	(5,120)	-
Net exposure in the balance sheet	(21,018)	18,072	203	3,545	811	832
<b>Company</b>						
Trade payables	(48)	(303)	-	-	-	-
Cash and bank balances	1,000	249	-	165	1,421	-
Amounts due from fellow subsidiaries	-	4,358	-	-	581	-
Amounts due to fellow subsidiaries	-	(211)	-	(173)	(1,438)	-
Net exposure in the balance sheet	952	4,093	-	(8)	564	-

*Currency Risk Sensitivity Analysis*

A 10 percent (2017: 10 percent) strengthening of RM against the following currencies at the end of the financial year would have increased/(decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular ratio, remain constant and ignores any impact of forecasted sales and purchases.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
USD	2,102	(355)	(95)	-
GBP	(1,807)	(81)	(409)	(56)
EUR	(20)	(83)	-	-

A 10 percent (2017: 10 percent) weakening of RM against the above currencies at the end of the financial year would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## 25. Financial Instruments (continued)

### 25.6 Market Risk (continued)

#### 25.6.2 Interest Rate Risk

Interest rate risk comprises interest price risk that results from borrowings at fixed rates and interest cash flow risk that results from borrowings at variable rates. Short-term receivables and payables are not significantly exposed to interest rate risk.

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 floating rates expose the Group to fair value interest rate risk. The Group has floating rate borrowings as disclosed in Note 20, and a possible 10 percent increase or decrease in interest rates on borrowings will not result in any significant change in the Group's pre-tax profit.

### 25.7 Fair Value Information

The carrying amounts of cash and bank balances, short-term receivables and payables and borrowings reasonably approximate their fair values due to the relatively short-term nature of these financial instruments. Accordingly, the fair values and fair value hierarchy levels have not been presented for these instruments.

The Group measures its forward foreign exchange contracts (cash flow hedges) at fair values, as disclosed in Note 21. 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.

The Group measures the fair values of its borrowings based on observable yield curves. The fair value of the Group's financial assets and financial liabilities approximate to their carrying value.

## 26. Capital Management

The Group defines capital as net debt and equity. Net debt is calculated as total borrowings less cash and bank balances. The debt-to-equity ratios at 31 December 2018 and at 31 December 2017 were as follows:

	Group	
	2018 RM'000	2017 RM'000
Total borrowings (Note 20)	410,000	378,000
Less: Cash and bank balances	(78,627)	(11,554)
	331,373	366,446
Total equity	421,667	382,101
Debt-to-equity ratio	0.8	1.0

There was no change in the Group's approach to capital management during the financial year.

## 27. Capital Commitments

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Property, plant and equipment Contracted but not provided for	41	19	28	-

## 28. Related Parties

### Identity of Related Parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group. The Directors' remuneration paid is disclosed in Note 5.

The Group has related party relationship with its holding company, subsidiaries and key management personnel.

### Significant Related Party Transactions

The Group's and the Company's transactions are with member corporations of British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent equity interest in the Company and is the Company's ultimate holding company).

The significant related party transactions of the Group and of the Company are shown below. The balances related to the transactions below are shown in Note 17 and Note 19.

	Group	
	2018 RM'000	2017 RM'000
(i) Sale of goods		
Sale of cigarettes and tobacco products to:		
- British-American Tobacco (Singapore) Private Limited	-	15,830
- British American Tobacco Sales & Marketing Singapore Pte. Ltd.	-	139
- British American Tobacco Korea Manufacturing Limited	-	9,129
- British American Tobacco (PNG) Limited	-	362
- Solomon Islands Tobacco Company Limited	-	995
- British American Tobacco (Samoa) Limited	-	141
- Central Manufacturing Company Ltd.	-	154
- PT Bentoel Prima	-	17,238
- British American Tobacco UK and Export	-	1
- PT Bentoel Internasional Investama, Tbk.	-	3,184
- British American Tobacco Western Europe Commercial Trading Limited	-	92
	-	47,265

## 28. Related Parties (continued)

## Significant Related Party Transactions (continued)

	Group	
	2018 RM'000	2017 RM'000
(ii) Purchase of goods		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
- British-American Tobacco (Singapore) Private Limited	3,723	3,554
- PT Export Leaf Indonesia	-	16,755
- PT Bentoel Internasional Investama, Tbk.	204,299	139,853
- British American Tobacco Korea Manufacturing Limited	277	273
- British American Tobacco Western Europe Commercial Trading	692	2,522
	208,991	162,957
(iii) Procurement of services		
Procurement of information technology services from:		
- British American Shared Services (GSD) Limited	20,321	24,717
(iv) Technical and advisory (includes share-based payment charges)		
Payment for technical and advisory support services to:		
- British American Tobacco Investments Ltd.	23,990	27,091
- British American Tobacco Aspac Service Centre Sdn. Bhd.	14,798	14,727
- British American Tobacco (Holdings) Limited	4,820	5,292
	43,608	47,110
(v) Royalties		
Royalties paid/payable to:		
- British American Tobacco (Holdings) Ltd.*	93,858	84,094
- Dunhill Tobacco of London Limited*	-	941
- Benson & Hedges (Overseas) Limited*	1,941	2,221
- American-Cigarette Company (Overseas) Ltd.*	14,343	11,939
- Turmac Tobacco Company B.V.*	67	68
- B.A.T. China Limited**	78	82
	110,287	99,345
(vi) Sale and purchase of equipment		
Purchase/(Sale) of equipment from/(to):		
- British American Tobacco Phillipines Limited	151	-
- British American Tobacco Korea Manufacturing Limited	-	(5,145)
- British-American Tobacco (Singapore) Private Limited	-	(40,669)
- Pakistan Tobacco Company Limited	-	(14,203)
- British American Tobacco Bangladesh Company Limited	-	(5,300)
- PT Bentoel Prima	-	(52,351)
- British American Tobacco (PNG) Limited	-	(17)

## 28. Related Parties (continued)

## Significant Related Party Transactions (continued)

	Group	
	2018 RM'000	2017 RM'000
(vi) Sale and purchase of equipment (continued)		
Purchase/(Sale) of equipment from/(to) (continued):		
- PT Bentoel Internasional Investama, Tbk.	-	(183)
- PT Tresno	-	(7,398)
- Central Manufacturing Company Ltd	-	(15)
- British American Tobacco Mexico SA de CV	-	(18,320)
- British-American Tobacco Marketing (Singapore) Private Limited	-	160
- Souza Cruz LTDA	-	(594)
- British American Tobacco Switzerland SA	-	(21)
- British American Tobacco Chile Operaciones SA	-	(136)
- Tabacalera Hondureña, SA	-	(45)
- British American Tobacco Pécsi Dohánygyár Kft.	-	(58)
- British American Tobacco Kenya plc	-	(54)
- Ceylon Tobacco Company Limited	-	(4)
- British American Tobacco Nigeria Limited	-	(2)
- British American Tobacco Polska S.A.	-	(305)
- British American Tobacco Romania Investment S.R.L.	-	(104)
- British American Tobacco Vranje a.d	-	(16)
- CJSC British American Tobacco - SPb	-	(172)
- British American Tobacco Tutun Mamulleri Sanayi ve Ticaret A.S.	-	(77)
- The West Indian Tobacco Company Limited	-	(90)
- B.A.T.-Prilucky Tobacco Company	-	(107)
- British American Tobacco-Vinataba (JV) Limited	-	(3)
- VINA-BAT Joint Venture Company Limited	-	(19)
	151	(145,248)
(vii) Provision of technical and advisory support services to:		
- British American Tobacco Sales & Marketing Singapore Pte. Ltd.	987	1,570
(viii) Purchase of tobacco products, product, devices and, materials and payment of royalties of tobacco products, product, devices and materials from:		
- British American Tobacco Korea Manufacturing Limited	1,098	-
- Nicoventures Trading Limited	4,889	-
	5,987	-

\* Payments in respect of royalty agreements with these entities were made to B.A.T. International Finance p.l.c.

\*\* Payments in respect of royalty agreement with this entity were made to CTBAT International Co. Limited

## 28. Related Parties (continued)

## Significant Related Party Transactions (continued)

	Company	
	2018 RM'000	2017 RM'000
(i) Management fee		
Management fee received from:		
- Commercial Marketers and Distributors Sdn. Bhd.	4,548	3,645
- Tobacco Importers and Manufacturers Sdn. Berhad	223	551
	4,771	4,196
(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.	2,120	862
- Tobacco Importers and Manufacturers Sdn. Berhad	-	303
	2,120	1,165
(iii) Procurement of services*		
Procurement of information technology services from:		
- British American Shared Services (GSD) Limited	5,761	8,584
(iv) Technical and advisory (includes share-based payment charges)*		
Payment of fees for technical and advisory support services to:		
- British American Tobacco Investments Ltd.	1,762	1,490
- British American Tobacco Aspac Service Centre Sdn. Bhd.	9,215	7,509
- British American Tobacco (Holdings) Limited	2,611	3,498
	13,588	12,497
(v) Provision of technical and advisory support services to:		
- British American Tobacco Sales & Marketing Singapore Pte. Ltd.	987	1,570
(vi) Interest expense		
Interest expense on cash pooling:		
- Commercial Marketers and Distributors Sdn. Bhd.	6,824	5,329
- Tobacco Importers and Manufacturers Sdn. Berhad	8,785	8,038
	15,609	13,367

\*These costs have been fully recharged to certain subsidiaries during the year.

## 29. Restructuring of Business Operations

In 2017, the Group ceased the production of domestic volumes and contract manufacturing for exports by its wholly-owned subsidiary, Tobacco Importers and Manufacturers Sdn. Berhad (TIM) at the factory located in Virginia Park, Jalan University, 46200, Petaling Jaya. Accordingly, the Group and the Company recorded restructuring expenses of RM9,245,000 and RM4,555,000 respectively during that year.

## 30. Operating Lease

### Leases as a Lessee

The Group and the Company had entered into an operating lease for premises with non-cancellable operating lease rentals payable as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Less than one year	7,914	7,656	4,736	4,780
Between one and five years	3,325	10,188	2,019	6,330
	11,239	17,844	6,755	11,110

## 31. Significant Changes in Accounting Policies

During the year, the Group and the Company adopted MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* on the financial statements. The Group and the Company generally applied the requirements of these accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards. Nevertheless, as permitted by MFRS 9, the Group and the Company have elected not to restate the comparatives.

### 31.1 Impacts on Financial Statements

The following tables summarise the impacts arising from the adoption of MFRS 15 and MFRS 9 on the Group's and the Company's financial statements.

Group	1 January 2018		
	As previously reported RM'000	MFRS 9 adjustments RM'000	As restated RM'000
<b>Current assets</b>			
Trade and other receivables	303,727	(22)	303,705
<b>Equity</b>			
Retained earnings	241,170	(22)	241,148

Group	For the year ended 31 December 2017		
	As previously reported RM'000	MFRS 15 adjustments RM'000	As restated RM'000
Revenue	3,002,259	(86,093)	2,916,166
Distribution and marketing costs	(287,129)	86,093	(201,036)
Profit for the year	492,635	-	492,635

## 31. Significant Changes in Accounting Policies (continued)

### 31.2 Transitions

#### a. MFRS 15

In the previous financial year, the Group recognised revenue from sales of goods on the basis of fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Arising from the adoption of MFRS 15 during the year, the Group recognises revenue from contracts with customers which resulted in certain customer-related expenses incurred for distribution and marketing costs to be allocated as a deduction of revenue. There is no change in the profit for the year and retained earnings in the comparative period upon adoption of MFRS 15. Accordingly, the Group has not restated comparative information for the balance sheet and therefore three years balance sheet is not presented in this set of financial statements.

#### b. MFRS 9

In the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

The Group and the Company have not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.

# Statement by Directors pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 154 to 211 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2018 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors:



**Hendrik Stoel**  
Managing Director



**Ricardo Martin Guardo**  
Finance Director

Petaling Jaya

Date: 21 February 2019

# Statutory Declaration pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Ricardo Martin Guardo**, 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 154 to 211 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Ricardo Martin Guardo, passport: AAE091891, at Petaling Jaya in the state of Selangor on 21 February 2019.



**Ricardo Martin Guardo**

Finance Director

Before me:



3 Opanasara Shopping Mall  
1, Jalan S570/27  
47400 Petaling Jaya  
Selangor Darul Ehsan

# Independent Auditors' Report to The Members Of British American Tobacco (Malaysia) Berhad

(Company No. 4372-M)

(Incorporated in Malaysia)

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of British American Tobacco (Malaysia) Berhad, which comprise the balance sheets as at 31 December 2018 of the Group and of the Company, and the income statements and statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 154 to 211.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their 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 2016 in Malaysia.

### Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of this report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants (By-Laws) and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Goodwill assessment

Refer to Note 2(f)(i) to the financial statements (accounting policy) and Note 12 to the financial statements (financial disclosures).

## The key audit matter

The carrying amount of the Group's goodwill as at 31 December 2018 amounts to RM412,000,000.

The Group performs annual impairment assessment of its goodwill with indefinite useful lives. The Group compared the carrying amount of the goodwill against the discounted cash flow forecasts of the cash generating unit to determine the amount of impairment loss which should be recognised for the year, if any.

We have identified goodwill assessment as a key audit matter for the Group because:

- the carrying amount is material; and
- there is significant judgement involved in the forecasting and discounting of future cash flows, which is the basis of the Group's assessment of the recoverability of the goodwill

## How the matter was addressed in our audit

Our audit procedures included, amongst others

- Evaluated the Group's cash flow forecasts and the process by which they were developed;
- Compared these forecasts to Board and Management approved business plans and also compared previous forecasts to actual results to assess the performance of the business and the reliability of management's forecasting process;
- Tested the assumptions and methodologies used. To do this, we:
  - involved our internal valuation specialists to evaluate and compare the discount rate to similar companies in the market.
  - compared the key assumptions to externally derived data as well as our own assessments of the key inputs such as projected volumes and margins.
  - assessed the sensitivity of the outcome of the impairment assessment to changes in key assumptions.

## Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

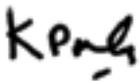
From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 13 to the financial statements.

### Other Matters

This report is made solely to the members of the Company, as a body in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



**KPMG PLT**  
(LLP0010081-LCA & AF 0758)  
Chartered Accountants



**Adrian Lee Lye Wang**  
Approval Number: 02679/11/2019 J  
Chartered Accountant

Petaling Jaya

Date: 21 February 2019

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## Other Information



# Analysis of Shareholdings as at 27 February 2019

The total number of issued shares of the Company stands at 285,530,000 ordinary shares, with voting right of one vote per ordinary share.

## Distribution of Shareholdings

Size of Shareholdings	No. of Holders	%	No. of Shares	%
Less than 100	828	12.35	10,290	0.00
100 - 1,000	3,570	53.24	1,494,352	0.52
1,001 - 10,000	1,657	24.71	6,013,545	2.11
10,001 - 100,000	458	6.83	13,637,997	4.78
100,001 - 14,276,499 *	192	2.86	121,608,816	42.59
14,276,500 and above **	1	0.01	142,765,000	50.00
<b>Total</b>	<b>6,706</b>	<b>100.00</b>	<b>285,530,000</b>	<b>100.00</b>

### Notes:

\* Less than 5% of issued shares

\*\* 5% and above of issued shares

## Category of Shareholders

Category of Shareholders	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Shares
1. Individual	4,936	73.61	9,503,315	3.33
2. Body Corporate				
a. Banks/Finance Companies	15	0.22	2,798,696	0.98
b. Investments Trusts/Foundations/Charities	5	0.07	28,688	0.01
c. Industrial and Commercial Companies	125	1.86	145,070,172	50.81
3. Government Agencies/Institutions	1	0.01	2,548	0.00
4. Nominees	1,622	24.19	128,125,580	44.87
5. Others	2	0.03	1,001	0.00
<b>Total</b>	<b>6,706</b>	<b>100.00</b>	<b>285,530,000</b>	<b>100.00</b>

## Substantial Shareholders

(As per Register of Substantial Shareholders)

No.	Name	Direct Interest		Indirect Interest	
		No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1.	British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.00	-	-
2.	Lazard Asset Management LLC	-	-	14,839,093	5.20

## Directors' Direct and Indirect Interests in the Company and its Related Corporations

(As per Register of Directors' Shareholdings)

No.	Name	Number of Issued Shares			
		Direct Interest		Indirect Interest	
		No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1.	Datuk Oh Chong Peng	1,000	0.00*	-	-
2.	Dato' Chan Choon Ngai	1,000	0.00*	-	-
3.	Datuk Christine Lee Oi Kuan	100	0.00*	-	-

No.	Name	Number of ordinary shares of 25p each in British American Tobacco p.l.c			
		Direct Interest		Indirect Interest	
		No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1.	Hendrik Stoel	13,176	0.00*	-	-
2.	Datuk Christine Lee Oi Kuan	22,975	0.00*	-	-
3.	Ricardo Martin Guardo	2,586	0.00*	-	-

### Note:

\* Less than 0.01%

No.	Name	Number of ordinary shares of 25p each in British American Tobacco p.l.c	
		Direct Interest	
		No. of Shares Held	
1.	Hendrik Stoel	5,353	
2.	Ricardo Martin Guardo	3,283	

### Deferred Share Bonus Scheme & International Share Reward Scheme

1.	Hendrik Stoel	5,353
2.	Ricardo Martin Guardo	3,283

No.	Name	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c	
		Direct Interest	
		No. of Options Held	
1.	Hendrik Stoel	17,216	
2.	Datuk Christine Lee Oi Kuan	7,701	
3.	Ricardo Martin Guardo	9,763	

### Long Term Incentive Plan

1.	Hendrik Stoel	17,216
2.	Datuk Christine Lee Oi Kuan	7,701
3.	Ricardo Martin Guardo	9,763

Save as disclosed above, none of the Directors of the Company has any direct or indirect interest in the Company and its related corporations.

## List of Top Thirty Largest Shareholders

(without aggregating the securities from different securities accounts belonging to the same Registered Holder)

No.	Name	No. of Shares Held	% of Issued Shares
1.	British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.00
2.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	9,268,802	3.25
3.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund 4545 for Lazard Emerging Markets Portfolio	7,714,800	2.70
4.	Cartaban Nominees (Asing) Sdn Bhd GIC Private Limited for Government of Singapore (C)	6,667,600	2.34
5.	Cartaban Nominees (Asing) Sdn Bhd Exempt AN for State Street Bank & Trust Company (West CLT OD67)	3,970,330	1.39
6.	HSBC Nominees (Asing) Sdn Bhd TNTC for Fidelity Series Emerging Markets Opportunities Fund (FID INV TST)	3,448,100	1.21
7.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (PAR 1)	2,815,500	0.99
8.	Cartaban Nominees (Tempatan) Sdn Bhd PAMB for Prulink Equity Fund	2,532,600	0.89
9.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Murray International Trust PLC	2,400,000	0.84
10.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Vanguard Emerging Markets Stock Index Fund	2,340,034	0.82
11.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Foreign and Colonial Investment Trust PLC	2,295,600	0.80
12.	DB (Malaysia) Nominee (Asing) Sdn Bhd State Street London Fund LYF6 for BMO LGM Global Emerging Markets Growth and Income Fund	2,258,400	0.79
13.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Vanguard Total International Stock Index Fund	2,203,900	0.77
14.	HSBC Nominees (Asing) Sdn Bhd HSBC BK PLC for Wolverhampton Metropolitan Borough Council Main Fund (FANDC)	2,125,000	0.74
15.	DB (Malaysia) Nominee (Asing) Sdn Bhd The Bank of New York Mellon for Invesco Perpetual Asian Growth Fund	2,007,600	0.70
16.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB PRIN)	1,746,200	0.61
17.	Cartaban Nominees (Asing) Sdn Bhd SSBT Fund XSDY for BMO Emerging Markets Fund	1,703,700	0.60
18.	Valuecap Sdn Bhd	1,656,500	0.58
19.	HSBC Nominees (Asing) Sdn Bhd SG Nantes for First Eagle Amundi Income Builder Fund	1,589,400	0.56
20.	Cartaban Nominees (Asing) Sdn Bhd GIC Private Limited for Monetary Authority of Singapore (H)	1,437,200	0.50
21.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for T. Rowe Price International Funds, Inc. - T. Rowe Price New Asia Fund	1,270,300	0.44
22.	DB (Malaysia) Nominee (Asing) Sdn Bhd State Street London Fund 26QG for Investec Professional Investment Funds PCC Limited- Global Opportunity Fund	1,258,500	0.44
23.	Yap Ah Fatt	1,118,000	0.39
24.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Lazard Emerging Markets Equity Fund	1,111,493	0.39
25.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Lazard Emerging Markets Fund	1,090,800	0.38

### List of Top Thirty Largest Shareholders (continued)

(without aggregating the securities from different securities accounts belonging to the same Registered Holder)

No.	Name	No. of Shares Held	% of Issued Shares
26.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund IBES for Lazard/Investors Bank Collective Trust	1,087,100	0.38
27.	HSBC Nominees (Asing) Sdn Bhd SG Nantes for the W & W South East Asian Equity Fund	1,067,500	0.37
28.	Kam Loong Mining Sdn Bhd	1,035,000	0.36
29.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund Z41B for Emerging Markets Equity Group Trust	1,015,600	0.36
30.	DB (Malaysia) Nominee (Asing) Sdn Bhd State Street London Fund LYFB for BMO LGM Global Emerging Markets Smaller Companies Fund (BMO INV II IRL)	964,100	0.34
<b>Total</b>		<b>213,964,659</b>	<b>74.93</b>

# Particulars of Properties

The properties held by the Group and Company at 31 December 2018 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
<b>Freehold</b>					
No. A79, Jalan Telok Sisek, Kuantan, Pahang	28.4.1994	shop and office	26	110.59	186
<b>Leasehold</b>					
No. 2, Jalan Foochow, Kuching, Sarawak (999 years lease expiring 31.12.2923)	3.10.1991	shop and office	28	156.10	116
No. 8, Jalan Melaka Raya 13, Taman Melaka Raya, Melaka (99 years lease expiring 7.7.2093)	30.3.1996	shop and office	23	143.00	237

# Corporate Directory

## Principal Offices

### **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**

(Company No. 4372-M)

Head Office

Level 19, Guoco Tower  
No. 6 Jalan Damanlela  
Bukit Damansara  
50490 Kuala Lumpur

Tel: +60 (3) 2720 8188

Fax: +60 (3) 2720 8106

### **TOBACCO IMPORTERS AND MANUFACTURERS SDN. BERHAD**

(Company No. 4414-U)

Level 19, Guoco Tower  
No. 6 Jalan Damanlela  
Bukit Damansara  
50490 Kuala Lumpur

Tel : +60 (3) 2720 8188

Fax : +60 (3) 2720 8106

### **COMMERCIAL MARKETERS AND DISTRIBUTORS SDN. BHD.**

(Company No. 42316-T)

Level 19, Guoco Tower  
No. 6 Jalan Damanlela  
Bukit Damansara  
50490 Kuala Lumpur

Tel : +60 (3) 2720 8188

Fax : +60 (3) 2720 8106

## 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 8370

Fax : +60 (3) 9200 8371

### **Selangor**

No 3, Jalan Industri PBP3  
Taman Perindustrian Pusat Bandar  
Puchong

47100 Puchong, Selangor

Tel : +60 (3) 5891 9888

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### **Melaka**

12 Jalan Abadi 3  
Taman Malim Jaya  
75250 Melaka

Tel : +60 (6) 337 6593 / 336 5435

Fax : +60 (6) 335 6449

### **Johor Bahru**

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

Tel : +60 (9) 573 7831 / 573 8373

Fax : +60 (9) 573 3484

### **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) 722 628 / 722 629

Fax : +60 (88) 722 630

### **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-Eighth Annual General Meeting of British American Tobacco (Malaysia) Berhad (the Company) will be held at Connexion Conference & Event Centre, Nexus 2 & 3, Level 3A, Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur on Thursday, 18 April 2019 at 10.30 a.m. for the following purposes:

## AGENDA

### As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 and the Reports of the Directors and Auditors thereon.  
*Please refer to Explanatory Note 9 (Note A)*
2. To re-elect the following Directors, each of whom retires pursuant to Articles 97(1) and (2) of the Constitution of the Company:
  - (i) Mr Hendrik Stoel **Ordinary Resolution 1**
  - (ii) Mr Ricardo Martin Guardo **Ordinary Resolution 2**  
*Please refer to Explanatory Note 9*
3. To re-elect Mr Eric Ooi Lip Aun who retires as a Director pursuant to Articles 103 of the Constitution of the Company. **Ordinary Resolution 3**  
*Please refer to Explanatory Note 9*
4. To re-appoint Datuk Zainun Aishah Binti Ahmad who retires as a Director pursuant to Article 107.1 of the Constitution of the Company. **Ordinary Resolution 4**  
*Please refer to Explanatory Note 9*
5. To approve the payment of Directors' fees and benefits to the Non-Executive Directors up to an amount of RM1,000,000 with effect from 19 April 2019 until the next Annual General Meeting of the Company. **Ordinary Resolution 5**  
*Please refer to Explanatory Note 9*
6. To re-appoint KPMG PLT as Auditors of the Company for the financial year ending 31 December 2019 and to authorise the Directors to fix their remuneration. **Ordinary Resolution 6**

### As Special Business

To consider and if thought fit, to pass the following Ordinary Resolution:

7. **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 RPT Mandate)** **Ordinary Resolution 7**

"THAT, the Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 20 March 2019) granted by the shareholders of the Company 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 20 March 2019 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 to 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 340(2) of the Companies Act 2016 (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act 2016); or
  - (iii) revoked or varied by resolution passed by the shareholders in general meeting;
- whichever is earlier;

AND THAT the Directors of the Company be and 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;

AND FURTHER THAT, as the estimated values of the Recurrent RPTs given in Appendix II of the Circular to Shareholders dated 20 March 2019 are provisional in nature, the Directors of the Company or any of them be and are hereby authorised to agree to the actual amount or amounts thereof, provided that such amount or amounts comply with the review procedures set out in Paragraph 2.3 of the Circular to Shareholders dated 20 March 2019."

*Please refer to Explanatory Note 10*

To consider and if thought fit, to pass the following Special Resolution:

**8. Proposed Adoption of The New Constitution of The Company (Proposed Adoption)**

**Special  
Resolution 1**

"THAT approval be and is hereby given that the existing Constitution of the Company be revoked in its entirety with immediate effect and in place thereof, the proposed new Constitution of the Company as set out in Appendix IV of the Circular to Shareholders dated 20 March 2019 be and is hereby adopted as the Constitution of the Company.

AND THAT the Directors of the Company be and hereby authorised to assent to any modification, variation and/or amendment as may be required by any relevant authorities and to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing."

*Please refer to Explanatory Note 10*

**9. To transact any other business of which due notice shall have been given.**

**By Order of the Board**

**LEE MI RYOUNG**  
MAICSA7058423  
Secretary

Kuala Lumpur  
20 March 2019

**Notes:**

1. 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. A proxy need not be a member of the Company.
2. 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.
3. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his/her 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.
4. 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 Proxy Form but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the Meeting as his/her proxy.
5. The original Proxy Form must be duly executed and deposited at the Registrar of the Company at Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for the taking of poll or no later than 17 April 2019 at 12.00 p.m.
6. Only Members whose names appear in the Record of Depositors as at 12 April 2019 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his/her behalf.
7. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the Resolutions set out in this Notice will be put to vote by poll.
8. **Registration of Members/Proxies**  
Registration of Members/Proxies attending the Meeting will commence at 8.00 a.m. on the day of the Meeting and will close at 10.30 a.m. sharp. Members/Proxies are required to produce identification documents for registration.
9. **Explanatory Notes on Ordinary Business**

**Note A**

The Audited Financial Statements for the financial year ended 31 December 2018 under Agenda 1 are meant for discussion only in accordance with the provision of Section 340(1)(a) of the Companies Act 2016, and it does not require a formal approval of the shareholders. Hence, this agenda will not be put forward for voting.

**Ordinary Resolutions 1, 2 and 4** - To re-elect Mr Hendrik Stoel and Mr Ricardo Martin Guardo; and to re-appoint Datuk Zainun Aishah Binti Ahmad as Directors

Article 97(1) of the Constitution states that one-third (1/3) of the Directors shall retire from office and be eligible for re-election. Article 97(2) further states that the Directors to retire in every year shall be those who have been longest in office since their last election.

Mr. Hendrik Stoel and Mr. Ricardo Martin Guardo being eligible, have offered themselves for re-election at the 58th AGM.

Article 107.1 provides for the re-appointment of the Director who has attained the age of seventy (70) years.

Datuk Zainun Aishah Binti Ahmad being eligible, has offered herself for re-appointment at the 58th AGM.

The Nomination Committee had assessed the performance of the retiring Directors and recommended them for re-election or re-appointment as Directors, due to their vast experiences and contributions to the Company. Their profiles are enclosed in pages 41, 44 and 47 of the Company's 2018 Annual Report. The Board has endorsed the Nomination Committee's recommendation subject to the shareholders' approval at this AGM.

**Retirement of Datuk Oh Chong Peng as a Director**

Datuk Oh Chong Peng who is due for retirement pursuant to Article 107.1 of the Constitution of the Company has expressed his intention not to seek re-appointment as a Director at the 58th AGM. Hence, he will remain in office until the conclusion of the 58th AGM. The Board would like to express its sincere appreciation and gratitude to Datuk Oh Chong Peng for his invaluable efforts and contributions to the Company during his tenure in office as Senior Independent Non-Executive Director and Chairman of the Audit Committee of the Company.

**Ordinary Resolution 3 - Re-election of Eric Ooi Lip Aun as a Director**

Article 103 states that the Directors shall have power to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors and Director so appointed shall hold office only until the next following annual general meeting, and shall then be eligible for re-election.

Mr. Eric Ooi Lip Aun being eligible, has offered himself for re-election as a Director at the 58th AGM. His profile is enclosed in page 45 of the Company's 2018 Annual Report. The Board has endorsed the Nomination Committee's recommendation for re-election of Mr. Eric Ooi Lip Aun subject to the shareholders' approval at this AGM.

**Ordinary Resolution 5 – Payment of Directors' fees and benefits to the Non-Executive Directors**

The Company is seeking shareholders' approval for the payment of Non-Executive Directors' fees and benefits up to RM1,000,000 with effect from 19 April 2019 until the conclusion of the next annual general meeting of the Company in 2020 pursuant to Section 230(1) of the Companies Act 2016.

The details of the Non-Executive Directors remuneration structure adopted by the Company are as follows:

Structure	Chairman		Member	
	Fee (RM per annum)	Allowance (RM per annum)	Fee (RM per annum)	Meeting Allowance (RM per meeting)
Board of Directors	345,000	154,092	100,000	-
Audit Committee	20,000	-	-	1,000
Nomination Committee	-	-	-	1,000
Remuneration Committee	-	-	-	1,000

The Non-Executive Directors who are shareholders of the Company will abstain from voting on Resolution 5.

**10. Explanatory Notes on Special Business****Ordinary Resolution 7 – Proposed Renewal of the Recurrent RPT Mandate**

The proposed resolution, 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 Renewal of the Recurrent RPT Mandate is set out in the Circular to Shareholders dated 20 March 2019 which is despatched together with the Company's 2018 Abridged Annual Report.

**Special Resolution 1 – Proposed Adoption**

The Special Resolution 1, if passed will streamline the existing Constitution with the Companies Act 2016, amendments made to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and enhance administrative efficiency. The Board proposed that the existing Constitution be revoked in its entirety and the proposed new Constitution of the Company as set out in Appendix IV of the Circular to Shareholders dated 20 March 2019 be adopted as the new Constitution of the Company. The Proposed Adoption shall take effect once it has been passed by a majority of not less than 75% of such members who are entitled to vote and do vote in person or by proxy at the 58th AGM.

Further information on the Proposed Adoption is set out in the Circular to Shareholders dated 20 March 2019 which is despatched together with the Company's 2018 Abridged Annual Report.

**Statement Accompanying Notice of Annual General Meeting**

*(pursuant to Paragraph 8.27(2) of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad)*

The profiles of the Directors who are standing for re-election as per the Notice of 58th AGM are stated on pages 41, 45 and 47 of the Annual Report 2018.

The details of the Directors' interest in the securities of the Company as at 27 February 2019 are stated on page 220 of the Annual Report 2018.

# Administrative Details for British American Tobacco (Malaysia) Berhad 58th Annual General Meeting

Date : Thursday, 18 April 2019

Time : 10.30 a.m.

Place : Connexion Conference & Event Centre, Nexus 2 & 3, Level 3A, Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur.

## Registration

1. Registration will start at 8.00 a.m. at Connexion Conference & Event Centre, Nexus 1, Level 3A, Nexus, Bangsar South City and the AGM will start punctually at 10.30 a.m. We strongly encourage you to come early to facilitate registration.
2. Please read the signage to ascertain where you should register yourself for the AGM and join the queue accordingly.
3. Please produce your original National Registration Identification Card (NRIC) or valid Passport (collectively referred as Identification) at the registration counter for verification purposes. Kindly ensure you collect your NRIC/Passport upon completion. No person will be allowed to register on behalf of another person even with the original Identification of that other person. Upon registration, you will be given a wristband.
4. You must wear the identification wristband throughout the AGM, as no person will be allowed to enter the meeting venue without the identification wristband. There will be no replacement in the event that the identification wristband is lost, stolen or misplaced.

## Entitlement to Attend and Vote

5. Only Members whose names appear in the Record of Depositors as at **12 April 2019** (General Meeting Record of Depositors) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their names at that time.
6. If you wish to attend the meeting in person, please do not submit any Proxy Form.

## Proxy

7. 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 AGM.
8. 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.
9. To appoint a proxy, the original Proxy Form which is attached together with the Company's Abridged Annual Report 2018 must be completed and signed, sent and delivered to the Company's Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for the taking of poll or no later than 17 April 2019 at 12.00 p.m.
10. In the case of a Member which is a company, the Proxy Form must be executed either under its seal or under the hand of any officer or attorney duly authorised.

### Corporate Member

11. Any corporate member who wishes to appoint a representative instead of a proxy to attend this AGM should lodge the certificate of appointment under its seal or under the hand of any officer or attorney duly authorised, at the office of the Company's Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for the taking of poll or no later than 17 April 2019 at 12.00 p.m.

### Revocation of Proxy

12. If you wish to appoint a proxy, please note that a proxy may be revoked by:
  - a. attendance of the appointer at the AGM and exercising his/her voting rights at the AGM personally will automatically revoke the proxy;
  - b. notice of revocation of the Proxy Form or the authority served by 17 April 2019 at 12.00 p.m.;
  - c. appointing new proxy by depositing a new Proxy Form in favour of another person by 17 April 2019 at 12.00 p.m.; or
  - d. transfer of shares by the appointer.
13. If you have submitted your Proxy Form prior to the Meeting and subsequently decided to attend the Meeting in person, please proceed to the Help Desk counter.

### Help Desk

14. Please proceed to Help Desk counter for the following matters:
  - a. Any enquiry or clarification;
  - b. To revoke the appointment of your proxy/proxies. Upon your revocation of appointment, your proxy/proxies will not be allowed to attend the Meeting; or
  - c. If you require First Aid assistance.

### Refreshment

15. There will be welcome tea and coffee served from 8.00 a.m. to 10.30 a.m.
16. There will be no food served after the meeting.

### Door Gift & Breakfast

17. Upon successful registration, a shareholder/proxy will be given one (1) Door gift and one (1) Breakfast voucher. The following basis of collection of Door Gift and Breakfast voucher will apply:-
  - a. Each individual present as shareholder or proxy or corporate representative; or representing more than one (1) shareholder is entitled to one (1) Door Gift and one (1) Breakfast voucher only.
  - b. Additionally, if two (2) proxies represent one (1) shareholder, they will be jointly entitled to one (1) Door Gift and one (1) Breakfast voucher only.
  - c. If the proxy has obtained a Door Gift and a Breakfast voucher, a shareholder who subsequently decided to attend the Meeting in person will not be given any Door Gift or Breakfast voucher.
  - d. No replacement in the event you lose/misplace your Door Gift or Breakfast voucher.
 The Breakfast voucher can be exchanged for a packed breakfast from 8.00 a.m. to 10.30 a.m.

### Voting Procedure

18. Voting at the 58th AGM will be conducted on a poll. The Company's Share Registrar, Tricor Investor & Issuing House Services Sdn. Bhd., is appointed as Poll Administrator to conduct the polling process. An Independent Scrutineer is appointed to verify and validate the results of the poll.

### Annual Report 2018

19. The Annual Report 2018 is available on Bursa Malaysia's website at [www.bursamalaysia.com](http://www.bursamalaysia.com) under Company Announcements and also at the British American Tobacco Malaysia's website at [www.batmalaysia.com](http://www.batmalaysia.com).

### No Smoking Policy

20. A no smoking policy is maintained inside the Connexion Conference & Event Centre building. Your co-operation is much appreciated.

### Other Meeting Details

- 21. Free WIFI is available at the Connexion Conference & Event Centre for the convenience of shareholders/proxies.
- 22. Indoor parking is available at the Connexion Conference & Event Centre (subject to availability). Please validate/exchange the parking card at the booth situated in the foyer.

### Personal Belongings

- 23. Please take care of your personal belongings. The organiser will not be held responsible for any item that has gone missing.

### Enquiry

- 24. If you have general queries prior to the meeting, please contact the following person during office hours:

Name : Ms. Lim Lay Kiow/Ms. Siti Zalina  
Share Registrar : Tricor Investor & Issuing House Services Sdn. Bhd.  
Telephone number : +60(3) 2783 9299

### Location Map to Connexion Conference & Event Centre

Connexion Conference & Event Centre  
Nexus 2 & 3, Level 3A, Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur.



Waze: Connexion@Nexus

GPS Coordinates: 3.109603N, 101.665565E

# Proxy Form

## British American Tobacco (Malaysia) Berhad

(Company No. 4372-M)  
(Incorporated in Malaysia)



BRITISH AMERICAN  
TOBACCO  
MALAYSIA

CDS Account No.

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 \_\_\_\_\_  
(Name as per NRIC/Passport in Capital Letters)

(NRIC/Passport No.: \_\_\_\_\_) of \_\_\_\_\_

and/or failing him/her \_\_\_\_\_ (NRIC/Passport No.: \_\_\_\_\_)

(Name as per NRIC/Passport in Capital Letters)

of \_\_\_\_\_  
(Full Address)

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fifty-Eighth Annual General Meeting of the Company, to be held at Connexion Conference & Event Centre, Nexus 2 & 3, Level 3A, Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur on Thursday, 18 April 2019 at 10.30 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	Re-election of Mr Hendrik Stoel who retires pursuant to Article 97 (1) and (2) of the Constitution of the Company.		
Ordinary Resolution 2	Re-election of Mr Ricardo Martin Guardo who retires pursuant to Article 97 (1) and (2) of the Constitution of the Company.		
Ordinary Resolution 3	Re-election of Mr Eric Ooi Lip Aun who retires pursuant to Article 103 of the Constitution of the Company.		
Ordinary Resolution 4	Re-appointment of Datuk Zainun Aishah Binti Ahmad who retires pursuant to Article 107.1 of the Constitution of the Company.		
Ordinary Resolution 5	Approval of payment of Directors' fees and benefits to the Non-Executive Directors with effect from 19 April 2019 until next Annual General Meeting of the Company.		
Ordinary Resolution 6	Re-appointment of KPMG PLT as Auditors of the Company for the financial year ending 31 December 2019 and to authorise the Directors to fix their remuneration.		
Ordinary Resolution 7	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.		
Special Resolution 1	Proposed Adoption of the New Constitution of the Company.		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2019

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. 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. A proxy need not be a Member of the Company.
2. 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.
3. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his/her 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.
4. 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 Proxy Form but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the Meeting as his/her proxy.

5. The original Proxy Form must be duly executed and deposited at the Registrar of the Company at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for the taking of poll or no later than 17 April 2019 at 12.00 p.m.
6. Only Members whose names appear in the Record of Depositors as at 12 April 2019 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his /her behalf.
7. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the Resolutions set out in this Notice will be put to vote by poll.
8. Registration of Members/Proxies attending the Meeting will commence at 8.00 a.m. on the day of the Meeting and will close at 10.30 a.m. sharp. Members/Proxies are required to produce identification documents for registration.

Please fold here to seal

affix  
postage  
stamp

**The Share Registrar**

**British American Tobacco (Malaysia) Berhad (4372-M)**  
c/o Tricor Investor and Issuing House Services Sdn Bhd (11324-H)  
Unit 32-01, Level 32, Tower A,  
Vertical Business Suite, Avenue 3, Bangsar South,  
No. 8, Jalan Kerinchi 59200 Kuala Lumpur, Malaysia.

Please fold here to seal



**BRITISH AMERICAN  
TOBACCO  
MALAYSIA**

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

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