

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No. 4372-M)
(Incorporated in Malaysia)

Minutes of the Fifty-Seventh (57th) Annual General Meeting of British American Tobacco (Malaysia) Berhad (“the Company” or “BATM”) held at Ballroom 2, 1st Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Thursday, 19 April 2018 at 10.30 a.m.

PRESENT

Tan Sri Dato’ Seri (Dr.) Aseh bin Haji Che Mat	:	Chairman Independent Non-Executive Director
Mr. Hendrik Stoel	:	Managing Director
Datuk Oh Chong Peng	:	Independent Non-Executive Director
Dato’ Chan Choon Ngai	:	Independent Non-Executive Director
Datuk Zainun Aishah binti Ahmad	:	Independent Non-Executive Director
Datuk Christine Lee Oi Kuan	:	Legal & External Affairs Director
Mr. Ricardo Martin Guardo	:	Finance Director

IN ATTENDANCE

Datuk Christine Lee Oi Kuan	:	Company Secretary
-----------------------------	---	-------------------

BY INVITATION

Ms. Samanmalee Priyanvada Chandrasiri	Human Resources Director
Mr. Adrian Lee	KPMG PLT (External Auditors)
Mr. Au Soon Yong	KPMG PLT (External Auditors)
Mr. Kenny Poon	Messrs. Jeff Leong, Poon & Wong
Ms. Lee Seen Yin	Messrs. Jeff Leong, Poon & Wong

ATTENDEES

(834 Members, 955 Proxies and 1 Corporate Representative attended the 57th Annual General Meeting as per the summary of attendance)

1. CHAIRMAN OF THE MEETING

Tan Sri Dato’ Seri (Dr.) Aseh bin Haji Che Mat chaired the 57th Annual General Meeting (“AGM”) of the Company.

2. WELCOME ADDRESS AND CHAIRMAN’S OPENING SPEECH

On behalf of the Board of Directors (“Board”) of the Company, the Chairman welcomed the members to the Meeting. The Chairman expressed his gratitude to the management and all employees of BAT Malaysia for their unwavering spirit, energy and resilience to lead the business despite the challenging operating environment. The Chairman also thanked the shareholders for their continued support and loyalty.

Members were briefed as follows:

- (a) The “Journey of Transformation” initiated in 2016 was successfully completed in 2017 with the last production run on 22 June 2017 and in September 2017, the Group moved into its new modern corporate headquarters in Damansara City.
- (b) This transformation has strengthened the Company’s business model through reinforcing the Group’s commercial capabilities and optimizing the supply chain and transactional activities. Whilst there were many challenges faced by the tobacco industry, the Group had put in place a very clear vision and the necessary strategies to navigate the business and the Company would remain committed to its investments in the country.
- (c) The strong fundamentals of the Group, from its products to the leadership and the people as a winning organisation, are the very reason that the Group have fared better despite the challenging operating environment.
- (d) The Group continued to receive awards and recognition most notably for efforts in setting benchmarks for high corporate governance standards, shareholder value and human resource policies and practices. The Group received 4 Human Resource Excellence Awards and was officially certified as a Top Employer in Malaysia for 2018, acknowledged by Top Employer Institute, based on a global research to recognise leading employers around the world. Testaments of the Group’s unwavering commitment to delivering best-in-class talent management.
- (e) The Board had recommended a fourth interim dividend of 43 sen per share aligned with the Group’s commitment in returning value to its shareholders.

3. QUORUM

The requisite quorum being present pursuant to Article 71 of the Company’s Constitution, the Chairman declared the Meeting duly convened at 10.30 a.m.

4. NOTICE OF MEETING

With the consent of all members present, the Notice of Meeting having been circulated on 21 March 2018 was taken as read.

5. VOTING PROCEDURES

Before proceeding with the agenda of the Meeting, the shareholders/proxies present were briefed by the Chairman that pursuant to the Paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the resolutions set out in the notice of the Meeting would be voted on by way of poll.

The Meeting was also informed that the Company had appointed Tricor Investor & Issuing House Services Sdn. Bhd. as Poll Administrator to conduct the polling process and Coopers Professional Scrutineers Sdn. Bhd. as Scrutineer to validate the votes cast.

The polling process for the Resolutions would be conducted upon completion of the deliberation of all items to be transacted at the AGM.

6. 2017 FINANCIAL PERFORMANCE AND HIGHLIGHTS

Members were briefed on the Company's 2017 performance and highlights were as follows:

- (a) On key positive actions achieved in 2017, the Company saw an increase of 1.4% in share of market in December of 2017 as compared to December of 2016. With the successful closure of the factory, the Group has unlocked and distributed the associated value as approved by the shareholders last year. Driven by the new business model, the Company moved all production to overseas manufacturing facilities and this has resulted in 4.6% gross profit margin improvement quarter on quarter. In addition, the Company revised the Company's cost base and saw 10% cost reduction compared to previous year.
- (b) However, the total legal market industry volume declined 8.8% in 2017, whilst BAT Malaysia's volume decline by 14.5% as compared to same period last year, due to significant contraction in volumes driven by the growth of illegal trade. Illegal cigarette incidence registered a 58.3% of total market share primarily driven by the continued affordability pressure on consumers coupled with enforcement challenges on curbing illegal cigarettes trade. As a result, the Company's market share declined to 53.9% in 2017 from 57.1% in 2016.
- (c) Revenue for 2017 declined by 20.1% as compared to year 2016 due to the growth in illegal trade and market contraction of 8.8% last year. The operating expenses were lower 4.7% than the same period last year, largely attributed to reduction in non-strategic spend from the Group's continuous cost optimization efforts. The Group registered a decline of 29.2% in profit from operations when compared to the same period last year.
- (d) Despite the challenging external factors, Dunhill, a market leader for the past 31 years, held a strong share in premium segment with 62% share of segment in 2017, however the market share declined by 4.1% compared to same period last year. Peter Stuyvesant, the Aspirational Premium segment, achieved market leadership with 45% share of segment. The Company decided to enter into the Value-For-Money ("VFM") segment to address affordability and Rothmans was the fastest growing brand within VFM segment.
- (e) As a testament of the Group's good governance, contingent liability of RM12.9 million in respect of sales tax claim claimed by the Customs was decided in the Company's favour by the court.
- (f) The Group had provided for an impairment of prepaid excise duties of RM20 million as at the end of last year, in view of the pending refund of RM20 million from Customs, corresponding to 1.3% on manufacturing process. The Group has had continuously engagements with Customs to simplify tax stamp process and obtain the refund.

- (g) Testament of the Group's dedication to maximise shareholders returns, the Company had paid dividends amounting to RM1.69 per share during the financial year, which represented a 98% earnings per share pay-out.
- (h) The positive actions taken by the Company in 2017 towards building a sustainable society were as follows:
 - (i) Community – awarded BAT Malaysia Foundation scholarships to students;
 - (ii) Workplace – Certified TOP employer in Malaysia and Asia Pacific by the Top Employers Institute;
 - (iii) Environment - participation in support of World Environmental Day;
 - (iv) Marketplace – incorporated the comprehensive Global Reporting Initiative (GRI) G4 indicators in the 2017 Annual Report and also maintained 9th consecutive year disclosures based on GRI in line with its sustainability agenda to demonstrate its commitment in operating responsibly.
- (i) The Company had received the following awards in 2017:
 - (i) HR Excellence Award 2017
 - (ii) Brandlaureate Best Brands awards 2016/2017- Illustrious Brand Transformational Leadership
 - (iii) Brandlaureate Best Brands awards 2016/2017 – Most Sustainable Brand Award
 - (iv) MSWG Corporate Governance Award for 3 consecutive years
 - (v) Best Taxpayer Award 2016
- (j) Despite the challenging macro environment, the Group's business was stronger and the Group remained committed to invest and operate in Malaysia in the long term in a fair market environment.
- (k) The following would be the Group's key priorities for 2018:
 - (i) Grow within the legal market by being best positioned to capitalize once legal market return to growth
 - (ii) Continue to work on solutions to address illegal trade
 - (iii) Continue to optimize cost base
 - (iv) Work on sustainable solution to address tax stamps complexities
 - (v) Deliver our world class talent – our people and talent.

7. QUESTIONS FROM MINORITY SHAREHOLDERS WATCHDOG GROUP

Members were informed that the Minority Shareholder Watchdog Group (“MSWG”) had submitted a series of questions to the Company prior to the AGM and the questions and responses from the management of the Company were as follows:

- (1) The Chairman and Managing Director in their message to shareholders on page 17 of the Annual Report commented on the rise of illegal cigarette consumption at unacceptable high levels and that this has continued to adversely impact the Group's legal tobacco market due to the persistent consumer demand for low priced offers below RM10 per pack.**
 - (a) What other measures and strategies have been taken or being planned by the management to counter the rise in the illegal cigarettes market**

taking into account the consumer affordability and the Value for Money (“VFM”) segment introduced by the Group?

- The Group has proposed small pack as a pragmatic solution that can address affordability to combat illegal cigarettes and give a chance for the legal market to grow at the expense of the illegal market. Applying the same excise regime, the small pack option comes closest in terms of pricing to illegal cigarettes.
- It is very encouraging to note as reported in the Star dated 29th March 2018 that the Deputy Finance Minister Datuk Othman Aziz commented that the proposal is under consideration. We hope that the Government will make the right call on this subject to address the high level of illegal cigarette incidence faced today.
- To date, apart from the small pack solution and our own initiative of introducing a brand in the Value for Money (“VFM”) segment, there is not much more that we can do without a change in regulation. Under the current tobacco regulations, we cannot sell under RM10 or sell less than 20 sticks or adjust the pricing once it is fixed. Hence, the disparity between a pack of legal cigarettes and illegal cigarettes is more than threefold.
- We will remain committed to constructively support any initiative including via providing alternative solutions to address illegal cigarettes.

(b) Could the Board share whether there are illegal cigarettes trades in the other countries where the Group operates and to extent of such trades?

- Illegal trade is a global problem prominent in more than 180 countries which BAT operates in. Sadly, Malaysia is the highest illegal cigarettes country in the world registered at 58.3% in 2017.
- Within Asia Pacific, Malaysia ranks as the market with the highest tax loss country, ahead of Australia and Pakistan.
- Illegal cigarettes trade creates massive societal problems which hinder growth and development in the country. Factories were closed impacting employment and tax revenue which could be invested for public amenities were lost. The illegal cigarette trade must be addressed and we look forward to the Government taking a drastic and an integrated enforcement approach to address the problem coupled with pragmatic resolution that can address affordability.

(2) In Note 4: Profit from Operations on page 167 of the Annual Report and Financial Statements, it was noted that a provision for impairment of prepaid excise duties amounting to RM20.525 million was made that it is pending refund from the Royal Malaysian Customs (“RMC”).

(a) What is the uncertainty or reasons that resulted in making the provision?

- The provision relates to the standard tax stamps wastages resulting from the manufacturing process. These wasted tax stamps are recovered from the manufacturing process and submitted to RMC for refund of tax paid on the tax stamps.
- The refund of tax stamps process had been extremely complex and lengthy. In the past 12 months in 2017, the Group had not been able to recover any refund from RMC. Therefore, the Group took a prudent approach to book the provision for impairment of prepaid excise duties

(b) Does the Board anticipate the refund of these excise duties and if so, when?

- The Group strongly believes that the prepaid tax will be refunded by the RMC.
- In the first quarter of 2018, there was a small percentage of tax stamp refund being recovered, giving the Group assurance that the refund process is proceeding in the right direction.

(c) How did the unutilized tax stamps and tax stamp wastages happen during the manufacturing process?

In the manufacturing process, there will be a normal level of wastages for raw materials which includes tax stamps. The tax stamps wastages were majority due to damages during the manufacturing process or rejection due to internal quality inspection as per the Group's standard quality control process. The wastages are considered to be within accepted tolerance level.

(3) While we note that the current composition of female directors stands at 28.5%, we were unable to find a policy on gender diversity. Practice 4.5 of MCCG requires that a Large Company discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets.

Could the Board clarify?

- One of the Company's fundamental aim is to ensure diversity and is part of our guiding principle. As such the Company is committed to work towards a target of female representation in senior management to be at 40% and overall management at 30% by year 2019.
- The Company practices equal opportunity employment in recruitment, development, promotions and remuneration and has adopted industry leading practices on diversity such as extended maternity leave (6 months paid leave and up to 12 months unpaid leave), paternity leave, maternity benefits, caregivers leave and enrichment leave.
- The Company also provides excellent development opportunities for females including ensuring all senior female managers attend "Women in Leadership" training, providing coaching and mentoring for high potential

females, and ensuring that the working environment is free of any form of bias, discrimination or harassment.

- Currently, two (2) out of seven (7) Board members are women. As such, the Company has met the 30% Board gender diversity target for a Large Company. The Company will continue to use its best efforts to ensure Board diversity.
- Additionally, 50% of the Leadership Team of the Company are female (3 out of 6).
- The Company's full disclosure on gender diversity is on page 132 of the Annual Report

(4) We noted that Datuk Oh Chong Peng had attended only 3 out of 5 Board meetings and 3 out 4 of the Audit Committee meetings during the year. Page 60 of the Annual Report, the Statement on Corporate Governance states that 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.

What was the reason for him not being able to attend those meetings held during the year?

Datuk Oh Chong Peng was not able to attend the Board meetings held on the 23 and 25 October 2017 and the Audit Committee meeting held on 23 October 2017 because he was under convalescence post a surgery.

8. QUESTIONS FROM OTHER MEMBERS

Key questions raised by members and responded to by the Board were as follows:

- (a) Question: On the RM20 million provision for impairment of prepaid excise duties, whether the Company expect refunds from Royal Malaysian Customs ("RMC").
Respond: RM20 million of prepaid excise duties is pending refund from RMC as these related to unutilised tax stamps and tax stamps wastages encountered during the manufacturing process. The Group is actively engaging RMC to obtain the refund and in quarter 1 of this year, the Group started to receive some refunds which positively indicates that RMC is working on the refunds to the Company.
- (b) Question: On management's direction in countering the continuous drop in share price.
Respond: The share price reflected the evolution and reality of the industry which contained growth of illegal cigarette by 25% for the last 2 years. The Group will continue to work on improving its results and be the most competitive in legal industry. However, the industry growth will very much depend on the recovery of the legal market. There the Government need to increase enforcements to ensure illegal cigarette trade is addressed.

- (c) Question: On the proposal for the Company's consideration to expand into cigarette related products and diversify the portfolio of products including Kretek and cigarettes dedicated to female consumers.
Respond: The Company continuously look into strengthening its portfolio of products. However, selection of new product would depend on various factors, including consumers' preferences, consumers' affordability pressures and compliance with local regulatory requirements. In Malaysia, the maximum permitted level of tar is 20 mg for each stick of cigarettes but Kretek has higher tar content above the permitted level which makes such products not allowable in Malaysia. On the cigarettes dedicated to female consumers, this was noted and the Company shared that it would not introduced products targeted on gender and feasibility would also need to be considered.
- (d) Question: On the stability of gross margin of the Company in view of the change in the business model of the Company from manufacturing to import model. Whether the Company has long term contract with supplier of cigarettes on agreed prices and whether the Company has single or multiple sources of supply?
Respond: Materials of packaging and tobacco would depend on the global prices whereas manufacturing costs are stable costs and if volume is increased then the Company may enjoy savings. Besides this, margin of the Company would also depend on the performance of portfolio of products. On the sources of supply of cigarettes, the products are from Indonesia, South Korea and Singapore.
- (e) Question: On the reason for debt level of the Company which increased in 2017.
Respond: In 2016, the Company had cash in hand from proceeds received from sale of Virginia Park land, which were utilized for working capital and thereafter the Company return to normal level of borrowings in 2017.
- (f) Question: On the current trend of new tobacco products like e-cigarettes and vaping in the market, whether the Company is considering to introduce new products to Malaysia.
Respond: Tobacco Industry is rapidly transforming and globally BAT has invested in developing new products such as tobacco heating products. However, before the Company considers introducing any new products into the market, there must exist a clear and sustainable excise and legislative framework.
- (g) Question: on whether closing down the manufacturing factory in Malaysia was a good decision on hindsight when there are still factories in Singapore and Indonesia.
Respond: Yes, because Malaysia was a high-volume factory with varied SKUs and keeping the factory would mean high investment for the Group.
- (h) Question: On the strategy of the Company to curb illegal cigarettes trade.
Respond: Curbing illegal cigarettes trade is in the purview of the enforcement agencies and the Company could only propose solutions for consideration.
- (i) Question: On the functional currency of the supply contracts and whether the Group has hedging policy.
Respond: The contracts are largely in USD. The foreign exchange exposure is mitigated by the hedging policy adopted by the Group. The Group enters into

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHADMinutes of the 57th Annual General Meeting held on 19 April 2018

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 in foreign currencies for the subsequent 6 months.

9. DECLARATION OF POLL RESULTS

The Ordinary Resolutions tabled at the 56th AGM of the Company were duly passed by the shareholders of the Company and the poll results of the resolutions as summarized below:

	FOR		AGAINST	
	No. of shares	%	No. of shares	%
<u>Ordinary Resolution 1</u> - Re-appointment of Datuk Zainun Aishah binti Ahmad as a Director -	237,008,033	99.73	634,018	0.27
<u>Ordinary Resolution 2</u> - Re-election of Datuk Oh Chong Peng as a Director -	214,622,975	90.31	23,018,076	9.69
<u>Ordinary Resolution 3</u> - Re-election of Dato' Chan Choon Ngai as a Director -	235,193,247	98.97	2,447,804	1.03
<u>Ordinary Resolution 4</u> - Payment of Directors' fees and benefits to Non-Executive Directors -	225,603,009	94.94	12,037,042	5.06
<u>Ordinary Resolution 5</u> - Re-appointment of KPMG PLT as auditors -	237,641,947	100.00	104	0.00
<u>Ordinary Resolution 6</u> - Datuk Oh Chong Peng continues designation as an Independent Director -	215,428,154	91.99	18,771,660	8.01
<u>Ordinary Resolution 7</u> - Proposed Renewal of the Recurrent RPT Mandate -	92,671,451	97.67	2,205,500	2.33
<u>Ordinary Resolution 8</u> - Proposed New Recurrent RPT Mandate -	92,669,351	97.67	2,207,600	2.33

10. CLOSURE

There being no other business to be transacted, the Meeting closed at 1:10 p.m. with a vote of thanks to the Chair.