

TRANSFORMING

TODAY FOR TOMORROW

2016 Annual Report

56th



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

Venue Date Time	Information Online:
Ballroom 2, 1 st Floor, Sime Darby Convention Centre 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur Date: Tuesday, 18 th April 2017 at 10.30 a.m.	www.batmalaysia.com 



Leadership



Growth



Productivity



Sustainability



**Winning
Organisation**

TRANSFORMING TODAY FOR TOMORROW

Our continued success is built on the Company's diverse strengths – our strong brands, our innovation in new products and product categories and our talented people. As a corporate citizen with more than a hundred years of proud legacy in Malaysia, the Company remains committed to evolving to continue delivering value for our shareholders whilst investing in the possibilities of tomorrow.

RESULTS AT A GLANCE...

Revenue 3,756 (RM million)	Shareholders' fund 613 (RM million)	Profit before tax 908 (RM million)
Net profit 721 (RM million)	Net returns on shareholders' fund 118 (%)	Net dividend per share 278 (sen)

OVERVIEW OF BRITISH AMERICAN TOBACCO MALAYSIA

668 employees	over 100 years of history in Malaysia	57.1% market share
252.6 earnings per share	Top 30 in Bursa Malaysia in terms of market capitalisation	

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CHAIRMAN'S LETTER

Dear Shareholders,

"It is a pleasure and a privilege for me to be able to address you in my inaugural year as Chairman of British American Tobacco Malaysia (the Group)."

**TAN SRI DATO' SERI (DR.)
ASEH BIN HAJI CHE MAT**
CHAIRMAN



The Group has a long-standing legacy and presence within the Malaysian economic landscape. Whilst there are many challenges faced by the tobacco industry, the Group has in place very clear vision and strategies to navigate the business.

On behalf of the Board of Directors, I present the Group's Annual Report and Financial Statements for the financial year ended 31 December 2016.

PERFORMANCE REVIEW

The financial year under review was challenging as British American Tobacco Malaysia registered an 18 percent reduction of revenue due to the decline in domestic legal volume, principally driven by steep excise increase in November 2015, which in turn resulted in a sharp increase in illegal cigarettes.

On the back of this challenging business environment, the Group has taken a bold step in making a transformative change to our business model that will sharpen our commercial capabilities whilst optimising our supply chain and transactional activities.

At the heart of this transformation is the Group's continued promise to satisfy the needs of our consumers by delivering leading relevant brands to the Malaysian consumers at international quality standards. Given this uncompromising stance, we have chosen to source our supply from state-of-the-art British American Tobacco (BAT) factories that have the best reputation in the BAT group in delivering consistently high quality products at more competitive cost.

Our leading brands and products have been developed for Malaysian consumers based on solid consumer insights, which will continue to be our key driver for sustaining our leadership in the legal tobacco market in Malaysia irrespective of where our brands are sourced from.

As a corporate citizen with more than a hundred years of proud legacy in Malaysia, the Group remains committed to our investments in the country and effective from August 2017, the Group will extend our legacy from our new corporate office in Wisma Guocoland in the area of Bukit Damansara, Kuala Lumpur.

On a corporate governance front, we firmly believe that excellence in corporate governance coupled with strong ethics and uncompromising integrity is a vital component for the Group's growth and development. As such, we are extremely proud and honoured to have been awarded the Winner of the CG Awards 2016 for Industry Excellence in the Consumer Goods category at the MSWG-ASEAN Corporate Governance Awards 2016 for the second year in a row which speaks volumes of the hard work put in by the Group in upholding transparency and compliance to corporate governance practices.

Our people are without a doubt the cornerstone of our success and in 2016, in line with the Group's commitment to provide an inclusive working environment, the Group has revamped the family benefits available to all employees to produce healthier, happier and a more productive workforce.



DIVIDENDS

Despite the challenging year, the Group is fully committed in returning value to its shareholders with the Board of Directors recommending a fourth interim dividend of 77 sen per share. The Group has also announced a special dividend of 46 sen per share in relation to the utilisation of the sale proceeds from the sale of the land and building upon which the factory operations are located, after deducting the restructuring expenses, making the total net dividend declared for the financial year to be 278 sen per share.

OUTLOOK FOR 2017

The Group remains concerned that the legal domestic market continues to suffer due to the escalating illegal cigarette trade in the country against the backdrop of a challenging economic environment and poor consumer sentiment.

The high level of illegal cigarette trade forms the main challenge for the legal tobacco industry. The outlook of the legal market will very much depend on how effectively the illegal cigarette trade is addressed by the Government through its enforcement efforts.

LEADERSHIP

The Group's Board and Leadership Team went through quite a few changes in the year and I am happy to note that there was smooth transition of the changes.

At the Board level, Tan Sri Mohamad Salim bin Fateh Din stood down as Chairman of the Board in December 2016 after having ably served the Board for four years and on behalf of the Group, I would like to extend our deepest appreciation and thanks to Tan Sri Mohamad Salim for his commitment at the helm.

We would also like to give our most profound thanks to our long serving Director, Mr. James Richard Suttie who stood down as Non-Independent Non-Executive Director in December 2016.

At the Leadership Team level, the Group saw a change in its Managing Director, when in May 2016, Mr. Stefano Clini stood down after having served his term for four years and was replaced by Mr. Erik Stoel. Our appreciation to Mr. Stefano Clini for his contribution and I wish a very warm welcome to Mr. Erik Stoel as the Group's new Managing Director.

CHAIRMAN'S LETTER



On behalf of the Group, we also welcomed Mr. Ricardo Guardo who replaced Mr. Pablo Sconfianza in September 2016 as the new Finance Director to the Board and Leadership Team. In addition, we also welcomed Mr. Karl Yap as Marketing Director, who replaced Mr. Marcelo Guimaraes.

The Group also welcomed Ms. Samanmalee Chandrasiri as the new Human Resources Director and Mr. Jonathan Jones, the new Operations Director, replacing Ms. Fiona Geddes and Mr. Gavin Ong respectively.

APPRECIATION

Finally, on behalf of the Board of Directors, I wish to thank our team and all employees of the Group for their tremendous efforts, passion and resilience in delivering greater value for our shareholders and stakeholders especially in such a demanding and challenging environment in 2016.

I am mindful that the challenging journey ahead is not over in 2017 and with the support of all our stakeholders, I look forward to continue the stellar legacy left behind by my predecessors.

With this, I convey my sincere thanks and appreciation to all our shareholders, customers, distributors, investors, business partners and stakeholders for their confidence and continued belief in British American Tobacco Malaysia. I look forward to working with my fellow Directors and everyone at British American Tobacco Malaysia.

Yours sincerely,

**TAN SRI DATO' SERI (DR.) ASEH BIN
HAJI CHE MAT**
CHAIRMAN

MANAGEMENT DISCUSSION AND 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 2016 and the Group’s expectations on the business going into 2017.”

ERIK STOEL
MANAGING DIRECTOR

2016 PERFORMANCE OVERVIEW

The Group's performance was deeply affected by the total legal domestic market volume contraction of 25.7 percent in 2016 compared to the previous year, resulting in 27.8 percent decline in the Group's domestic volume and an 18 percent reduction in total revenue for 2016. The reduction in legal domestic volumes was principally driven by the steep excise increase in November 2015, which in turn resulted in a significant increase in illegal cigarettes.

British American Tobacco Malaysia remains concerned that the legal domestic market continues to suffer at the expense of the escalating illegal cigarette trade in the country against the backdrop of a challenging economic environment and poor consumer sentiment. The latest Illicit Cigarette Study (ICS) conducted by Nielsen Malaysia revealed that the illegal cigarette trade has reached a record high of 57.1 percent as of December 2016, and there are clear indications that it continues to grow.

Despite the challenging economic climate, DUNHILL maintained its market leadership as a Premium brand with a market share of 42.2 percent, notwithstanding a decrease of 3.9 percentage points against full year 2015. PETER STUYVESANT, the fastest growing brand within the Aspirational Premium segment, continued to grow 0.9 percentage point to reach a market share of 6.5 percent while PALL MALL remained flat, closing at 4.3 percent share of market. The Group achieved 57.1 percent corporate market share for 2016.

Given the severity of the illegal cigarettes situation, the Group would like to commend the Government's commitment to reduce illegal cigarette incidence by 50 percent in 2017 through implementation of new strategies as announced in December 2016. Several developments arising from the new strategies have been reported in the public domain and the Group urges the Government to continue to address the illegal cigarettes situation as a matter of national priority.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS & OPERATIONS

Products and Services

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

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

The Group employs 668 employees who are involved from manufacturing to the distribution of our products.

Operating Facilities

The Group is currently headquartered at Virginia Park in Section 19, Petaling Jaya, Selangor, on the same site as our manufacturing facility. In line with the Group's announcement on 17 March 2016 on the restructuring of its business operations, the winding down of the manufacturing facilities is expected to be completed by the second half of 2017. The Group's office headquarters will soon after be relocated to Wisma Guocoland in Bukit Damansara, Kuala Lumpur, by August 2017.

The Group has 10 sales offices across Malaysia with nationwide distribution network via third party distributors.

Our Petaling Jaya site also houses the Asia Pacific Regional Product Centre of British American Tobacco p.l.c (BAT), which provides research and development services to the Group and other BAT entities in the Asia Pacific.

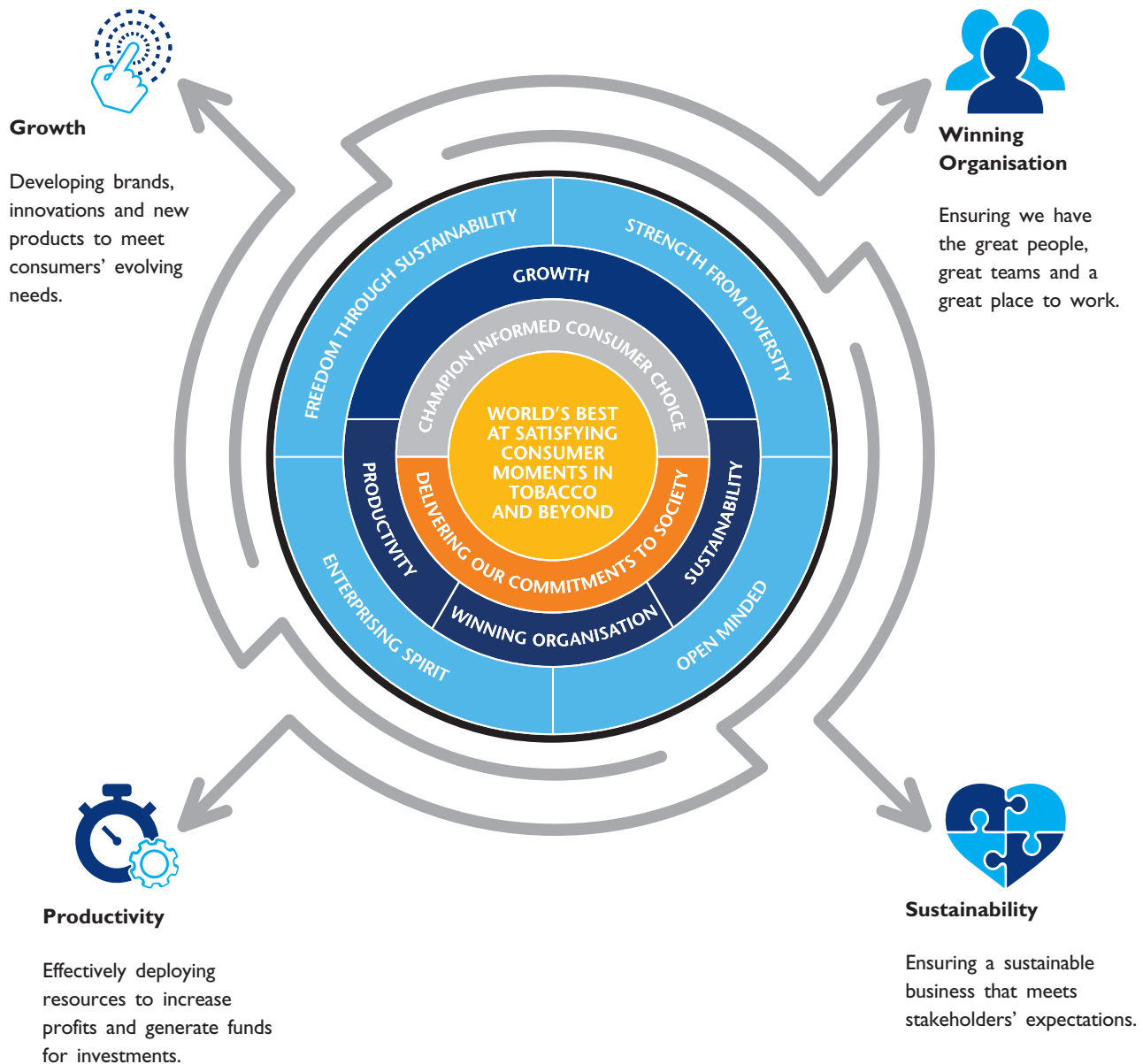
Malaysia is also the hub for BAT's IT, Finance and HR services. Operating from Technology Park Malaysia, Bukit Jalil, the BAT Group Service Delivery (Kuala Lumpur) Sdn. Bhd. is one of three global IT shared services centres for BAT worldwide, while BAT Aspac Service Centre Sdn. Bhd. is the Finance and HR shared services centres for BAT group in Asia Pacific.



OUR VISION & STRATEGIC FOCUS

Our vision which we share with the global British American Tobacco Group is to be the world's best at satisfying consumer moments in tobacco and beyond. Consumers are at the core of everything we do and our success depends on addressing their evolving concerns, needs and behaviours.

Our strategy enables our business to deliver growth today, while ensuring we generate the funds to invest in our future. The foundations upon which our strategy is built have been in place for many years, and we will continue to focus our activities in all four areas of growth, productivity, winning organisation and sustainability.



REVIEW OF FINANCIAL RESULTS



RICARDO MARTIN GUARDO
FINANCE DIRECTOR

PROFIT FROM OPERATIONS

919 MIL **-25.9%**
(2015: 1,240 million)

EARNINGS PER SHARE

252.6 SEN **-66.1 sen**
(2015: 318.7 sen)

NET PROFIT

721 MIL **-20.7%**
(2015: 910 million)

REVENUE

3,756 MIL **-18.0%**
(2015: 4,582 million)

EBITDA

930 MIL **-27.2%**
(2015: 1,277 million)

OPERATING PROFIT MARGIN

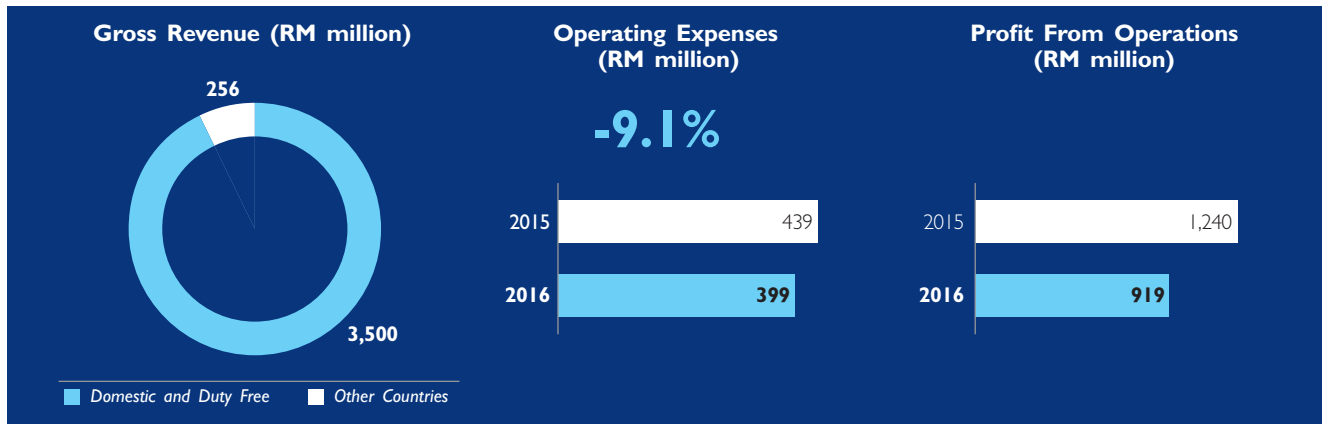
24.5 % **-2.6 pp**
(2015: 27.1%)

RETURN ON EQUITY

118 % **-48 pp**
(2015: 166%)

MARKET CAPITALISATION

12.7 BIL **-20.5%**
(2015: 16.0 billion)



Revenue

Revenue in the domestic market declined by 15.0 percent (RM615 million) compared to 2015, while contract manufacturing revenue declined by 45.0 percent (RM210 million). Eliminating the effect of excise and sales tax from revenue (i.e. net revenue excluding excise/sales tax), net revenue declined by 25.6 percent versus 2015.

This revenue performance was mainly driven by the volume decline from the domestic market of 27.8% versus 2015, due to the continued impact of the November 2015 excise led price increase, which in turn resulted in a sharp increase in illegal incidence. Revenue decline in the contract manufacturing segment was attributed to the winding down of the Group's factory operations in Malaysia, which will be carried out in stages till second half of 2017. All contract manufacturing volumes for exports have ceased as of 31 December 2016.

Cost of Sales

In 2016, the decrease in cost of sales of 14.5 percent (RM421 million) versus same period last year resulted primarily from the lower volume and productivity savings undertaken by the Group. During the year, cost of sales was unfavourably impacted by the November 2015 excise increases, inflationary cost increase on raw materials and escalating cost pressures due to lower production volume. However, the impact of the lower volume more than offset these increases, resulting in a decline in overall cost of sales.

Operating Expenses

In 2016, Operating Expenses were 9.1% (RM40 million) lower than last year despite inflationary pressures. This was largely attributed to lower recharges from other related entities (RM20 million) and the Group's continuous effort in driving further efficiencies in marketing expenditure and overhead costs (RM20 million).

Restructuring Income/Expenses

In 2016, the Group has recorded a one-off restructuring expenses of RM113 million in relation to the winding down of its factory operations at Virginia Park, Petaling Jaya, which was announced on 17 March 2016. The one-off restructuring expenses consist of provision for redundancies (RM41 million), asset impairment (RM36 million), provision for obsolete raw materials (RM15 million), leaseback rental (RM13 million) and project cost (RM9 million). The Group has also recorded a one-off gain from the disposal of the land and building which the factory operations are located amounting to RM159 million.

Profit from Operations

As a result of the overall impact of the loss in volumes, which was partially offset by lower operating expenses and one-off restructuring income, the Group registered a decline in Profit from Operations of 25.9 percent (RM321 million) when compared to the previous year. Profit from Operations, excluding the impact of one-off restructuring income, declined 29.6% (RM367 million). This profit delivery has led to a 2.6 percentage points reduction in Operating Profit Margin from 27.1 percent to 24.5 percent.

Taxation

The average effective tax rate of the Group for the financial year ended 31 December 2016 was 20.6 percent versus 26.1 per cent in 2015. The reduction in average effective tax rates of 5.5 percentage points in 2016 was attributed to the reversal of deferred tax liabilities arising from the sale of equipment and machinery sold to related parties, and non-taxability on capital gains from the sale of the land and building.

REVIEW OF FINANCIAL RESULTS

Dividends

The Group continued its strong commitment to pay dividends at a level above 90 percent of earnings. In 2016, the Group declared four quarterly interim dividends amounting to 232 sen per share. The Group has also announced a special dividend of 46 sen per share in relation to the utilisation of the sale proceeds from the sale of the land and building upon which the factory operations are located, after deducting the restructuring expenses. Total dividends declared for 2016 was 278 sen per share, which represents a 110 percentage earnings per share payout (2015: 98 percent). This translated into a dividend decline of 11 percent when compared to 2015.

Debt Structure

In 2016, there is no change in the Group's debt structure with a total debt facility of RM635 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 2016, the Group had RM130 million of revolving credits with tenor between one week to three month, as compared to RM305 million in 2015.

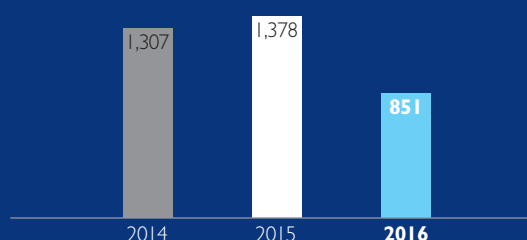
Working Capital and Liquidity

The closing cash and cash equivalents amounted to RM33 million, an increase of RM4 million from year 2015. The higher net cash inflows were largely due to the sale proceeds from the disposal of the land and building (RM218 million) and equipments (RM51 million). The cash inflows were partially offset by repayment of borrowings (RM175 million), capital expenditure (RM24 million) and higher working capital (RM66 million) attributed to the implementation of tax stamps which resulted in higher finished goods inventory valuation and tax stamps prepayment.

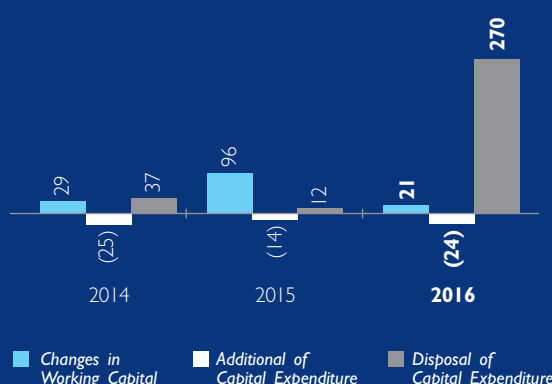
The EBITDA cash conversion recorded a deterioration of 16 percentage points, which was primarily driven by higher working capital as a result of the implementation of tax stamps.

	12 months 2016 RM million	12 months 2015 RM million	Favourable/ (Adverse) %
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	930	1,277	-27%
Profit from Operations	919	1,240	-26%
Cash from Operations	851	1,378	-38%
EBITDA Cash Conversion	92%	108%	-16ppt
Increase in cash and cash equivalents	+4	+25	-84%

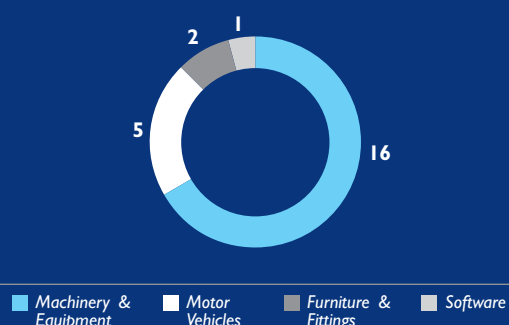
Cash from Operations (RM million)



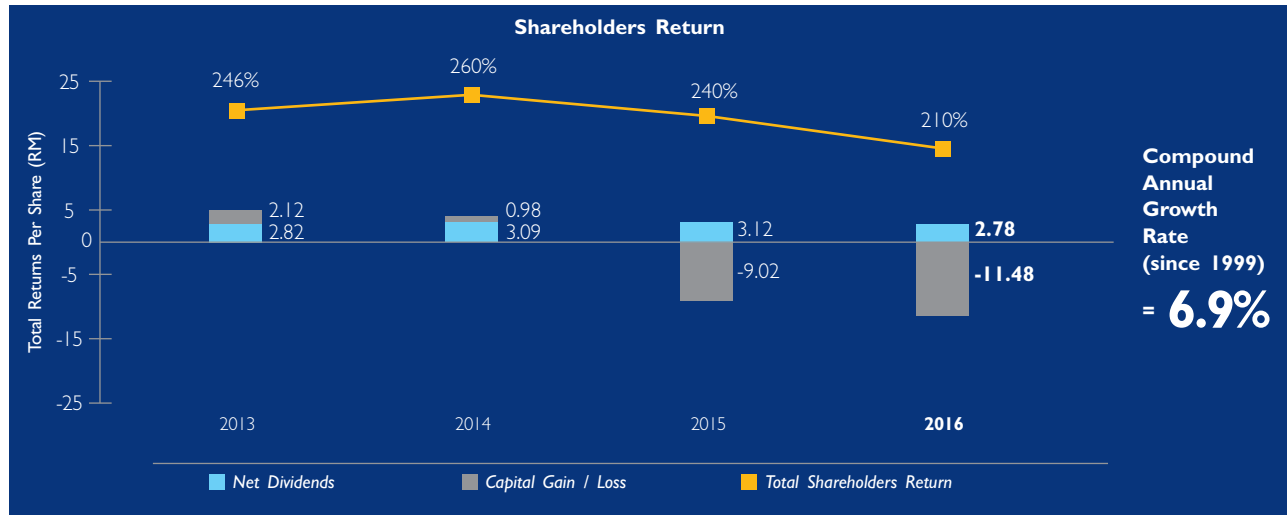
Key Cash Flow Components (RM million)



Capital Expenditure (RM million)



Shareholders Return

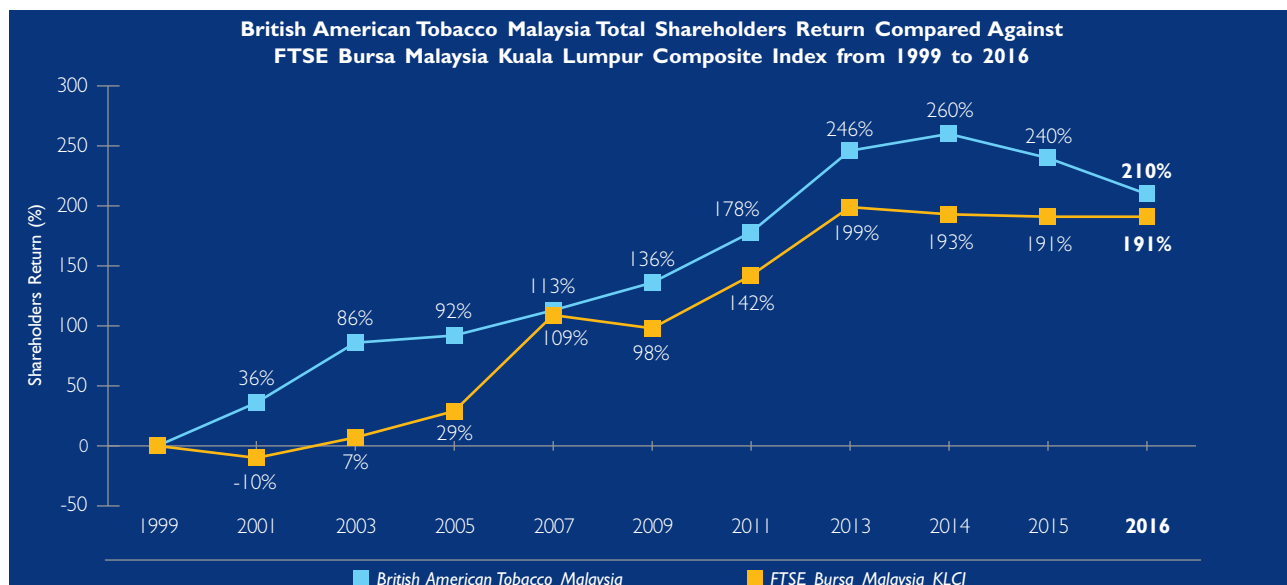


2016 proved to be another very challenging year, not only for the Malaysian economy, but also for the domestic tobacco industry, driven by the continued impact of the steep excise increase in November 2015, which in turn resulted in a sharp increase in illegal incidence. This situation translated into share price fluctuations for British American Tobacco Malaysia, with a total annual shareholder return loss of RM8.70 per share. This represented a total annual return decline of 15.5 percent when compared to 2015, comprised of dividends for the year and a 20.5 percent decline in share price.

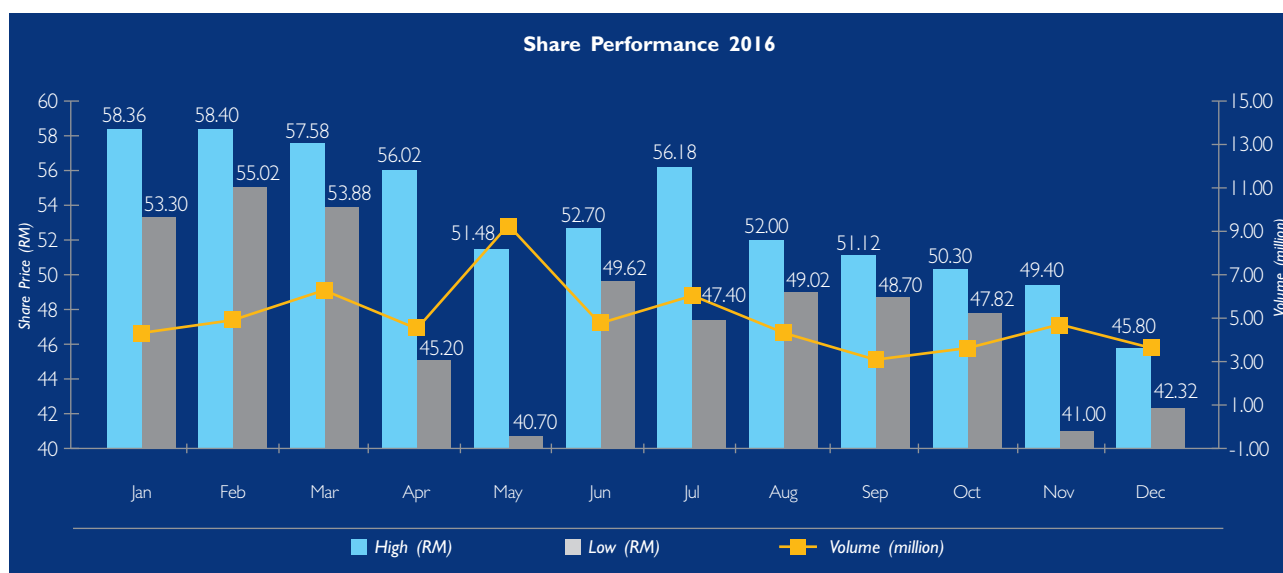
Despite the weaker 2016 share price performance, when measured since the merger in 1999, total shareholders return

remains solid at a 6.9 percent return per annum on a compounded basis. British American Tobacco Malaysia has consistently outperformed the FTSE Bursa Malaysia Kuala Lumpur Composite Index for the past 17 years since the merger, with market capitalisation exceeding RM12 billion as at end of year 2016. 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.



REVIEW OF FINANCIAL RESULTS



Treasury

The Group's foreign currency exposure mainly comes from purchases of raw materials and contract manufacturing exports. The currency exposure is minimised by partially hedging the net exposure for the next 12 months and by increasing the hedging ratio as the time for settlement gets nearer. The permitted range on the hedge ratio within 12 months of transaction date is 50 percent to 100 percent. This strategy is to avoid any ineffective hedges when the cash flow forecast changes before settlement date.

2017 OUTLOOK

Looking ahead to 2017, we remain concerned on the high illegal cigarette trade incidence standing at 57.1 percent as of December 2016, in the face of the contraction of the legal market fueled by the unprecedented excise increase in November 2015 and the impact to consumer spending.

However, British American Tobacco Malaysia is ready to face these challenges head on and is also encouraged by the Government's drive to reduce illegal cigarettes by 50 percent in 2017.

As a corporate citizen with more than a hundred years of proud legacy in Malaysia, we remain committed to our investments in the country.



FIVE YEAR PERFORMANCE HISTORY

Five Year Performance Highlights

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

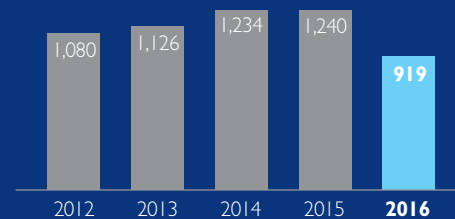
2013 – Dividend payout ratio has increased from approximately 90 percent in 2009 to almost 98 percent in 2013.

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.

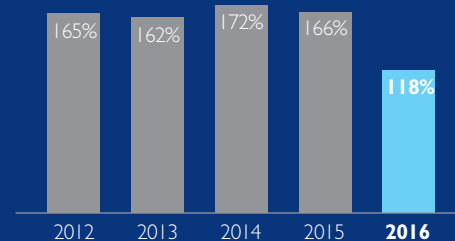
2015 – Unprecedented massive increase in excise of 40 percent in November 2015 resulted in another large tax-led price increase. This extreme hike in cigarette excise against the backdrop of both weakened economy and consumer sentiments, coupled with implementation of the Goods and Services Tax (GST) in April 2015 further dampened the legal industry. The share of illegal cigarette trade in 2015 has increased by 3.2 percentage points to 36.9 percent from 33.7 percent in 2014. (Source: Illicit Cigarette 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 BAT factories regionally and would cease the manufacturing operations at Virginia Park. The restructuring is 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 cigarette trade hit an all-time high record at 57.1 percent in the month of December 2016 (Source: Illicit Cigarette Study).

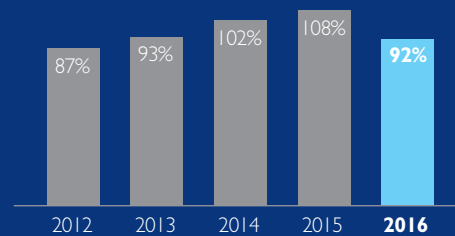
Profit from Operations (RM million)



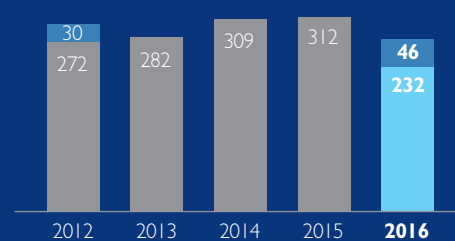
Return on Equity



EBITDA Cash Conversion



Dividend per Share (sen)



Special dividend

CORPORATE PROFILE



British American Tobacco Malaysia remains the clear market leader of the Malaysian cigarette industry, with approximately 57.1 percent market share, and ranks amongst the top 30 companies on Bursa Malaysia Securities Berhad in terms of market capitalisation. British American Tobacco Malaysia markets high quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes well-established international names such as DUNHILL, KENT and PALL MALL.

British American Tobacco Malaysia has a combined history of over 100 years in Malaysia going back to 1912. The wealth of expertise, coupled with leading edge technology and efficient systems and processes employed in all aspects of our business activities, position us well to meet the challenges of the future. We currently employ 668 employees who are involved in the full spectrum of the tobacco industry, from processing and manufacturing, to marketing and distribution. Our comprehensive distribution network spans the length and breadth of the country, ensuring that our brands are available everywhere in Malaysia.

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

BAT names Erik Stael new MD

BY SANGEETHA AMARATHILINGAM

KUALA LUMPUR: British American Tobacco (M) Bhd (BAT) has appointed its North Asia area director Erik Stael to assume the managing director (MD) post, effective June 1.

In a bourse filing, BAT said Stael, from the Netherlands, replaces former MD Stefano Cini, who resigned on May 3 and will be returning to his home country Italy after concluding his international assignment here.

Stael has held numerous top brand marketing positions in the conglomerate in South Korea, Ukraine, Dubai (United Arab Emirates), Hong Kong, Pakistan, the United Kingdom, Vietnam and Malaysia over the past 20 years.

He is also no stranger to BAT Malaysia, where he served as marketing director in 2010, before moving to South Korea as BAT Korea's marketing director in 2012. Subsequently, he was promoted to the role of North Asia area director, running South Korea, Taiwan, Hong Kong and Macau operations.

"Malaysia will undoubtedly present a more unique challenge,



Stael has held numerous top brand marketing positions in the conglomerate over the past 20 years.

especially due to rampant illegal cigarettes that had reached 45.6% as at December 2015, following high excise hikes," observed Erik Stael in a statement.

"However, armed with my familiarity with the Malaysian market, and BAT Malaysia employees' pride and passion for a more than a century-old company, I am confident that we can together work towards steering the business to a new and more sustainable model. There will be so much to do, but I am really looking forward to my new role in this great company," he added.



WEEK IN FOCUS

BAT Malaysia to stay put on local bourse

Company debunks factory closure as not related to discussion of remaining listed for foreseeable future

By SANGEETHA AMARATHILINGAM

KUALA LUMPUR: British American Tobacco (M) Bhd (BAT) will continue to be listed on the local stock exchange, the company said today.

"We respect the interest of the shareholders and we are not going to comment on the company's future plans with regard to listing or delisting," BAT said in a statement.

"However, for the foreseeable future, we will stay as a listed company in Malaysia. The decision to list or delist the company is not related to the factory closure," BAT said.

BAT said the market by capital after announcing it was closing down its manufacturing facility in

part of its restructuring. "It is the shared responsibility of listed companies and high level tobacco products were being sold in the market," BAT said. The local tobacco industry has been under pressure since 2013 and 2015, as BAT and other tobacco companies have been forced to close down their factories in the region. BAT said it was also reported that the company was planning to close down its factory in the region. BAT said it was not going to comment on the company's future plans with regard to listing or delisting. BAT said it was not going to comment on the company's future plans with regard to listing or delisting. BAT said it was not going to comment on the company's future plans with regard to listing or delisting.

TOP 10 most transparent K1 CI constituents

Rank	Company	Score
1	Maybank	8.5
2	RHB	8.2
3	TM	7.8
4	Public Bank	7.5
5	Bank of China	7.2
6	HSBC	7.0
7	Bank of Communications	6.8
8	Bank of Asia	6.5
9	Bank of East Asia	6.2
10	Bank of Singapore	6.0



SAMANLI (dua dari kanan) pada majlis Anugerah Kecemerlangan Sumber Manusia Asia 2016.

BAT Malaysia raih 4 anugerah

KUALA LUMPUR: British American Tobacco (M) Bhd (BAT) Malaysia menerima empat anugerah pada majlis Anugerah Kecemerlangan Sumber Manusia Asia 2016 yang diadakan di Kuala Lumpur, semalam.

BRITISH AMERICAN TOBACCO MALAYSIA IN THE NEWS



CONSUMER PRODUCTS (Highest Return on Equity Over Three Years) — British American Tobacco (Malaysia) Bhd (Erik Stael, managing director)

Teroka model perniagaan baharu

KUALA LUMPUR: British American Tobacco (M) Bhd (BAT) Malaysia sedang meneliti model perniagaan baharu yang lebih mampan dan berdaya maju. BAT Malaysia sedang meneliti model perniagaan baharu yang lebih mampan dan berdaya maju. BAT Malaysia sedang meneliti model perniagaan baharu yang lebih mampan dan berdaya maju. BAT Malaysia sedang meneliti model perniagaan baharu yang lebih mampan dan berdaya maju.

Strategi realistik BAT perang rokok seludup

» Peningkatan produk haram jejas barangan bercukai

oleh NURA HANIFFAH

nuramh@berita.com.my

» Kuala Lumpur

Peningkatan produk haram jejas barangan bercukai. BAT Malaysia sedang meneliti model perniagaan baharu yang lebih mampan dan berdaya maju. BAT Malaysia sedang meneliti model perniagaan baharu yang lebih mampan dan berdaya maju. BAT Malaysia sedang meneliti model perniagaan baharu yang lebih mampan dan berdaya maju.

Yang turut hadir, Pengarah BAT, Tan Sri Mohamad Salim Faleh Din. Pada 18 Mac lalu, BAT Malaysia mengumumkan pematuhan langkahnya di Virginia Park, Petaling Jaya, Selangor berikutan peningkatan penapisan serta peningkatan rokok seludup.



Mohamad Salim (dua dari kanan) dan Cini (dua dari kiri) pada sidang media selepas Mesyuarat Agung Tahunan (AGM) Ke-55 BAT Malaysia di Kuala Lumpur, semalam.

AWARDS AND ACHIEVEMENTS

We continue to strive in ensuring all aspects of our business conducts are done to the highest standards of accountability and transparency. 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 recognitions as listed.



2016

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 three 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.

2015

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.
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 Governance Transparency Index, Findings and Recognition 2015 – The Malaysian Chapter.

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.

2013

1. Ranked sixth globally and first in Malaysia for Environment, Social and Governance.
2. Winner for Reporting in the Annual Report category for ACCA Malaysia Sustainability Reporting Awards (MaSRA) 2013.

3. Highest Return on Equity in the Consumer Products Sector for the Edge Billion Ringgit Club Awards 2013.
4. Highest Return on Equity in the Big Cap Companies category for the Edge Billion Ringgit Club Awards 2013.
5. Gold Award for Investor Relations for The Asset Corporate Awards 2013.
6. Top 3 Companies in Malaysia for Most Committed for Strong Dividend Policy in FinanceAsia Awards Poll.

2012

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

2016 CORPORATE EVENTS HIGHLIGHTS

JANUARY

- Launched DUNHILL Reserve.



FEBRUARY

- Conducted financial analyst briefing on Fourth Quarter 2015 financial results.

MARCH

- Launched PETER STUYVESANT Remix, the new double capsule addition to the PETER STUYVESANT offerings.
- Held Company Family Day at Sunway Lagoon Theme Park.



APRIL

- Organised a badminton competition amongst employees.
- Conducted financial analyst briefing on First Quarter 2016 financial results.
- British American Tobacco Malaysia's Annual General Meeting (AGM).



MAY

- Recognised with four awards at the Asia Recruitment Awards 2016.
- Conducted the Company's annual Treasure Hunt.



JUNE

- British American Tobacco Malaysia's Buka Puasa Celebration.



JULY

- Upgrade of DUNHILL Capsule Range.
- Conducted financial analyst briefing on Second Quarter 2016 financial results.
- Fishing competition organised by BAT Malaysia Sports Club.



AUGUST

- Upgrade of DUNHILL Core Range featuring TASTELOC™, a first in the BAT world.
- Employees get domesticated in a cooking class by Nathalie's Gourmet Studio.



SEPTEMBER

- British American Tobacco Malaysia's Extraordinary General Meeting (EGM).

OCTOBER

- Winner of three awards in various categories at the HR Excellence Awards 2016.
- Recognised in the Edge Billion Ringgit Club Awards 2016 as a profitable company in the consumer product category.
- Conducted financial analyst briefing on Third Quarter 2016 financial results.



NOVEMBER

- British American Tobacco Malaysia's Explore Hunt.
- Held Company Annual Dinner and Dance themed A Black and White Affair, which also honoured long-serving and retiring employees.
- The inauguration of the prestigious Leadership Team Awards.



DECEMBER

- Awarded scholarships to 22 scholars pursuing higher education.
- 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.



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

Datuk Christine Lee Oi Kuan

DPSM
Non-Independent Executive Director
(Legal and External Affairs Director)

Ricardo Martin Guardo

Non-Independent Executive Director
(Finance Director)

COMPANY SECRETARY

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

REGISTERED OFFICE

Virginia Park, Jalan Universiti
46200 Petaling Jaya, Selangor Darul Ehsan
Tel: +60 (3)7956 6899
Fax: +60 (3)7955 8416
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
E-mail: 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
HSBC Bank Malaysia Berhad
Malayan Banking Berhad
Sumitomo Mitsui Banking Corporation Malaysia Berhad
BNP Paribas 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



□ **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%**

Tobacco Blenders and
Manufacturers Sdn. Bhd.*

□ **100%**

The Leaf Tobacco
Development Corporation
of Malaya Sdn. Berhad*

□ **100%**

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

* These Companies have been placed under members voluntary liquidation on 1 September 2015.

BOARD OF DIRECTORS



From Left :

**Ricardo Martin Guardo, Datuk Zainun Aishah binti Ahmad, Datuk Oh Chong Peng,
Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat, Hendrik Stoel, Datuk Christine Lee Oi Kuan,
Dato' Chan Choon Ngai**

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 65, Malaysian (Male)



Date Appointed to the Board:

- 1 January 2017

Qualifications:

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

Membership of Board Committee:

- Nomination Committee (Chairman)

Number of Board Meetings Attended in the Financial Year:

- N/A (Appointed after the financial year)

Present Directorship(s):

Listed Entities

- MWE Holdings Berhad
- Lion Diversified Holdings Berhad

Other Public Companies

- Nil

Working Experience:

- 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.

- Starting in 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 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. He was also the Chairman of Pos Malaysia from July 2008 to 2011.
- Tan Sri Dato' Seri Dr Aseh is active in community service and is also currently the Chairman of the University Council of Limkokwing University of Creative Technology, 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, Melaka. He has also been active in the Administrative and Diplomatic Service (ADS) and was its longest serving President.

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.



HENDRIK STOEL (ERIK)

Non-Independent Executive Director
(Managing Director)

Aged 48, Dutch (Male)

Date Appointed to the Board:

- 1 June 2016

Qualifications:

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

Membership of Board Committees:

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

Number of Board Meetings Attended in the Financial Year:

- 4/4

Present Directorship(s):

Listed Entity

- Nil

Other Public Companies

- Nil

Working Experience:

- Hendrik Stoel first joined the British American Tobacco (BAT) Group in 1995 as a Brand Manager in Ukraine. He has now more than twenty years of international experience in the BAT Group that spans across the London Head Office, Eastern Europe, Middle East and Asia Pacific markets. One of Hendrik's assignments was to serve as Marketing Director of BAT Malaysia in 2010-2012 before moving to Korea as BAT Korea's Marketing Director.
- Subsequently, he was promoted to the role of Area Director North Asia Area, responsible for Korea, Taiwan, Hong Kong and Macau.
- Hendrik rejoined BAT Malaysia as Managing Director on 1 June 2016.

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

PROFILE OF DIRECTORS



DATUK OH CHONG PENG

PJN, JSM

Independent Non-Executive Director

Aged 72, 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:

- 7/8

Present Directorship(s):

Listed Entities

- Alliance Financial Group Berhad
- Malayan Flour Mills Berhad
- Dialog Group Berhad
- WCE Holdings Berhad (formerly known as Kumpulan Europlus Berhad)

Other Public Companies

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

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.



DATO' CHAN CHOON NGAI

DSNS

Independent Non-Executive Director

Aged 61, Malaysian (Male)

Date Appointed to the Board:

- 1 February 2011

Qualification:

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

Membership of Board Committee:

- Audit Committee

Number of Board Meetings Attended in the Financial Year:

- 7/8

Present Directorship(s):

Listed Entity

- Nil

Other Public Companies

- Nil

Working Experience:

- 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.

- In July 2000, Dato' Chan was appointed as the Operations Director of British American Tobacco (Malaysia) Berhad. Effective 15 November 2010, Dato' Chan's portfolio was expanded to include the Business Development Services (BDS) function in addition to his role as the Operations Director of the Company.
- Dato' Chan retired on 31 December 2010. He was subsequently reappointed on contract as the Operations Director of British American Tobacco (Malaysia) Berhad effective 1 February 2011, overseeing both Operations and BDS. He was re-designated as Non-Independent Non-Executive Director of British American Tobacco (Malaysia) Berhad on 1 January 2013 following the expiry of his contract of service on 31 December 2012.

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

PROFILE OF DIRECTORS



DATUK ZAINUN AISHAH BINTI AHMAD

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

Aged 70, Malaysian (Female)

Date Appointed to the Board:

- 1 March 2012

Qualification:

- Bachelor of Economics degree from University of Malaya

Membership of Board Committees:

- Remuneration Committee (Chairman)
- Audit Committee

Number of Board Meetings Attended in the Financial Year:

- 8/8

Present Directorship(s):

Listed Entities

- Degem Berhad
- Scomi Engineering Berhad
- Berjaya Food Berhad
- Shell Refinery Company (Federation of Malaya) Berhad

Other Public Companies

- 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.

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

DATUK CHRISTINE LEE OI KUAN

DPSM

Non-Independent Executive Director
(Legal and External Affairs Director)

Aged 58, Malaysian (Female)



Date Appointed to the Board:

- 1 March 2012

Qualification:

- Degree in Law from the University of Malaya

Membership of Board Committee:

- Corporate Social Responsibility Committee

Number of Board Meetings Attended in the Financial Year:

- 8/8

Present Directorship(s):

Listed Entity

- Nil

Other Public Companies

- Nil

Working Experience:

- Datuk Christine started her career in the Attorney General's Chambers of Malaysia in 1983, serving in the Prosecution and Advisory and International Law Divisions.

- Prior to joining British American Tobacco (Malaysia) Berhad, Datuk Christine was the Legal Manager and Company Secretary of two public listed companies, Hong Leong Industries Berhad and Malaysian Pacific Industries Berhad.
- In 2001, Datuk Christine started out as the Head of Legal and Company Secretary at British American Tobacco (Malaysia) Berhad. Datuk Christine was appointed to the Top Team, now known as Leadership Team of British American Tobacco (Malaysia) Berhad on 1 January 2006 and assumed the role of Corporate and Legal Affairs Director, now known as Legal and External Affairs Director of British American Tobacco (Malaysia) Berhad on 1 September 2006.
- In her current role as the Legal and External Affairs Director, Datuk Christine is responsible for corporate and regulatory affairs and legal matters of the Group.

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

PROFILE OF DIRECTORS



RICARDO MARTIN GUARDO

Non-Independent Executive Director

Aged 39, Argentinian (Male)

Date Appointed to the Board:

- 1 September 2016

Qualification:

- Bachelor of Business Administration from 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:

- 3/3

Present Directorship(s):

Listed Entity

- Nil

Other Public Companies

- Nil

Working Experience:

- Ricardo started his career in British American Tobacco (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.
- 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.
- In July 2010, he moved to BAT Taiwan as Head of Finance. He served as Regional Finance Manager in BAT Asia Pacific from November 2012 to May 2014. Since June 2014, Ricardo assumed the role as Head of Finance in BAT Romania.
- Ricardo assumed the role as Finance Director in BAT Malaysia on 1 September 2016.

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

PROFILE OF LEADERSHIP TEAM MEMBERS



HENDRIK STOEL (ERIK)

Managing Director

Aged 48, Dutch (Male)

Date Appointed to the Leadership Team:

- 1 June 2016

For details of Hendrik Stoel's profile, please refer to page 27 of this Annual Report.

PROFILE OF LEADERSHIP TEAM MEMBERS



RICARDO MARTIN GUARDO

Finance Director

Aged 39, Argentinian (Male)

Date Appointed to the Leadership Team:

- | September 2016

For details of Ricardo Martin Guardo's profile, please refer to page 32 of this Annual Report.



DATUK CHRISTINE LEE OI KUAN

Legal and External Affairs Director

Aged 58, Malaysian (Female)

Date Appointed to the Leadership Team:

- | January 2006

For details of Datuk Christine Lee's profile, please refer to page 31 of this Annual Report.

PROFILE OF LEADERSHIP TEAM MEMBERS



KARL YAP CHEE KEONG

Marketing Director

Aged 43, Malaysian (Male)

Date Appointed to the Leadership Team:

- 1 October 2016

Qualification:

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

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

- Karl Yap first joined British American Tobacco in Malaysia as a Management Trainee in 1998 and has held various positions in Marketing since then.
- In 2006, he joined the International Brand Group in London as Senior International Brand Manager. Upon completion, he returned to British American Tobacco (Malaysia) Berhad and assumed the position of Area Head of Strategy, Planning & Insights and subsequently Area Head of Trade. Before being appointed to his current role, he was the Head of Marketing in British American Tobacco Philippines.
- Karl Yap was appointed as Marketing Director of British American Tobacco (Malaysia) Berhad on 1 October 2016.

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

PROFILE OF LEADERSHIP TEAM MEMBERS



SAMANMALEE PRIYANVADA CHANDRASIRI

Human Resources Director

Aged 35, Sri Lankan (Female)

Date Appointed to the Leadership Team:

- 1 March 2016

Qualifications:

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

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

- Having first joined the British American Tobacco (BAT) Group as a Management Trainee in BAT Sri Lanka, Samanmalee has now been in service with the Group for 16 years. She has held various Human Resources roles in Sri Lanka and South Asia including Area Head of Talent SAA, before moving to Indonesia as the Organisation Effectiveness Advisor for Bentoel Group.
- After her stint in Indonesia, Samanmalee returned to Sri Lanka in 2013 as the Human Resources Director of BAT Sri Lanka where she facilitated the implementation of a more sustainable business model prior to her current role.

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

PROFILE OF LEADERSHIP TEAM MEMBERS



JONATHAN DAVID JONES

Operations Director

Aged 52, British (Male)

Date Appointed to the Leadership Team:

- 15 November 2016

Qualification:

- Bachelor of Science in Mechanical Engineering from The Polytechnic of Wales, United Kingdom

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

- Jon Jones joined British American Tobacco (BAT) at its UK Headquarters in 1993 as a Project Engineer. Jon has held various roles within the BAT Group within Manufacturing, R&D, Supply Chain and Marketing.
- In 2006 Jon was appointed Head of Manufacturing for BAT Russia where he oversaw the transition of the three Russian Factories into a new Supply Chain operating model as well as driving improvements in integrated working between the factories. Between 2008 - 2010 as Head of Supply Chain in Western Europe he led the integration of the Western European factories into the integrated supply chain model. From 2012, as Head of Manufacturing in Western Europe, Jon drove efficiencies and cost reduction through a focus on Continuous Improvement and reduction of waste. Jon has further developed his business knowledge through time spent working in Research & Development, Marketing and as an International Auditor.

- In his most recent role and prior to joining British American Tobacco (Malaysia) Berhad, Jon was the Group Head of Environment Health and Safety from May 2014 to November 2016.

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 public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Governance 04

Information on how British American Tobacco (Malaysia) Berhad is governed and run at the Board and executive level.

STANDARDS OF BUSINESS CONDUCT STATEMENT

The Standards of Business Conduct (Standards) are a set of global policies adopted locally, which expresses the high standards of integrity that British American Tobacco (Malaysia) Berhad and subsidiaries (the Group) is committed to upholding. It is a fundamental policy of the Group which requires the Board of Directors (the Board) and its employees to observe and to comply with the laws and regulations applicable to them and also operate in accordance with the Standards. The Group believes that it must operate its business in a trustworthy and responsible manner.

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



The areas covered by the Standards are:

- | | |
|---|---|
| (i) Conflicts of Interest | (x) Protection of Corporate Assets |
| (ii) Bribery and Corruption | (xi) Confidentiality and Information Security |
| (iii) Whistleblowing | (xii) Insider Dealing and Market Abuse |
| (iv) Entertainment and Gifts | (xiii) Competition Law and Anti-Trust Laws |
| (v) Respect in the Workplace | (xiv) Money Laundering and Anti-Terrorism |
| (vi) Human Rights and Our Operations | (xv) Trade in Products |
| (vii) Political Contributions | (xvi) Sanctions |
| (viii) Charitable Contributions | (xvii) Principles for Engagement |
| (ix) Accurate Accounting and Record Keeping | |

STANDARDS OF BUSINESS CONDUCT STATEMENT

The key Standards are highlighted as follows:

Conflicts of Interest

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 interest the soonest possible. 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. These declarations are then registered and maintained in the Group's Conflict of Interest register.

Among the conflicts of interest declared was the declaration by the then Chairman of the Board, Tan Sri Mohamad Salim bin Fateh Din (Tan Sri Mohd Salim), with respect to the renting of space for siting of cigarette dispensing units entered into by Jutaria Gemilang Sdn Bhd (JGSB) and Commercial Marketers and Distributors Sdn Bhd (CMD). Tan Sri Mohd Salim holds 98.25% interest in Gapurna Sdn Bhd (GSB), which in turn holds 70% interest in JGSB. Pursuant to Section 6 of the Companies Act, 1965, Tan Sri Mohd Salim is deemed interested in the shareholding in JGSB to the extent that GSB has an interest. In compliance with Section 131 of the Companies Act, 1965, Tan Sri Mohd Salim declared his interest in the contract with respect to the renting of space for siting of cigarette dispensing units entered into by JGSB and CMD. For the purposes of the said declaration, it is however noted that Tan Sri Mohd Salim has resigned with effect 31 December 2016.

Additionally, there had been 13 declarations of conflict of interest made by employees of the Group, of which nine consisted of employees having family members working within the Group, three consisted of employees having family members working with services providers of the Group, and one not considered to be in conflict.

Bribery and Corruption

Anti-Corruption Toolkit

The Standards requires all employees to act with high standards of business integrity and strict compliance is therefore of significant importance to the Group. The Anti-Corruption Toolkit (Toolkit) identifies the key controls that the Group is to have in place in order to support strict compliance with the Standards. The Toolkit offers a guided approach as it identifies the applicable requirements of the Standards in different circumstances whilst providing training materials and useful documents as well as templates to facilitate compliance with the Standards and to support the Group in implementing the relevant procedures and controls.

The Toolkit is divided into the following sections:

- (a) Bribery and Corruption
- (b) Suppliers and Service Providers
- (c) Entertainment and Gifts
- (d) Political Contributions
- (e) Charitable Contributions
- (f) Whistleblowing
- (g) Risk Assessment
- (h) Compliance and Monitoring

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

Whistleblowing

Within the Standards on whistleblowing, the Group has set out a whistleblowing policy in 2004 which details the procedures which must be followed to enable employees to voice their concerns without fear of retaliation and with the confidence that their complaints will be acted upon and their identity kept confidential. The policy is reviewed for enhancements from time to time.

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

To further enhance the whistleblowing procedure framework, the Company had put in place the Procedures on Incident Reporting and Investigation (Incident Procedures). The Incident Procedures is made available to all employees via the Company's intranet and informed to all employees during corporate onboarding training. The Incident Procedures formally set out the process and procedures for reporting, investigation and evaluation of any suspicion of wrongdoing or misconduct committed by any employee of the Company and non-employee who is a business partner/service provider of the Company in a prompt and effective manner. The evaluation of any incidences reported is conducted by a formal evaluation committee comprising a majority of the Company's Leadership Team (EVT). The EVT is tasked to effectively drive and evaluate the investigation of any reported incident and decide on appropriate action to be taken arising from the investigation and is guided in its review of all

STANDARDS OF BUSINESS CONDUCT STATEMENT

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 action including freezing of increments, issuance of warnings and termination will be taken. If any control weaknesses are identified by the investigation team, such weaknesses will be rectified to prevent future occurrences.

The outcome of the investigations and the actions taken by the Company will be reported to the Audit Committee of the Company and further submitted to the Regional Audit Committee for the British American Tobacco p.l.c's Main Board Audit Committee. The Company maintains a register of all whistleblowing and breach of Standards incidences.

With the presence of the whistleblowing procedure, Incident Investigation Procedures and stringent control measures, the Company investigated two whistleblowing and nine breach incidents in 2016.

SUPPLIER CODE OF CONDUCT

As the Standards express the high standards of business integrity that is required from the Group and its employees, a new addition that complements the Standards was introduced in 2016 in the form of the Supplier Code of Conduct (SCoC) which defines the minimum standards 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.

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.

STATEMENT ON CORPORATE GOVERNANCE

Corporate Governance Framework

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

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

This Statement on Corporate Governance (Statement) provides an insight to the shareholders and investors on the corporate governance practices of the Group.

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) (the Act replaced the Companies Act, 1965)
- (b) Main Market Listing Requirements (Listing Requirements) of Bursa Malaysia Securities Berhad (Bursa Securities)
- (c) Malaysian Code on Corporate Governance 2012 (MCCG 2012)
- (d) Corporate Governance Guide: Towards Boardroom Excellence of Bursa Securities, 2nd Edition (CG Guide)
- (e) Corporate Disclosure Guide by Bursa Securities (CD Guide)
- (f) Malaysia-ASEAN Corporate Governance Scorecard by Minority Shareholder Watchdog Group (MSWG)
- (g) British American Tobacco p.l.c's Code of Corporate Governance
- (h) Standards of Business Conduct of the Company
- (i) Statement of Business Principles of the Company (Business Principles)

(j) Statement of Delegated Authorities of the Company

In driving high standards of corporate governance, the Board continuously reviews its corporate governance framework to ensure its relevance, effectiveness and sustainability in addressing the challenges of the business. The Company is also guided by the Company's Business Principles that covers key matters that underpin Corporate Responsibility (CR) for a multinational business and more particularly, the unique characteristics of a tobacco business. The three Business Principles are Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct, each of which is supported by a core belief which explains and supports the Business Principles.

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

The Board notes the recommendation from the MCCG 2012 in formalising a Board Charter which outlines amongst others, the composition of the Board, the division of responsibilities and powers between the Board, Board committees, senior management, the Chairman and the Chief Executive Officer/ Managing Director. The Board is however guided by the BATM Code which sets out similar principles and processes as the Board Charter in the discharge of their responsibilities and also the processes and procedures of the Board and Board Committees' meeting. 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.

Together with the abovementioned, the Company's Constitution, the regulatory and statutory requirements and the Company's internal policies, principles and practices have complied with the main recommended contents of the Board Charter in line with the MCCG 2012.

STATEMENT ON CORPORATE GOVERNANCE

I. ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES

I.1 Roles and Responsibilities

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

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

- (a) reviewing and adopting the strategic plan of the Company;
- (b) overseeing the conduct of the Company's businesses;
- (c) identifying principal risks and ensuring the implementation of appropriate internal controls to manage these risks;
- (d) establishing succession plan including appointing, training, fixing the compensation of and, where appropriate, replacing senior management;
- (e) reviewing the adequacy and integrity of the management information and internal control systems of the Company.

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.

Overview of the Roles on the Board

Role	Key Responsibilities
Chairman	The Chairman's role is to provide leadership to the Board and preside over Board meetings of Directors to ensure smooth functioning of the Board in the interest of good corporate governance.
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.
Independent Directors	The Independent Directors are responsible for acting as a check and balance on the Company's management by providing independent and unbiased views, in order to safeguard the assets of the Company and protecting the interest of shareholders as a whole.
Non-Executive Directors	The Non-Executive Directors are responsible for monitoring and supervising the performance of the Board and management and also act as caretakers of minority interest.

STATEMENT ON CORPORATE GOVERNANCE

Leadership Team

The Board is assisted by the senior management of the Company, namely the Leadership Team (LT). The LT consists of senior employees holding the following positions:

- (a) Managing Director
- (b) Finance Director
- (c) Marketing Director
- (d) Operations Director
- (e) Legal and External Affairs Director
- (f) Human Resources Director

The responsibilities and authorities of the LT are clearly defined in the Company's Corporate Authority Limit, which is read with the Statement of Delegated Authorities. The LT 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 LT will also be invited to attend Board meetings to advise the Board and furnish the Board with information and clarification as and when required on items in the agenda tabled to the Board and Board Committees.

For details of each LT member, please refer to pages 33 to 37 of this Annual Report under the Profile of LT Members.

1.2 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) 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.

(b) 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.

(c) Employment Principles

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

(d) 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.

(e) 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.

(f) International Marketing Principles

An internal framework to govern all aspects of tobacco marketing.

(g) Policy on Business Security

Provides for effective business focused security throughout the Company.

(h) Policy on Data Protection

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

(i) 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.

STATEMENT ON CORPORATE GOVERNANCE

(j) Standards of Business Conduct

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

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

For further information on the Standards of Business Conduct, please refer to pages 39 to 41 of this Annual Report under the Standards of Business Conduct Statement.

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

1.3 Promoting Sustainability

The Board is cognisant that the governance of sustainability agenda is extremely important to the Company as it enables the business to effectively embed sustainability as part of its business. The Company's Sustainability Framework focus is on four key pillars, namely Community, Workplace, Environment and Marketplace. The Sustainability Report is laid out separately from pages 82 to 112 of this Annual Report.

1.4 Access to Information and Advice

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

Prior to Board and Board Committees meetings, a formal and structured agenda together with a set of Board and Board Committees papers containing information relevant to the matters to be deliberated at the meeting is forwarded to all Directors at least five days before the relevant Board and Board Committees meetings. This is to enable Directors to have sufficient time to review, consider, and if necessary, obtain further information or research on the matters to be deliberated in order to be well prepared at the meetings.

The meeting papers are presented in a manner which include among others, comprehensive management reports, minutes of meetings, project proposals and discussion documents regarding specific matters. Minutes of the respective Board Committees' meetings are presented to the Board at the meeting.

Through regular Board meetings, the Board receives updates on the new statutory and regulatory requirements relating to the duties and responsibilities of Directors and their impact and implication to the Company and the Directors in carrying out their fiduciary duties and responsibilities.

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.

1.5 Qualified and Competent Company Secretary

The Company Secretary is responsible in advising the Board on issues relating to regulatory compliance matters, policies and rules as well as best practices on governance. The Board has unrestricted access to the advice and services of the Company Secretary. The Board is regularly kept up to the date on regulations and guidelines, as well as any amendments issued by Bursa Securities, Securities Commission, Companies Commission of Malaysia and other relevant regulatory authorities.

STATEMENT ON CORPORATE GOVERNANCE

The Company Secretary is also responsible for the operation of the secretariat function, including lodgements with relevant statutory and regulatory bodies and the administration of Board and Board Committee meetings.

The Company Secretary attends all meetings of the Board and Board Committees and is responsible for the accuracy and adequacy of records of proceedings of the Board and Board Committee and resolutions.

2. STRENGTHENING COMPOSITION

2.1 Board Committees and Sub-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 2012 and other related policies or regulatory requirements.

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

The Sub-Committees namely, Corporate Social Responsibility Committee and Risk Management Committee reports to the AC while Executive Compensation Committee reports to the RC. The Sub-Committees members are made up of the LT 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.

(a) Audit Committee

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 58 to 60 of this Annual Report under the AC Report.

(b) Nomination Committee

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

For details on the composition, TOR, a summary of activities of the NC, selection and assessment of Directors, please refer to pages 61 to 63 of this Annual Report under the NC Report.

(c) Remuneration Committee

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 LT.

The Members of the RC are as follows:

(i)	Datuk Zainun Aishah binti Ahmad	–	Chairman
(ii)	Datuk Oh Chong Peng	–	Member
(iii)	Hendrik Stoel	–	Member

The RC met four times during the year under review and the activities carried out by the RC were as follows:

- (i) Discussed and recommended to the Board for approval, annual bonus, salary increments, remuneration package for LT members.
- (ii) Reviewed and recommended to the Board for approval, revisions to Human Resources related policies.
- (iii) Reviewed and recommended to the Board for approval, the revised TOR of the RC.
- (iv) Discussed and recommended to the Board for approval, the remuneration package for Non-Executive Directors.

STATEMENT ON CORPORATE GOVERNANCE

(d) Sub-Committees

Sub-Committees	Roles
Executive Compensation Committee (ECC) Chairman: Managing Director	<p>Reviews and approves all elements of remuneration, compensation payments, bonuses, rewards and benefits which include inter alia, the elements set out below, save and except salaries of employees in the Company which are reviewed and approved by the relevant Head of Functions with the Human Resources Director.</p> <p>The current members include the Managing Director, Finance Director and Human Resources Director. The Company Secretary acts as the Secretary of the ECC.</p> <p>The ECC meets on a bi-annually basis and when deemed necessary. The ECC met twice in the financial year to review and deliberate on matters related to remuneration, benefits and payments of employees in the Group.</p>
Corporate Social Responsibility (CSR) Committee Chairman: Managing Director	<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 LT and the Corporate Affairs Manager act as the Secretary to the CSR Committee.</p> <p>The CSR Committee met twice in the financial year to deliberate on among others, the review of the Company's current sustainability framework and strategy and the update on the Company's 2016 sustainability initiatives.</p> <p>For detail of the corporate responsibility activities, please refer to pages 82 to 112 of this Annual Report.</p>
Risk Management Team (RMT) Chairman: Finance Director	<p>Reviews and updates the LT and AC on the Company's Enterprise Risk Management Programme, ongoing status of the key risk 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 2016 to deliberate on among others, the review of the Risk Register, key learnings from the conducted Business Continuity Plan tests as well as the risk mitigation plans.</p> <p>For details of the Company's Enterprise Risk Management activities in 2016, please refer to page 67 of this Annual Report.</p>

STATEMENT ON CORPORATE GOVERNANCE

2.2 Directors' 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 Winning Organisation strategy. Executive Directors who are full time employees, receive no additional compensation for services as a Director of the Board. On an annual basis, the RC considers market competitiveness, business results and individual performance in evaluating the Executive Directors' remuneration.

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

The remuneration package for Directors comprises the following elements, where applicable:

- (a) Fees – the fixed annual fees to be paid to the Non-Executive Directors.
- (b) Salaries – the basic salaries for the Executive Directors as recommended by the RC to the Board for approval.
- (c) Other Emoluments* – Emoluments such as bonuses, retirement benefits, provision for leave, fixed allowances, statutory contributions and incentives in the form of shares/option in shares of British American Tobacco p.l.c pursuant to the British American Tobacco p.l.c's shares scheme.
- (d) Benefits-in-kind** – Customary benefits such as provision of rented accommodation for expatriate Executive Directors, motor vehicle, club membership and personal expenses are made available to the Executive Directors in accordance with the policies of the Company.

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

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

STATEMENT ON CORPORATE GOVERNANCE

The details of the Directors' remuneration comprising remuneration received/receivable from the Company and subsidiaries respectively for the financial year ended 31 December 2016 are as follows:

(a) Aggregate remuneration of Directors categorised into appropriate components are as follows:

(i) Received from BATM

	Fees (RM)	Salaries (RM)	Other Emoluments* (RM)	Benefits-in-kind** (RM)	Total (RM)
Executive Directors					
Hendrik Stoel (<i>Appointed on 1 June 2016</i>)	–	590,674	559,144	322,230	1,472,048
Stefano Clini (<i>Resigned on 3 May 2016</i>)	–	1,023,140	6,443,401	233,657	7,700,198
Datuk Christine Lee Oi Kuan	–	974,576	1,028,413	28,000	2,030,989
Ricardo Martin Guardo (<i>Appointed on 1 September 2016</i>)	–	216,071	341,611	250,792	808,474
Pablo Daniel Sconfianza (<i>Resigned on 1 September 2016</i>)	–	585,263	886,056	193,709	1,665,028
Non-Executive Directors					
Tan Sri Mohamad Salim bin Fateh Din (<i>Resigned on 31 December 2016</i>)	345,000	–	169,212	–	514,212
Datuk Oh Chong Peng	100,000	–	31,000	–	131,000
Datuk Zainun Aishah binti Ahmad	100,000	–	8,000	–	108,000
Dato' Chan Choon Ngai	100,000	–	2,000	–	102,000
James Richard Suttie (<i>Resigned on 31 December 2016</i>)	100,000	–	11,000	–	111,000
Total	745,000	3,389,724	9,479,837	1,028,388	14,642,949

(ii) Received on Group Basis

	Fees (RM)	Salaries (RM)	Other Emoluments* (RM)	Benefits-in-kind** (RM)	Total (RM)
Executive Directors					
Hendrik Stoel (<i>Appointed on 1 June 2016</i>)	–	590,674	559,144	322,230	1,472,048
Stefano Clini (<i>Resigned on 3 May 2016</i>)	–	1,023,140	6,443,401	233,657	7,700,198
Datuk Christine Lee Oi Kuan	–	974,576	1,028,413	28,000	2,030,989
Ricardo Martin Guardo (<i>Appointed on 1 September 2016</i>)	–	216,071	341,611	250,792	808,474
Pablo Daniel Sconfianza (<i>Resigned on 1 September 2016</i>)	–	585,263	886,056	193,709	1,665,028
Non-Executive Directors					
Tan Sri Mohamad Salim bin Fateh Din (<i>Resigned on 31 December 2016</i>)	345,000	–	169,212	–	514,212
Datuk Oh Chong Peng	100,000	–	31,000	–	131,000
Datuk Zainun Aishah binti Ahmad	100,000	–	8,000	–	108,000
Dato' Chan Choon Ngai	100,000	–	2,000	–	102,000
James Richard Suttie (<i>Resigned on 31 December 2016</i>)	100,000	–	11,000	–	111,000
Total	745,000	3,389,724	9,479,837	1,028,388	14,642,949

STATEMENT ON CORPORATE GOVERNANCE

(b) Directors' remuneration are broadly categorised into the following bands:

(i) Received from BATM

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
RM100,000 – RM150,000	–	4
RM500,000 – RM550,000	–	1
RM800,000 – RM850,000	1	–
RM1,450,000 – RM1,500,000	1	–
RM1,650,000 – RM1,700,000	1	–
RM2,000,000 – RM2,050,000	1	–
RM3,500,000 and above	1	–

(i) Received on Group Basis

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
RM100,000 – RM150,000	–	4
RM500,000 – RM550,000	–	1
RM800,000 – RM850,000	1	–
RM1,450,000 – RM1,500,000	1	–
RM1,650,000 – RM1,700,000	1	–
RM2,000,000 – RM2,050,000	1	–
RM3,500,000 and above	1	–

3. REINFORCING INDEPENDENCE

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

3.2 Tenure of Independent Director

The Board acknowledges and takes cognisance of the MCCG 2012 that the tenure of an Independent Director should not exceed a cumulative term of nine years. However, the Board may, in appropriate

cases and subject to the assessment of the NC on an annual basis, retain an Independent Non-Executive Director who has served a consecutive or cumulative term of nine years to continue to serve as Independent Non-Executive Director subject to shareholders' approval.

Currently, the Board has one long-serving Independent Non-Executive Director, Datuk Oh Chong Peng whose tenure is more than nine years and, who had obtained shareholders' approval at last year's AGM to continue to serve as an Independent Director of the Company. The NC has reviewed and recommended to the Board for Datuk Oh Chong Peng to continue to act as Independent Non-Executive Director of the Company, as the NC believes that Datuk Oh Chong Peng continues to provide valuable contributions and insights given his experience to support the Board.

3.3 Separation of positions of the Chairman and Managing Director

The Company recognises the importance of separating the roles of the Chairman and Managing Director to promote accountability and ensure a balance of power and authority, such that no one individual has unfettered powers of decision making.

The positions of the Chairman and Managing Director are held by two different individuals. The Chairman is primarily responsible for the efficient and effective functioning of the Board, while the Managing Director manages the operations and developments of the Group in accordance with the objectives and strategies decided by the Board. The Managing Director is also responsible for stewardship of all the Group's assets and jointly with the Chairman, representation of the Group externally.

3.4 Senior Independent Non-Executive Director

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

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

Tel : +603 7956 6899/+603 7491 7100
 Fax : +603 7491 3772
 Email : ocpeng@bat.com
 Postal address : Virginia Park, Jalan Universiti, 46200 Petaling Jaya, Selangor Darul Ehsan

3.5 Composition of the Board

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

As at the date of this Statement, the Company has yet to adopt the Policy on Boardroom Diversity. Nonetheless, the Board is committed to ensuring that the Directors of the Company possess a broad balance of skills, knowledge, experience, background, independence and diversity, including gender diversity. Currently, two out of the seven Board members are women, with one of the female Board members being an Independent Director. The present composition of the Board and the profile of each Director are set out in the Corporate Information and Profiles of Directors on page 23 and from pages 26 to 32 respectively of this Annual Report.

During the year, the Company underwent some changes in its Board composition. Hendrik Stael was appointed as the new Managing Director/Non-Independent Executive Director on 1 June 2016, replacing Stefano Clini. On 1 September 2016, the Board appointed a new Finance Director/Non-Independent Executive Director, Ricardo Martin Guardo following the repatriation back to United Kingdom of the previous Finance Director, Pablo Daniel Sconfianza. Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat was appointed as the new Chairman/Independent Non-Executive Director on 1 January 2017 in place of Tan Sri Mohamad Salim bin Fateh Din who resigned from the Board on 31 December 2016. The Board also saw the resignation of James Richard Suttie on 31 December 2016. The changes in the Board composition did not affect the effectiveness and required duties of the Board and Board Committees.

The Board is collectively responsible for the Company's vision and 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.

STATEMENT ON CORPORATE GOVERNANCE

4. FOSTERING COMMITMENT

4.1 Time Commitment

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 own schedules.

The Board meets quarterly to review its quarterly performances and strategy 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 eight times (including four Special Board meetings). The attendance of the Board and Board Committee members are as follows:

Directors	Board	Board Committees				
		AC	NC	RC	CSR	ECC
Tan Sri Mohamad Salim bin Fateh Din (Chairman) Independent Non-Executive Director (Resigned on 31 December 2016)	8/8	–	3/3	–	–	–
Stefano Clini (Managing Director) Non-Independent Executive Director (Resigned on 3 May 2016)	3/3	–	–	2/2	–	1/1
Hendrik Stoel (Managing Director) Non-Independent Executive Director (Appointed on 1 June 2016)	4/4	–	–	1/1	2/2	1/1
Datuk Oh Chong Peng Independent Non-Executive Director	7/8	4/4	3/3	4/4	–	–
Datuk Zainun Aishah binti Ahmad Independent Non-Executive Director	8/8	4/4	–	4/4	–	–
James Richard Suttie Non-Independent Non-Executive Director (Resigned on 31 December 2016)	8/8	4/4	3/3	4/4	–	–
Dato' Chan Choon Ngai Independent Non-Executive Director	7/8	2/2	–	–	–	–
Datuk Christine Lee Oi Kuan (Legal and External Affairs Director) Non-Independent Executive Director	8/8	–	–	–	2/2	–
Pablo Daniel Sconfianza (Finance Director) Non-Independent Executive Director (Resigned on 1 September 2016)	5/5	–	–	–	1/1	1/1
Ricardo Martin Guardo (Finance Director) Non-Independent Executive Director (Appointed on 1 September 2016)	3/3	–	–	–	1/1	1/1

STATEMENT ON CORPORATE GOVERNANCE

4.2 Training

As at the date of this Annual Report, all Directors had completed the Mandatory Accreditation Programme (MAP) as prescribed by Bursa Securities.

The newly appointed Non-Independent Executive Directors, Hendrik Stoel and Ricardo Martin Guardo had completed the MAP on 7 and 8 September 2016. Both attended the induction programme organised by the Company Secretary to familiarise themselves with the regulatory environment that the Group operates in, the business operations of the various functions, the Group organisation structure and Management's roles and responsibilities.

During the financial year under review, the Directors continued to participate in training programmes, seminars and conferences to gain insight into the state of the economy as well as the latest regulatory and developments relevant to the Company's business.

The Directors are also updated by the Company Secretary on relevant legal/regulatory updates applicable to the Company at each Board meeting.

During the year under review, the Company had organised a one-day Directors' Continuing Education Programme (Directors' CEP 2016) which was attended by the Board members and Senior Management of the Company, Dutch Lady Milk Industries Berhad, Shell Refining Company (Federation of Malaya) Berhad and Heineken Malaysia Berhad.

The topics of Directors' CEP 2016 included "Highlights and Key Changes of the new Companies Act, 2016", "Security and Terrorism in Malaysia" and "The Power of Social Media and How It Impacts our Business".

The training programmes attended by the Directors during the financial year ended 31 December 2016 included areas of leadership, corporate governance, risk management, finance, regulatory developments and corporate social responsibility, the details of which are as follows:

Directors	Briefing/Conference/Forum/Seminar/Training/ Workshop attended	Date
Datuk Oh Chong Peng	(i) Directors CEP 2016	9 November 2016
Datuk Zainun Aishah binti Ahmad	(i) Directors CEP 2016 (ii) CG Breakfast Series: Cybersecurity Threat and How Board Should Mitigate the Risks	9 November 2016 18 November 2016
Dato' Chan Choon Ngai	(i) Directors CEP 2016	9 November 2016
Hendrik Stoel	(i) MAP (ii) Directors' CEP 2016	7 and 8 September 2016 9 November 2016
Datuk Christine Lee Oi Kuan	(i) MAICSA Annual Conference 2016 (ii) Directors' CEP 2016	8 and 9 August 2016 9 November 2016
Ricardo Martin Guardo	(i) MAP (ii) Directors' CEP 2016	7 and 8 September 2016 9 November 2016

STATEMENT ON CORPORATE GOVERNANCE

5. UPHOLDING INTEGRITY IN FINANCIAL REPORTING

5.1 Compliance with applicable financial reporting standards

The Board ensures that shareholders are presented with a clear, balanced and meaningful assessment of the Company's financial performance and prospects through the audited financial statements, annual report and quarterly announcement of results.

The AC assists the Board to oversee the Company's financial reporting processes and the quality of its financial reporting by reviewing the information to be disclosed, to ensure completeness, accuracy and adequacy in the presence of external auditors and internal auditors prior to recommending the same for the Board's approval.

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

The Directors' Responsibility Statement for the audited financial statements of the Company and the Group is set out in page 127 of this Annual Report. The details of the Company's and Group's financial statements for the financial year ended 31 December 2016 are presented from pages 128 to 188 of the Annual Report.

5.2 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 as follows:

- (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 Fifty-sixth AGM. The Proposed Renewal of the Recurrent Related Party Transactions Mandate, details are disclosed in the Circular to Shareholders dated 27 March 2017 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.

STATEMENT ON CORPORATE GOVERNANCE

5.3 Independence of External Auditors

The appointment of KPMG PLT as the external auditors of the Company for the financial year ended 31 December 2016 until the conclusion of the next AGM was approved by the shareholders of the Company during the Fifty-fifth AGM held on 25 April 2016.

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 2016, 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.

6. RECOGNISING AND MANAGING RISKS

6.1 Risk Management

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

The AC 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.

6.2 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 64 to 69 and pages 58 to 60 of this Annual Report.

7. ENSURING TIMELY AND QUALITY DISCLOSURES

7.1 Corporate Disclosure

The Board will ensure that it adheres to and comply with the disclosure requirements of the Listing Requirements of Bursa Securities as well as the CD Guide issued by Bursa Securities.

As a public listed company, the Board is committed to ensuring that communications to the Company's stakeholders regarding the business, operations and financial performance of the Group are accurate, timely, factual and complete. As such, the Board accords a high priority in ensuring that information is made available and disseminated as early as possible.

The Company announces its quarterly and full year results on a timely basis to ensure effective dissemination of information relating to the Group.

7.2 Company website

All information on the Company's corporate profile, individual profiles of Senior Management, share price, financial results, annual reports, corporate governance related policies, press releases, Bursa Securities's announcements and corporate news are available at the Company's website at www.batmalaysia.com.

Other stakeholders can also access the website for other information related to the Company such as the Company's policies and standards, social responsibility initiatives, career opportunities, information pertaining to the illegal cigarette trade in Malaysia and its impact to the country, employment rewards and benefits and tobacco sciences issues.

8. STRENGTHENING RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

8.1 Encouraging shareholders' participation at general meetings

The Company acknowledges that good corporate governance requires active participation of shareholders in the decision making process at the Company's AGM. The Company's AGM is the principal forum for dialogue and communication between the shareholders and the Board. At the AGM, 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

STATEMENT ON CORPORATE GOVERNANCE

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 AGM together with the Form of Proxy are given to shareholders at least 21 days before 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 summary of the minutes of general meetings (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) are made available to the shareholders and public at www.batmalaysia.com.

8.2 Encouraging poll voting

The Company has in place the necessary procedures and infrastructure in order to facilitate poll voting for the resolutions at its AGM as and when required. In the past, the Chairman had also during the AGM highlighted to shareholders their right to demand for a poll vote.

At the Fifty-fifth AGM of the Company held on 25 April 2016, no substantive resolutions were put forth for shareholders' approval. In view thereof, the resolutions put forth for shareholders' approval at the Fifty-fifth AGM were voted on by a show of hands.

The Board noted that pursuant to Paragraph 8.29A of the Listing Requirements of Bursa Securities, the Company must ensure that any resolution set out in the notice of any general meeting, is voted by poll.

The Company had at its Extraordinary General Meeting (EGM) held on 6 September 2016 sought its shareholders' approval for the disposal of the Virginia Park land. The voting by the shareholders on the resolution tabled at the EGM was conducted via poll slip voting. Voting slips for the EGM were issued by the Share Registrar upon registration, and were printed with details of shareholders' name, identity card number/company number and number of shares held. The poll results were compiled by Tricor Investor & Issuing House Services Sdn. Bhd. and

verified by Messrs. Coopers Professional Scrutineers Sdn. Bhd., the scrutineer appointed for the poll voting process.

The poll results were announced to the shareholders during the EGM and was announced to Bursa Securities after the trading hours on the same day of the EGM.

8.3 Effective Communication and proactive engagement

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 analyst on a regular basis, as well as answers queries from shareholders.

The timely release of financial results on quarterly basis provides an up-to-date view of the Group's performance and operations. A quarterly briefing for fund managers, institutional investors and investment analysts as well as the media are held concurrently with the release of the quarterly financial results to Bursa Securities. The quarterly briefings are intended not only to promote the dissemination of the financial results of the Company to as wide an audience of investors, shareholders and media as possible but also to keep the investing public and other stakeholders updated on the progress and development of the business of the Company. This is further testimony to the Company's continued commitment to transparency.

During the financial year ended 31 December 2016, the Company held three quarterly briefings, fourteen direct one-on-one meetings, and hosted forty-six teleconferences with fund managers, institutional investors and investment analysts.

COMPLIANCE STATEMENT

The Board has deliberated, reviewed and approved the Statement on Corporate Governance in line with the principles and recommendations of the MCCG 2012. The Board is satisfied that the Company has fulfilled its obligation under the BATM Code, MCCG 2012, Listing Requirements of Bursa Securities and all applicable laws and regulations throughout the financial year ended 31 December 2016.

This Statement was approved by the Board on 16 February 2017.

OTHER COMPLIANCE INFORMATION

1. UTILISATION OF PROCEEDS

At the Extraordinary General Meeting held on 6 September 2016, the shareholders of the Company had approved the disposal of two parcels of leasehold lands held under PN30108/Lot102, Seksyen 36, Bandar Petaling Jaya, District of Petaling, Selangor Darul Ehsan and PN3917/Lot 1, Seksyen 36, Bandar Petaling Jaya, District of Petaling, Selangor Darul Ehsan (Lands) together with buildings erected thereon to LGB Properties (M) Sdn. Bhd.

The gross proceeds raised from the disposal of the Lands amounted to RM218,000,000 and its status of utilisation as at 31 December 2016 are as follows:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Variance RM'000
1 Estimated expenses in relation to Proposed Disposal	10,002	9,782	220
2 One off restructuring expenses	55,024	62,371	(7,347)
3 Leaseback Rental	13,080	12,971	109
4 Cash dividend to Shareholders	139,894	132,876	7,018
Total	218,000	218,000	—

Notes:

- The estimated expenses which comprise, amongst others, professional fees for advisors and lawyers, Real Property Gain Tax, expenses to convene the Extraordinary General Meeting and printing, dispatch and advertising expenses.
- These one-off expenses include, but is not limited to, redundancy payments to the affected employees of the British American Tobacco Group, changes in management support to ensure business continuity, and other incidental expenses in relation to cessation of the Company's factory operations.
- The Tenancy for the initial 12 months of the Tenancy Term commencing from the Sale and Purchase Agreement Completion Date.
- The net sale proceeds of the Proposed Disposal, less the expenses for the Proposed Disposal (as described in Notes 1, 2 and 3 above) will be utilised as cash dividends to Shareholders.

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 2016 amounted to RM424,000 and RM268,000 respectively.

The amount of non-audit fees paid or payable to the external auditors, KPMG PLT and their affiliated companies for services rendered to the Group and the Company for the financial year ended 31 December 2016 amounted to RM20,000 and RM20,000 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 2016 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 Fifty-fifth Annual General Meeting held on 25 April 2016, 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 1 April 2016). The RRPTs conducted during the financial year ended 31 December 2016 pursuant to the said mandate are disclosed in pages 183 to 186 in this Annual Report.

AUDIT COMMITTEE REPORT

The Audit Committee (AC) of British American Tobacco (Malaysia) Berhad (BATM or the Company) is pleased to present the AC Report for the financial year ended 31 December 2016.

COMPOSITION AND MEETINGS

During the financial year ended 31 December 2016, the AC met four 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	4/4
Datuk Zainun Aishah binti Ahmad (Member)	Independent Non-Executive Director	4/4
James Richard Suttie (Member) (Resigned on 31 December 2016)	Non-Independent Non-Executive Director	4/4
Dato' Chan Choon Ngai (Member) (Appointed on 23 May 2016)	Independent Non-Executive Director	2/2

The AC meetings were attended by the Managing Director, Finance Director, External Auditors and Internal Auditors, upon invitation, 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 the 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 posted on the Corporate Governance section of the Company's website at www.batmalaysia.com.

SUMMARY OF ACTIVITIES

The AC carried out the following activities during the financial year ended 31 December 2016:

I. Financial Reporting

- Reviewed with the Finance Director, Managing Director and external auditors, the quarterly financial results and announcements as well as annual audited financial statements of the Company and the Group and recommended them 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.
- Reviewed the proposed dividend payments for the financial year 2016.

2. Internal Audit

- (a) Reviewed and approved the 2016 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.
- (b) 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.
- (c) 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 significant audit, accounting and internal control issues identified during statutory audit for the year ended 31 December 2015.
- (b) Conducted a review of auditors for the purpose of appointing new external auditors. Upon reviewing recommendations from the management, the AC had recommended to the Board for approval, the appointment of KPMG PLT as auditors of the Company in place of Messrs. PricewaterhouseCoopers for the financial year ended 31 December 2016.
- (c) Reviewed with the external auditors, their audit plan for the financial year ended 31 December 2016, outlining the audit materiality, audit scope, methodology and timetable, areas of focus, other audit findings, amendments to Main Market Listing Requirements (Listing Requirements) of Bursa Malaysia Securities Berhad (Bursa Securities), Companies Bill 2015, new accounting standards and proposed fees for the audit services rendered by the external auditors for the financial year ended 31 December 2016.
- (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.
- (c) Received and reviewed updates on breaches of the Standards of Business Conduct and whistleblowing incidents.

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 an arm's length basis and on normal commercial terms, consistent with the Company's usual business practices and policies, which are generally not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.
- (b) 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 recommended to the Board for approval, 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 inclusion in the Annual Report 2015.

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 environmental, health and safety review reports.
- (d) Conducted an AC self-evaluation assessment on the performance of the AC.
- (e) Deliberated on proposed changes in innovation royalty payments.

AUDIT COMMITTEE REPORT

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.

A permanent invitee from the BAT p.l.c Group Internal Audit attends the AC and is the liaison between the AC and BAT p.l.c Group Internal Audit.

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 framework in designing, implementing and monitoring of its control systems. As such, the following types of audit exist, namely Process Audits, Audits of Change 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. Other Audits are audits that are as a consequence of a direct request, either due to an incident, management request or from the AC.

The BAT p.l.c Group 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 BAT p.l.c Group 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 BAT p.l.c Group Internal Audit shall require prior approval of the AC. Any inappropriate restrictions on audit scope are to be reported to the AC.

The BAT p.l.c Group 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 BATM 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 3 elements: (1) Audits with just BATM in scope; (2) Audits for which BATM is one of many locations in scope; and (3) Audits for which BATM is not in scope, but the results of such audits may give further assurance to BATM. 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 the BAT p.l.c Group Internal Audit for any matter it considers appropriate.

Other key activities undertaken by the BAT p.l.c Group Internal Audit during the financial year 2016 were as follows:

- (a) Undertaken special reviews requested by the AC and/or management which included Internal Audit's involvement in observing the bid opening process for the disposal of land and factory exercise. Internal Audit observed that the bids were opened in a transparent and open manner.
- (b) Reviewed and reported on the status of action plans implementation relevant to BAT Malaysia as a result of audits performed by BAT p.l.c Group Internal Audit.

During the financial year 2016, the subject matter of audits and findings conducted by the BAT p.l.c Group Internal Audit were as follows:

- (a) Health & Safety Malaysia Commercial
- (b) Requisition to Pay GPA¹
- (c) Order to Cash GPA¹
- (d) Record to Report GPA¹
- (e) Global Master Data Management GPA¹
- (f) New Product Introduction GPA¹
- (g) IT infrastructure¹
- (h) GRC AC & PC, SAP Security (BASIS)¹
- (i) Programme Aurora¹

The total cost incurred for the BAT p.l.c Group Internal Audit for the financial year ended 31 December 2016 amounted to RM34,000.

¹ Audits performed by BAT p.l.c Group Internal Audit where BATM was not selected as a market in-scope, but these Audits looked at the processes that would provide further assurance to the AC with regards to controls upon which BATM relies.

NOMINATION COMMITTEE REPORT

The Nomination Committee (NC) was established to assist the Board in identifying and recommending the right candidates with the necessary skills, knowledge, expertise and competencies to be appointed to the Board and Board Committees to ensure effectiveness of the Board and Board Committees.

The NC reviews and assesses the effectiveness of the Board, Board Committees as well as contribution of each individual director annually to ensure the Board has an appropriate balance of skills, knowledge, expertise, experience and core competencies from its members.

The NC is also responsible for reviewing the succession plans for members of the Leadership Team and Board, where necessary.

COMPOSITION AND MEETINGS

The NC comprised exclusively of Non-Executive Directors, a majority of whom are independent. During the financial year ended 31 December 2016, the NC met three times. The composition of the NC and the attendance record of its members are as follows:

Director	Designation	Total Meetings Attended
Tan Sri Mohamad Salim bin Fateh Din (Chairman) (Resigned on 31 December 2016)	Independent Non-Executive Director	3/3
Datuk Oh Chong Peng (Member)	Independent Non-Executive Director	3/3
James Richard Suttie (Member) (Resigned on 31 December 2016)	Non-Independent Non-Executive Director	3/3

Minutes of NC meetings were 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 Board meetings. Matters which required NC's urgent decision were 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 are posted on the Corporate Governance section of the Company's website at 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 reviewing of candidates for appointment to the Board has been delegated to the NC and such responsibilities include reviews of the existing composition of the Board, identifying the enhancements needed and subsequently, review and recommend to the Board suitable individuals with the relevant skillsets, knowledge, professionalism, integrity, expertise and experience to the Board.

The NC also takes into consideration the following:

- Whether the individual meets the requirements for independence as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

NOMINATION COMMITTEE REPORT

- (b) The individual's general understanding of the Company's business and market.
- (c) The individual professional expertise, competencies and background.
- (d) Other factors that promote diversity of views and experience.

The Board appointment process is illustrated below:



Review of Directors proposed for re-appointment and re-election

At the Fifty-fifth Annual General Meeting (AGM) held on 25 April 2016, Datuk Oh Chong Peng was re-appointed as a Director of the Company to hold office until the conclusion of this year AGM pursuant to Section 129 of the Companies Act, 1965. With the enforcement of the Companies Act, 2016, a public company is no longer required to seek shareholders' approval for Directors above 70 years old. Datuk Oh Chong Peng who will hold office until the conclusion of this AGM, has offered himself for re-appointment as Director at the Fifty-sixth AGM.

In accordance with Article 103 of the Company's Constitution, newly appointed Directors during the year must offer themselves to the shareholders for re-election at the first AGM following their appointment. Articles 97(1) and (2) of the Company's Constitution 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 (3) 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.

At this forthcoming AGM, Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat, Hendrik Stoel and Ricardo Martin Guardo are due for re-election by rotation pursuant to Article 103 of the Constitution of the Company at the forthcoming AGM. Datuk Zainun Aishah binti Ahmad and Datuk Christine Lee Oi Kuan will be retiring by rotation pursuant to Articles 97(1) and (2) of the Constitution of the Company. All five Directors had expressed their intention to seek re-election at the Fifty-sixth AGM.

Annual Assessment

The performance of the Board, Board Committees and individual Directors are assessed annually through an evaluation survey questionnaire known as the Board and the Board Committee Assessment Questionnaire (Questionnaire). The Questionnaire covers the following in respect of the financial year under review:

- (a) Board Composition and Competencies
- (b) Board Responsibility
- (c) Board and Board Committee Meetings
- (d) Board Communication
- (e) Board Effectiveness

The effectiveness of the Board is assessed in the areas of skills, and expertise of individual Directors, authority and allocation of responsibilities between Board and management, meeting process, administration and conduct, and time commitment in deliberation and participation in the Board and Board Committees meetings.

During the financial year ended 31 December 2016, the Questionnaire was provided to individual Directors to review 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 NC is delegated with the responsibility of carrying out the annual Board Effectiveness Evaluation.

The duly completed Questionnaire was then collated and a summary report was tabled to the NC for deliberation prior to recommending the appropriate action to the Board for consideration.

The findings as tabled to the Board at its meeting in February 2017 are as follows:

- (a) the Board and Board Committees are effective as a whole, considering the required mix of skills, size and composition, expertise in discharging their duties and responsibilities.
- (b) the Directors clearly understood their roles and have fulfilled their responsibilities as members of the Board and Board Committees.
- (c) the Directors were satisfied with the Company's direction, strategy, planning and budgeting process and their level of contribution to these matters.
- (d) the Directors also commented that they have been well informed on the vision, objectives and goals of the Company.
- (e) the Directors commented that there was sufficient time allocated for deliberation during the Board and Board Committee Meetings.
- (f) the Directors confirmed that the Board meetings were constructive and conducted in a manner that allows for open and constructive communication, encourages focused discussions, critical questioning and the expression of various viewpoints and also ensures open and meaningful participation, and the timely resolution of issues related to the Board meetings.
- (g) the Audit Committee (AC) has consistently performed well during the financial year and discharged their duties and responsibilities satisfactorily in upholding the integrity of financial reporting and managing risk in accordance with its TOR. The AC members have sound judgement, objectivity, independent attitude, professionalism, integrity, knowledge of the industry and financially literate.
- (h) the four Independent Non-Executive Directors of the Company are independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement. The Independent Non-Executive Directors have continuously brought independent and objective judgement to the Board deliberations.

As such, the findings of the Questionnaire for 2016 confirmed that the Board had performed effectively for 2016.

SUMMARY OF ACTIVITIES

A summary of key activities undertaken by the NC during the financial year ended 31 December 2016 are as follows:

- (a) Recommended the re-election and re-appointment of Directors at the Fifty-fifth AGM to the Board for consideration.
- (b) Reviewed the retention of Datuk Oh Chong Peng whose tenure of service as an Independent Director is more than nine years for recommendation to shareholders for their approval.
- (c) Reviewed the analysis/findings of the Directors' performance evaluation of the Board and Board Committees for year 2015.
- (d) Reviewed and recommended to the Board for approval, the appointment of the following Directors upon reviewing their qualification, knowledge and working experience:
 - Hendrik Stoel, Non-Independent Executive Director/ Managing Director
 - Ricardo Martin Guardo, Non-Independent Executive Director/Finance Director
 - Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat, Independent Non-Executive Director/Chairman
- (e) Reviewed and recommended to the Board for approval, the re-designation of Dato' Chan Choon Ngai from Non-Independent Non-Executive Director to Independent Non-Executive Director.
- (f) Reviewed and recommended to the Board for approval, the appointment of Dato' Chan Choon Ngai as member of the AC.

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. There are inherent limitations to any system of internal control and the system is designed to manage and minimise impact rather than completely eliminate risks that may impact the achievement of the Group's business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter alia, financial, operational and compliance controls and risk management procedures.

The Group has in place a systematic application of processes (outlined below) for identifying, evaluating, monitoring and managing significant risks faced by the Group and this process includes reviewing and updating the system of internal controls to take into consideration changes in the regulatory, business and external environment. This process is reviewed by the Board via the Audit Committee. The Audit Committee's responsibilities and duties can be found in the Audit Committee Report section of this Annual Report.

The Group's Standards of Business Conduct underpin our commitment to good corporate behaviour, and is an integral part of the Group's system of corporate governance. The Standards of Business Conduct require all employees to act with 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.

ENTERPRISE RISK MANAGEMENT PROCESS

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

GROUP'S ENTERPRISE RISK MANAGEMENT OBJECTIVES

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

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

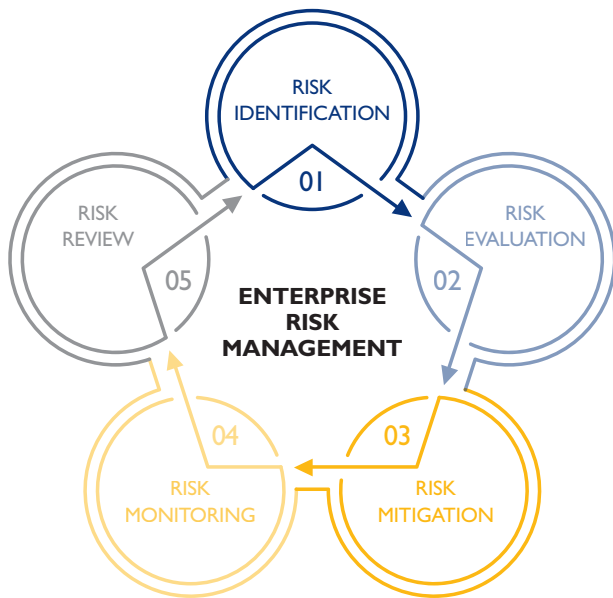
- (a) review and update the risk register; and
- (b) assess status of risk mitigation action plans.

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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.



Five Phase Enterprise Risk Management Process

(1) Risk Identification

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

(2) Risk Evaluation

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

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

taking into account degree of internal control 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.

Risk Heat Map

		LIKELIHOOD		
		Low	Medium	High
IMPACT	High	3	6	9
	Medium	2	4	6
	Low	1	2	3

■ Key focus areas

(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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

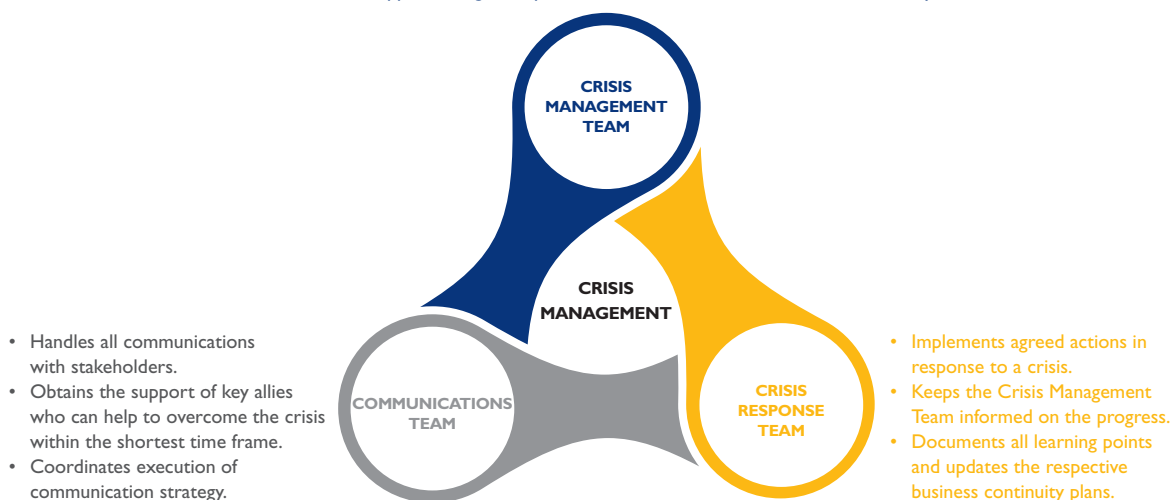
Ongoing risk monitoring is conducted by the Risk Management Team to assess whether any conditions associated with a particular risk have changed, and to ensure that action and risk mitigation plans have been implemented. Status of action/mitigation plans are communicated to the Audit Committee bi-annually.

(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 the Statement of Compliance with the Malaysian Code of Corporate Governance and the Key Control Checklist of the Company's holding company, British American Tobacco p.l.c.

Business Continuity and Crisis Management

- Provides leadership & coordination during a crisis.
- Decides on the best response to ensure early resolution of the crisis.
- Approves urgent expenditure & actions to ensure business continuity.



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

BUSINESS CONTINUITY AND CRISIS MANAGEMENT

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

In 2016, the Group has 15 Business Continuity Plans (BCPs) in place to manage the various potential disruptions which could impact the Group. Examples are the Site Recovery Plan and the Information Technology (IT) Disaster Recovery 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 above.

KEY RISKS TO THE GROUP

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

1. Growth of illegal cigarette trade.
2. Excise driven price shocks.

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

2016 RISK MANAGEMENT ACTIVITIES

Review of The Group's Risks

The Risk Management Team met formally twice during the year, in January and July 2016, 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 2016. The briefing included updates on the key risks of the Group and 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.

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

Crisis Management Activation

In 2016, there were 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 carried out in 2016.

BCPs Simulation and Testing

During the year, a desktop review/simulation was conducted by the BCPs owners, with the support of Crisis Response Team members, across the 15 BCPs.

The review and testing 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 Control Self Assessment process and the backbone of this process is a key control checklist known as the Control Navigator. The Control Navigator sets out various key controls and process requirements across all functions in the Group. The Group's CSA process requires controls and processes to be self-assessed for effectiveness on an annual basis. Where control gaps/weaknesses are identified, corrective actions and timelines are identified and agreed. The findings from the CSA and year on year trend analysis are reported to the Audit Committee annually.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 2016, 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 to the Directors and that reasonable steps have been taken to ensure full disclosure in response to requests for information from the external auditor. In addition, it is the Group's practice for the Finance Director to review account reconciliations on a quarterly basis.

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

Internal Audit

The role of Internal Audit for the Group is fulfilled through the Global Audit function of British American Tobacco p.l.c. This approach ensures a high level of independence and gives access to more skilled and specialised resources, particularly in respect of Information Technology (IT), than would otherwise be available within the Group. A permanent invitee from the Global Audit function attends the Audit Committee 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. Process Audits have a scope of one process across multiple British American Tobacco global 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 judgement, will highlight any significant audit, accounting and internal control matters which require attention to the Board and Audit Committee. Results of the findings on the above is made officially to the Audit Committee and the management once a year post substantial completion of the year-end audit. Additionally, the external auditors attend the quarterly Audit Committee meetings, and where applicable will provide views on any related matters for the attention of the Audit Committee. At least 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

(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.
- (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 declaration from all management personnel confirming their compliance with the Group's Standards of Business Conduct and where applicable conflict of interest situations are disclosed.
- Written declaration from the Finance Director and Managing Director confirming their compliance with the Group's Standards of Internal Control.

CONTROL MATTERS

No material control matters were reported in 2016.

BOARD ASSESSMENT

The Board is of the view that the Company'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 Company. The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Company has been in place throughout 2016 and up to the date of approval of this statement. The Board is also of the view that the Company's system of internal control is robust and is able to detect any material losses, contingencies or uncertainties that would require disclosure in the Group's 2016 Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 16 February 2017.

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 Recommended Practice Guide ("RPG") 5 (Revised 2015), *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 2016, 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:

- (a) 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
- (b) is factually inaccurate.

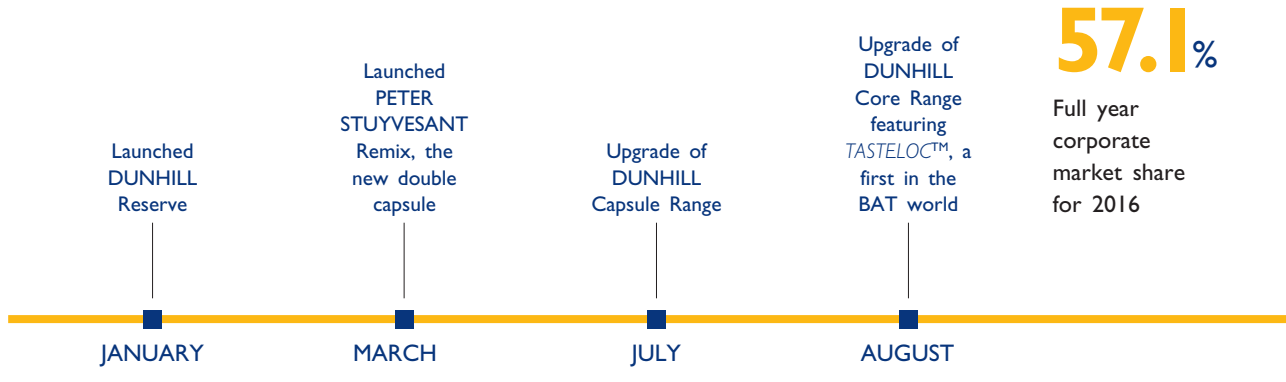
RPG 5 (Revised 2015) does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including 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.



05

GROWTH

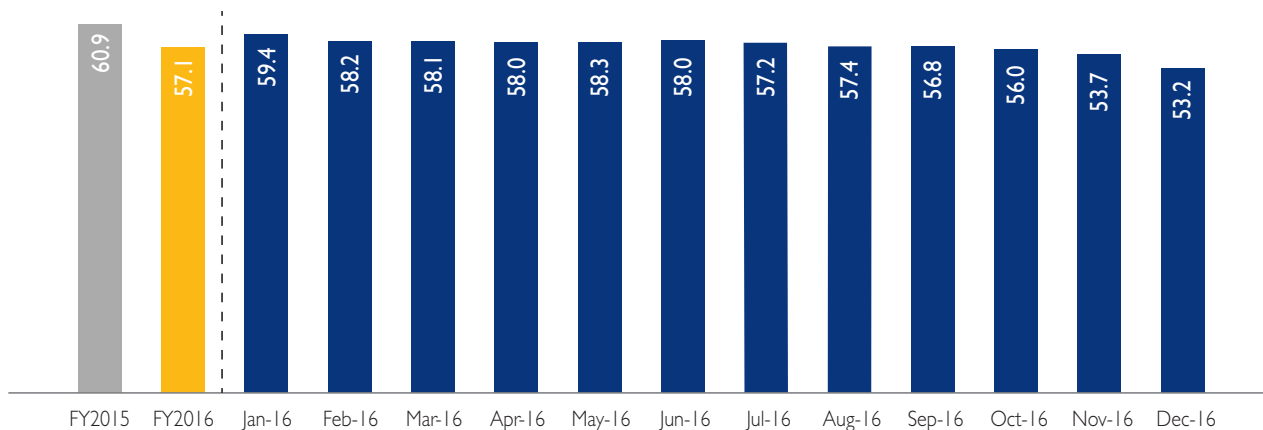
KEY HIGHLIGHTS IN 2016:



The challenging macroeconomic environment and poor consumer sentiment have led to an unprecedented growth of the illegal cigarette trade. The illegal cigarette trade has reached a record high of 57.1 percent as of December 2016 (Source: Illicit Cigarette Study conducted by Nielsen Malaysia). Due to these key factors, substantial down-trading from Premium to illegal cigarettes was visible in 2016.

As consumers continue to be challenged by affordability pressure, initiatives were implemented in 2016 with continuous value infusion.

British American Tobacco Malaysia Corporate Market Share %

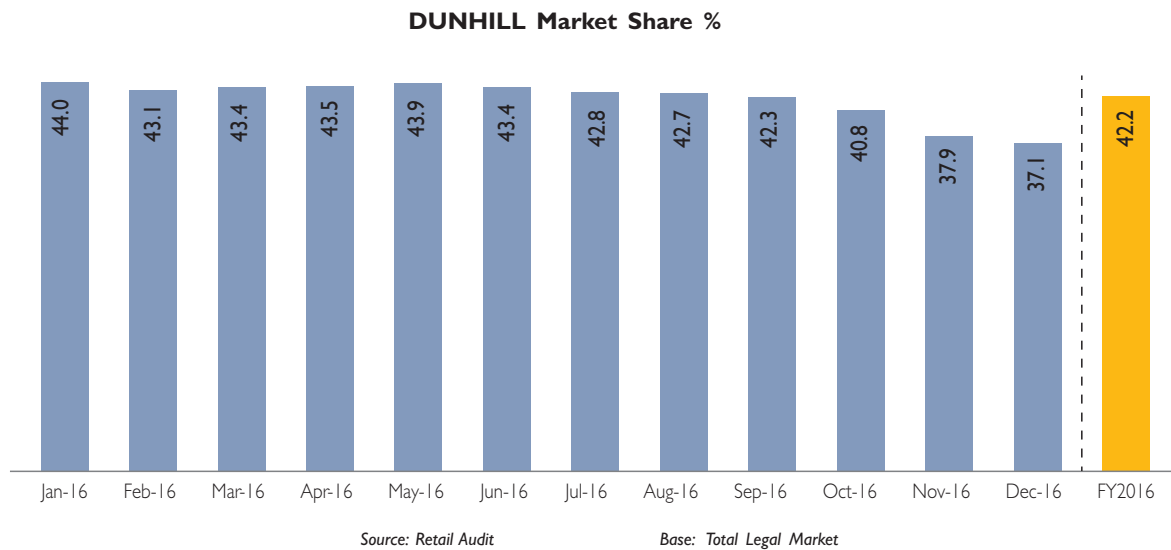


Source: Retail Audit

Base: Total Legal Market

GROWTH PILLAR

PREMIUM BRAND: DUNHILL



Introducing Premium Plus Category in Malaysia

DUNHILL Reserve was launched in January 2016 as a Premium Plus Edition to provide an exclusive experience to its consumers for a limited period. It was aimed to demonstrate the modern and premium values of the brand whilst fortifying DUNHILL's authority in taste. DUNHILL Reserve was crafted with renowned Mozambican tobacco leaf to provide a distinctive tobacco experience to its consumers.

DUNHILL Reserve is a reflection of DUNHILL's craftsmanship in tobacco, expertise in tobacco blending and universally renowned uncompromised quality.



DUNHILL Reserve

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

Establishing Authority In Innovation



Upgraded DUNHILL Capsule Range

In July 2016, DUNHILL revamped and upgraded the product and packaging of its Capsule Range to strengthen DUNHILL's presence in this segment. The upgraded Capsule Range consists of DUNHILL Switch, DUNHILL Boost, DUNHILL Zest and DUNHILL Mix, with the ultimate objective of providing greater value additions.

The upgraded DUNHILL Switch and DUNHILL Boost now feature the *Flow Filter™*, delivering a smooth taste with improved capsule experience.

The Company's continued strive in constantly pushing the envelope to meet consumer needs on product innovation resulted in DUNHILL's leadership in the Premium Menthol segment in September 2016. (Source – Retail Audit Report September 2016)

Malaysia's No. 1 Brand, DUNHILL Reaching New Heights



Upgraded DUNHILL Core Range featuring TASTELOC™

August 2016 marked a significant milestone in DUNHILL's journey to progress the Premium brand.

British American Tobacco Malaysia led the way in the transformation of DUNHILL by becoming the first market within the global British American Tobacco world to incorporate the new DUNHILL pack design across its DUNHILL Red, DUNHILL Blue and DUNHILL Green variants.

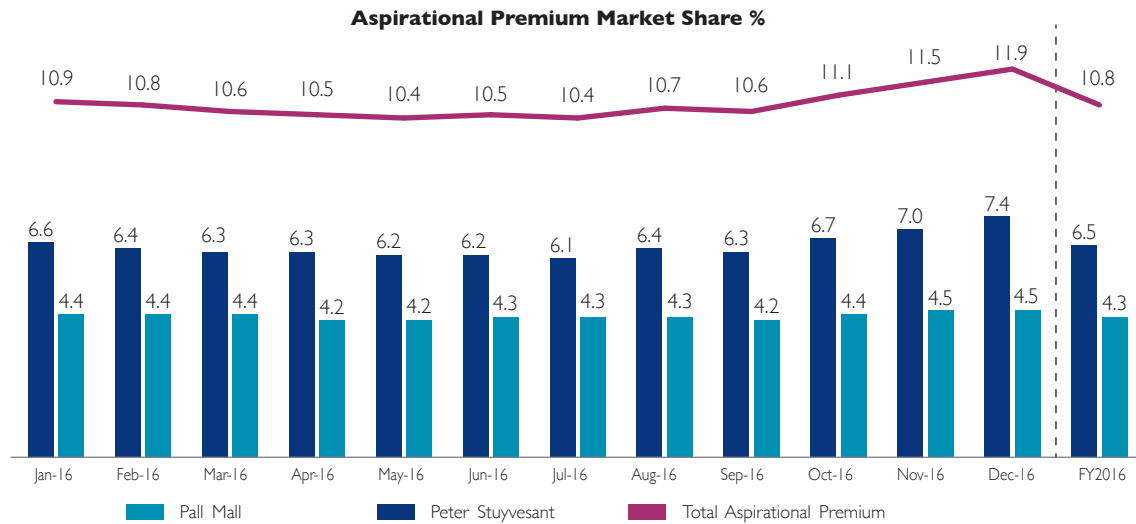
The launch also introduced the revolutionary *TASTELOC™* technology which works to unseal and reseal packs automatically every time the lid is opened and closed for prolonged freshness, whilst preserving its unique signature taste.

Since the launch, DUNHILL has seen growth especially in its DUNHILL Blue and DUNHILL Green variants, while maintaining its leadership as Malaysia's number one cigarette brand.

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

GROWTH PILLAR

ASPIRATIONAL PREMIUM BRAND: PETER STUYVESANT AND PALL MALL



Source: Retail Audit

Base: Total Legal Market



PETER STUYVESANT Remix

Inspiration For Success

PETER STUYVESANT continues to be the fastest growing brand in the Aspirational Premium segment. In 2016, PETER STUYVESANT accelerated its position to take leadership in over 50 percent of the states in Malaysia, showcasing a momentous growth throughout the year.

2016 was also the year PETER STUYVESANT embarked on a journey to expand its range of quality products by launching PETER STUYVESANT Remix. This unique innovation was a result of PETER STUYVESANT's dedication for uncompromised quality and extraordinary ability in innovative product development.

PETER STUYVESANT Remix demonstrated its potential in strengthening the Aspirational Premium Menthol segment through a steady growth in all states.

Similarly, PALL MALL displayed extremely strong resilience during 2016 whilst ensuring a stable brand performance throughout the year.

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

TRADE MARKETING ACTIVITIES IN 2016

In anticipation of a challenging 2016, the Trade Marketing function geared up to identify and leverage on the opportunities that can be found in the market place, with the objective of further increasing our competitiveness and amplifying a winning mindset. Overall, it was a fast-paced and challenging year for every individual within the team.

BizPlus – Taking Smart Customer Management Programme to the Next Level



The Company remains committed in helping our retail partners remain relevant and in growing their business within a competitive and challenging economic environment. To serve this purpose, trade programmes have been in place since 2002 which continuously evolve to cater to the dynamic industry landscape.

BizPlus was launched in November 2016 (replacing SMART) to continuously drive retail growth opportunities, and to foster stronger relationships with our retail partners. Taking onboard learnings from previous programs, BizPlus caters to the growing need of retailers to enable better clarity of our business proposition, and to help drive their own business prospects. In summary, BizPlus is built with a sharper focus compared to the previous program (SMART) in driving growth opportunities for both the Company and our retail partners.

Winning Mindset – Unleash the Force

Amidst a challenging backdrop, robust strategies and executional excellence may not be sufficient to deliver results unless a winning mentality is in place. Underpinning this is a call to action, designed to drive a winning mindset across the organisation. The cornerstone of the rally is for everyone in their own capacity and capabilities, to unleash the positive force that exists within themselves to strive for excellence and continuously push the boundaries.

In fact, *Unleash the Force* was such a great rallying cry that in 2016 it became the overall corporate theme where all employees demonstrated through their behaviour the winning mentality and attitude to pursue greater results for the year.



Launch of Unleash the Force



06

PRODUCTIVITY

PRODUCTIVITY PILLAR

KEY HIGHLIGHTS OF 2016:

- | | | | |
|---|---|---|---|
| <ul style="list-style-type: none"> Effective delivery of new and innovative products | <ul style="list-style-type: none"> Smooth adoption to new manufacturing technologies and new ways of working | <ul style="list-style-type: none"> The journey towards a new business model – the plans, transition and people | <ul style="list-style-type: none"> Transformation and enhancement of business technology |
|---|---|---|---|

SUPPLY CHAIN PERFORMANCE

Business Development	People Development
<ul style="list-style-type: none"> Successfully delivering New Product Introduction (NPI) for our largest brand – DUNHILL Adopting and implementing new ways of working – Tax Stamps on Domestic Finished Goods Restructuring exercise – Journey towards a new business model Achieving 100 percent delivery on time, and in full – Upholding Supply Chain's commitment for high level of service 	<ul style="list-style-type: none"> Upskilling production employees to facilitate transition Support for future career change and development

Successfully delivering New Product Introduction (NPI) for our largest brand – DUNHILL

To accentuate the strategy of meeting consumer needs, British American Tobacco Malaysia's Supply Chain has incessantly strived to develop and deliver new and innovative finished products to the market.

This mindset propelled two of the biggest NPI projects of 2016. By tightly collaborating with the Global team, the projects were aimed to successfully develop the new Maxim design and the new *TASTELOC™* technology. The revolutionary *TASTELOC™* technology works to unseal and reseal packs automatically every time the lid is opened and closed, to give a more prolonged freshness to our products. This is indeed a noteworthy achievement as British American Tobacco Malaysia is the first market to introduce *TASTELOC™* within the British American Tobacco world and this is the Company's biggest pack change since the *RELOC* was introduced.

Adopting and implementing new ways of working – Tax Stamps on Domestic Finished Goods

Tax stamps, as proof of excise payment were made mandatory by the Royal Malaysian Customs in October 2016. The tax stamps replaced the security marking on packs employed 10 years ago as the Government's fresh initiative to rein in the illegal cigarette trade.

With this change, equipment in the form of tax stamp applicators were installed and new work processes that cuts across Supply Chain, Finance and Marketing were adopted. The transition for this new initiative was done so efficiently and smoothly that the Company rolled out its packs with the new tax stamps into the market and was in full compliance even before the mandatory start date.

PRODUCTIVITY PILLAR

Restructuring exercise – Journey towards a new business model

In line with the Company's efforts towards realising a new and more sustainable business model, amidst an increasingly challenging business environment, the Company decided to restructure and transform its business. This is a necessary step to ensure British American Tobacco Malaysia remains a competitive consumer-focused market leader, known for its commitment not only to its consumers, but also to all its stakeholders, including shareholders, business partners, employees and local communities through sound and responsible business practices.

Following the Company's official announcement in March 2016, British American Tobacco Malaysia will be winding down our manufacturing facilities in stages and sourcing our supply from state-of-the-art British American Tobacco (BAT) factories that have the best reputation in the BAT Group in delivering consistently high quality products at more competitive cost. The process is expected to be completed by the second half of 2017.

The Company has channelled much effort in planning and ensuring that the transition of production capabilities to new manufacturing stages is successfully executed and in 2016, the Company has successfully

- transferred and closed off the entire Dry Ice Expanded Tobacco (DIET) Plant;

- closed the Primary Manufacturing (PMD) Plant. The equipment transfer is pending completion in 2017;
- concluded the production of all semi-finished goods and finished goods for export markets;
- transferred the unique production capabilities to new source factories.

For 2017, the Company will focus on the transfer of production of finished goods for domestic market to the new source factories and on completing the set-up of the new business model to support the supply chain.

Achieving 100 percent delivery on time, and in full - Upholding Supply Chain's commitment for high level of service

Despite the challenges and changes that the restructuring and transformation exercise pose to our operations, British American Tobacco Malaysia continues to prioritise delivering high quality products within the scheduled timeline for each customer every time. This is why, the Company is extremely proud to have yet again achieved an overall 100 percent delivery on time, and in full (OTIF) in 2016. The Company believes maintaining this performance is extremely crucial in upholding our customers' confidence in our high level of service at all times even until the conclusion of the restructuring exercise.



British American Tobacco Malaysia's Leadership Team and Supply Chain Leadership Team saying thank you to the DIET Plant Team.



The PMD Team signing off with PRIDE

PEOPLE DEVELOPMENT

Restructuring exercise – Upskilling production employees to facilitate transition

The Company's journey towards a new and more sustainable business will no doubt have great impact across the entire organisation, and especially on our people. As British American Tobacco Malaysia takes great pride in our factory and in our people, our utmost priority has always been and will continue to be, their wellbeing throughout this journey of change and in ensuring they are treated with the pride and dignity that they deserve.

After the unwinding of the manufacturing facilities at Virginia Park, Petaling Jaya was announced, a detailed timeframe for the exit of relevant employees (both permanent and contract) was drawn up to meet the overall production capability transition plan.

Employees exited in batches based on closure schedules and when their specific roles became redundant. A selected number of production employees were cross-trained and upskilled to help them operate different sets of production equipment to support the overall manufacturing of finished goods until the full winding down of the manufacturing facilities in 2017.

Apart from that, the Company also took on the responsibility of training and ensuring a successful transfer of knowledge to fellow British American Tobacco employees from new source factories who will be taking over the manufacturing of semi-finished and finished goods.

Journey with Pride - Support for future career change and development

An extensive career transition programme, *Journey with Pride*, was implemented to support the relevant supply chain employees with the imminent changes to their career following the unwinding of the manufacturing facilities at Virginia Park, Petaling Jaya. The objective was to prepare and equip employees with the capabilities and skillset to ensure their careers continue to flourish after their work life with British American Tobacco Malaysia.

To do this, the Company made available the support and programmes below. These programmes were available to all relevant employees affected by the restructuring exercise.

- Preparation of a new career – techniques and training tips for applying new jobs, attending interviews and securing their desired job;
- Leadership and personal development courses;
- Preparation for retirement;
- Personal financial management

PRODUCTIVITY PILLAR



Relevant employees attending a Journey with Pride workshop



Supply Chain employees after a Journey with Pride workshop



Journey with Pride Thank You Wall

To commemorate and give thanks for all the hard work the team has put in all these years, the Company also unveiled the *Journey with Pride* Thank You Wall in the factory which features the faces of our supply chain employees and also serves as a way to give recognition to the outstanding employees who have tirelessly contributed in helping to create British American Tobacco Malaysia's legacy.

In 2016, there were two batches of exiting employees and for each batch, a farewell party was organised by the Company to properly give thanks and celebrate their excellent service to British American Tobacco Malaysia. Each of the exiting employees also received a token of appreciation which was awarded to them by the Leadership Team during these ceremonies.



The first batch of Journey with Pride exiting employees with the Leadership Team and Supply Chain Leadership Team



The second batch of Journey with Pride exiting employees with the Leadership Team and Supply Chain Leadership Team

TRANSFORMATION AND ENHANCEMENT OF BUSINESS TECHNOLOGY

In 2015, British American Tobacco p.l.c Group launched a two-year Enhanced Productivity in the Cloud (EPIC) programme to transform and enhance the personal computing technology of over 38,000 British American Tobacco end-users globally and at optimal cost. The EPIC programme aims to deliver the most contemporary technology directly to all employees by introducing the latest Windows 10 and Microsoft's modern Cloud technology, MS Outlook, Office365, Skype for Business, Microsoft Mobile and OneDrive.

The Company, continuing this programme in 2016 with the local IT team, has delivered the EPIC suite of Windows 10, Office 365 and One Drive to all end users over a course of five weeks across all British American Tobacco Malaysia's operating locations. The migration and change approach empowers the technology savvy end-user of today through the principles of self-migration, self-training and self-support. This approach enables the deployment to be completed quickly with minimum downtime.

This transformative change puts the Company as a leader in providing our people with the most contemporary, integrated and powerful end user technology; making British American Tobacco Malaysia a better place to work and more successful as a business.

Better efficiency via Cloud Platform

In 2016, the Company also completed a migration of our Trade Marketing System to a contemporary cloud based platform to provide effective system hosting at lower operational cost. Additionally, the cloud based platform provides better scalability and future proof our critical trade marketing system landscape and enables quicker response to market environment. The Company has also migrated our local IT servers to a cloud based Microsoft Azure platform. This modern platform provides better overall efficiency at similar service levels at a much lower operating cost as it allows the Company to leverage on existing British American Tobacco's Global IT Enterprise Services support whilst avoiding future capital expenditure on IT hardware. This delivers a fit-for-purpose IT landscape and ensures scalability in the future as well.

Effective IT network for stability

As the Company embraces the ever evolving digital age, it is important that we have a reliable network infrastructure. In 2016, the Company optimised the network structure across all its locations and put in place at the same time, a network to mitigate any network failure from our service provider. This was done to enable a good employment experience and to also keep business disruption to a minimum.



07



SUSTAINABILITY

SUSTAINABILITY PILLAR

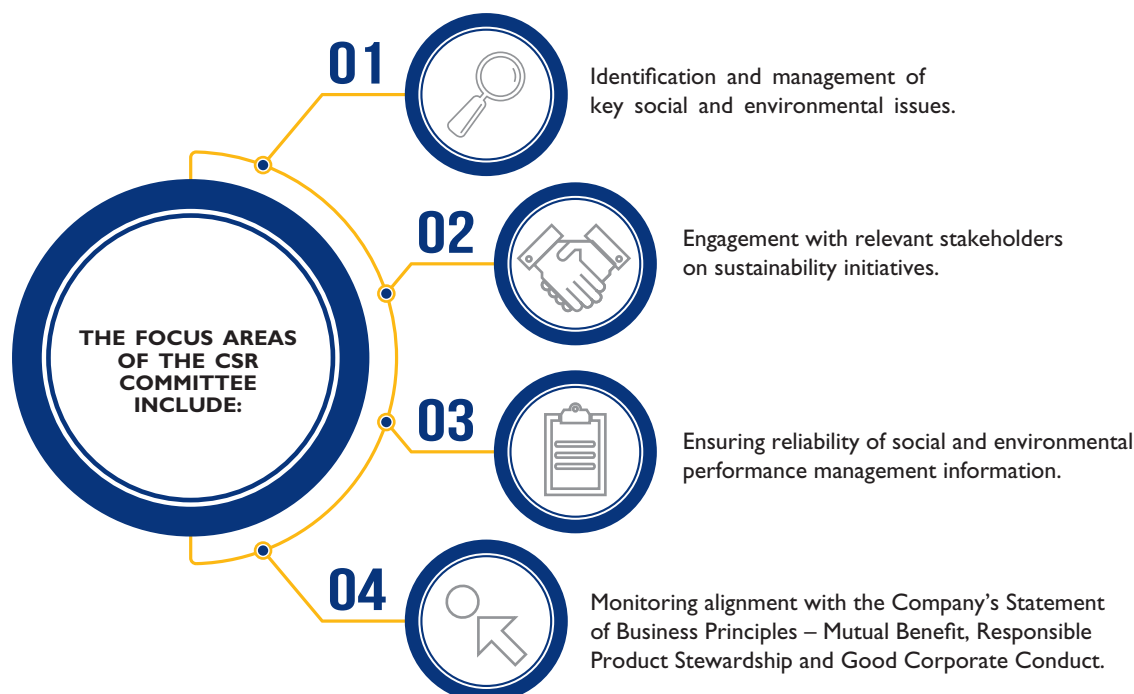
At British American Tobacco Malaysia, we believe that a central part of being a sustainable business is operating with integrity and responsibility. Our vision of a sustainable tobacco company is one that manages the impact of its operations and products responsibly today and in the future. This vision is also aligned to our 2016 theme of *Transforming Today for Tomorrow*.

Our goal of enhancing sustainability is all about creating value for our shareholders, in a way that keeps the best interests of our stakeholders as well. How we do this, is through addressing key-business related economic, environment and social impacts that build stakeholder and shareholder value.

In this section, we will share examples of how we translate strategy into action and deliver on our commitments to society and our stakeholders.

SUSTAINABILITY AGENDA – COMMITMENT FROM SENIOR MANAGEMENT

The governance of our sustainability agenda is a process that is extremely important to the Company as it enables the business to effectively embed sustainability. Good governance structures also ensure that we are consistently aligned to our principles and standards. Demonstrating its commitment from the top, the Company's sustainability agenda is governed by a CSR Committee. Our CSR Committee comprises of members of British American Tobacco Malaysia's functional directors (also known as the *Leadership Team*) and is chaired by the Managing Director.

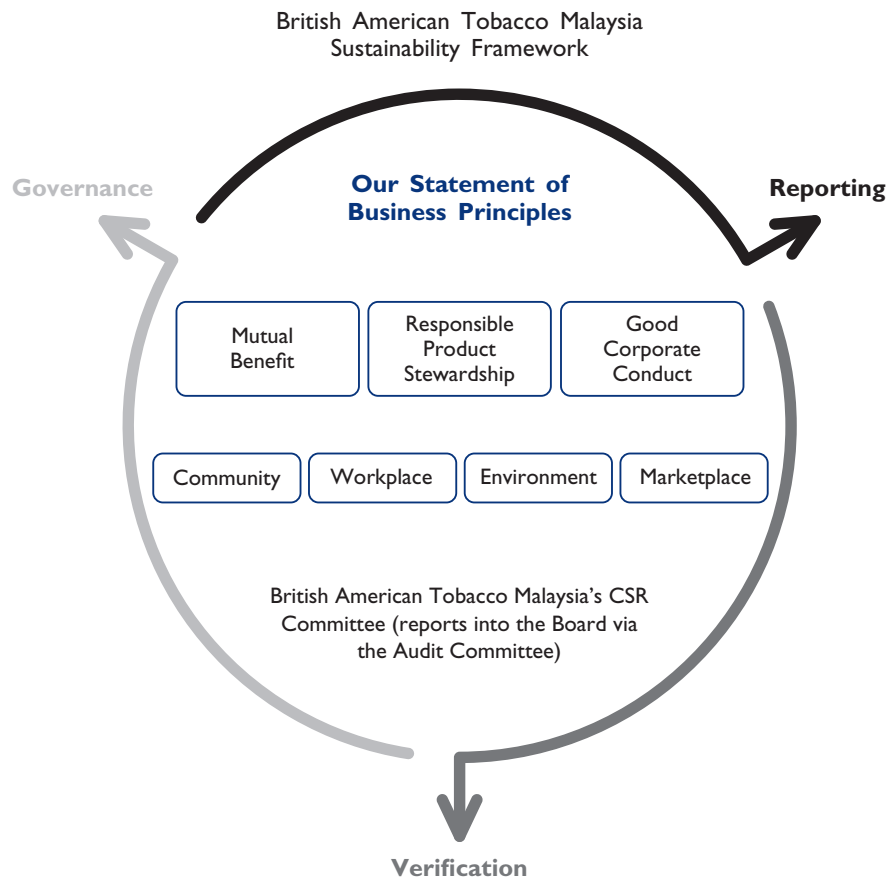


The CSR Committee reports on the Company's sustainability initiatives to the Board of Directors via the Audit Committee and meets at least twice a year. This line of reporting is further escalated to the British American Tobacco Regional Audit and CSR Committee, which in turn reports to the British American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

SUSTAINABILITY PILLAR

BRITISH AMERICAN TOBACCO MALAYSIA'S SUSTAINABILITY FRAMEWORK

A central part of being a sustainable business is operating with integrity and responsibility. British American Tobacco Malaysia'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.



KEY SUSTAINABILITY FOR BRITISH AMERICAN TOBACCO MALAYSIA





COMMUNITY

OUR COMMUNITY

The Company places the highest commitment in conducting Corporate Social Investment activities that support the sustainability of our surrounding communities.

Education: Enabling education opportunities for tomorrow's leaders

- In 2016, the British American Tobacco Malaysia Foundation awarded close to RM380,000 in scholarships to 22 aspiring future leaders.
- To date, the British American Tobacco Malaysia Foundation has awarded scholarships to more than 2,800 deserving Malaysians, bringing the total investment of the Foundation to date to more than RM18 million.

In order for a country to be great, the Company passionately believes that various investments must be made for its people to realise their full potential. Much of this is underpinned by allowing access to the most powerful tool the future generation can ever have, an education. The British American Tobacco Malaysia Foundation was founded to reinforce the Company's active involvement in providing financial assistance to foster, develop and improve education opportunities to deserving Malaysian students pursuing higher education and to give back to the communities in which we operate.

Demonstrating this, the British American Tobacco Malaysia Foundation held its 33rd Foundation Day Awards Ceremony in December, where we awarded scholarships to 22 students from the retailer community, our Smart Invest Trade Retailer Programme, children of our external distributor business partners' employees and employees' children. The scholarships awarded amounted to over RM380,000, which covers the full duration of the students' courses.

The British American Tobacco Malaysia Foundation was established in 1999 when Rothmans of Pall Mall (Malaysia) Berhad and the Malaysian Tobacco Company Berhad merged to form the now British American Tobacco Malaysia. Over the years, more than 2,800 students have benefited from the Foundation's various education aid programmes which include scholarships for university degrees, college diplomas and foundation studies in local higher education institutions. The various Foundation programmes represent an investment of well over RM18 million. Moving forward, with our illustrious presence in the country, British American Tobacco Malaysia will continue to play our part in nurturing future leaders to contribute to the growth of the nation.



British American Tobacco Malaysia Foundation's 2016 scholarship recipients

SUSTAINABILITY — COMMUNITY

Environment: Protecting the environment at the workplace and beyond

- British American Tobacco Malaysia has a dedicated Environment, Health and Safety (EHS) Committee that reviews and makes recommendations on the Company's Environmental Management performance and activities, against annual targets.
- Awareness on the importance of the preservation and protection of wild life be it flora or fauna and the conservation of water were stressed for World Environment Day 2016.

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

In conjunction with World Environment Day 2016, British American Tobacco Malaysia developed many awareness materials to educate and highlight the significance of the preservation and protection of wild animals and plant species in line with the *Go Wild for Life* theme this year. In addition, employees were also reminded of the importance of doing our part in the conservation of water and energy. The awareness materials were displayed via the Company's bulletin boards located at strategic areas in the Company and also via the plasma television displays at locations most frequented by employees and visitors.

Focusing back on our business operations, the Company has also made changes which though simple have a big impact such as having a set timing for when our factory lights are turned on and off which has resulted in a reduction of the energy consumed by the Company.

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





WORKPLACE

KEY HIGHLIGHTS IN 2016:

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> Implemented a robust communication plan to provide employees with a clear line of sight of the Company's strategies. | <ul style="list-style-type: none"> Enhanced employees' welfare and wellbeing. | <ul style="list-style-type: none"> Continued prioritisation of safety and health initiatives to eliminate work-related accidents. |
|--|--|--|

Engaging Employees

The Company puts importance in providing line of sight and clarity on the Company's vision and strategy to its employees as employees are the ones to drive business performance and this is also key in the development of a high performance organisation. As such, we prioritise on a robust communication strategy to provide employees at all levels with a clear line of sight so that employees know how their roles and responsibilities are aligned to the Company's strategy and direction. Through this, our employees can better take responsibility for their individual contribution to the Company's performance and sustainability.

The Company's communication strategy in 2016 leveraged on numerous communication channels that comprised of direct communication (i.e. face-to-face) and indirect communication (i.e. companywide emails, circulars, and newsletters).

Our communication channels and activities for 2016 were as follows:

Indirect Communication

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

Direct Communication

In 2016, we disseminated our key business information through various channels of direct communication such as employee town hall sessions held in the months of January, March, May, August, October and December. During these sessions, the audience mainly centered around management employees were given updates on the global business, the region we operate in (i.e. Asia Pacific), as well as the business in Malaysia by the Company's Leadership Team.

Apart from these corporate wide town halls, functional team talks and meetings were also held throughout the year to ensure all respective functional teams were aligned and kept up to date on relevant strategies and plans pertaining to their work scope. These sessions also aim to give team members the opportunity to voice out their feedback and ideas for improvement as well as show appreciation to the team for a job well done. The functional sessions are usually kept as an informal affair where, although led by the Functional Directors, encourage more active participation from team members.

Employee Propositions

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.
- Strong career development opportunities.
- Robust talent development programmes.
- Great working environment.
- Emphasis on work-life balance as well as employees' well-being.

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

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

Protecting employees' welfare and wellbeing

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

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

1. *Flexi time* – British American Tobacco Malaysia practices *flexi time*, which allows employees to customise start/stop hours and create an efficient work schedule for themselves without disrupting the efficiency of the Company, following stipulated guidelines.
2. *Replacement annual leave* – The Company has also outlined guidelines that enable employees to take replacement annual leave for attending to business matters required by the Company during non-workdays.
3. *Extended maternity leave* – The Company's current maternity leave is 90 consecutive days of fully paid maternity leave. However, as of 2016, if an employee has completed three years of service in the Company, she is eligible to an

extended maternity leave of 120 consecutive days of fully paid maternity leave, with an optional 60 consecutive days of half paid maternity leave and an additional option of 180 consecutive days of no pay maternity leave.

4. *Extended Paternity leave* – The Company's current paternity leave is four consecutive working days. However, as of 2016, if an employee has completed three years of service in the Company by the due date of his child's delivery, he is eligible to an extended paternity leave of 10 consecutive working days.
5. *Medical benefits* – The Company also extends medical benefits to family dependents of employees for outpatient and hospitalisation.
6. *Marriage leave* – The Company provides four consecutive working days of marriage leave for all employees.
7. *Compassionate leave* – The Company allocates three days of compassionate leave for all employees.
8. *Home leave passage* – Employees who are based out of their home state or region are eligible for home leave passage and this benefit is extended to include spouses and children.
9. *Care givers leave* – In 2016, the Company has introduced the care givers leave which provides employees with leave to care for a sick or elderly family member who may need support for a period of time, to provide emergency childcare or to support children through their preparation of major examinations. A total of 90 days unpaid care givers leave may be granted over the entire course of an employee's employment with the Company.
10. *Enrichment leave* – The Company recognises that employees may wish to take leave during the course of their employment to enrich themselves including acquiring new skills or for a long overseas break or for any other personal reason. In 2016, the Company also introduced enrichment leave where a total number of 30 working days unpaid leave may be granted once during the course of an employee's employment in the Company.

11. *Unrecorded medical leave of absence* – In 2016, the Company introduced this policy to cover selected reasons such as any ante-natal examination and pregnancy related ailment or miscarriage occurring during the first 28 weeks for female employees and any assisted conception treatment including In-Vitro Fertilization (IVF) for both female and male employees.
12. *In-house clinic and doctor* – The Company has an in-house clinic with a fulltime doctor and nurses for on-site health and medical services. The clinic also provides health related education, counseling, prevention and other programmes for employees to ensure their health and general wellbeing are well taken care of.
13. *External medical support* – The Company provides a list of panel clinics across all regions for employees to seek medical help, outside of office.
14. *Parking for Moms to be* – The Company has implemented designated parking spaces located near each entrance of the Virginia Park Headquarters office for pregnant employees.
15. *Car loan interest subsidy* – This scheme is extended to confirmed employees with a maximum term loan of five years.
16. *Free meals to employees* – Employees receive a monthly allowance which they may use to purchase their meals at the cafeteria situated within the Company's premises. This cafeteria also offers vegetarian cuisine and healthier food options. In addition, employees also have access to the Company's in-house barista.
17. *Group term life coverage* – The Company provides financial contingency in the event of death of an employee, injury or disablement.

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



Reserved parking for pregnant employees

Enhancing Health and Safety at our Workplace

Since the introduction of the global campaign *Closing the Gap to Zero* 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:

1. Safety Day

In conjunction with the World Safety Day, the Company organised a Safety and Health Day on 5 May 2016 with the theme for this year being *Safety, Takes Just a Few Seconds*. A total of 11 booths were set up to raise awareness on Near Miss Reporting, Entrapment, Work at Height, Slip Trip & Fall Hazards and safety and health related topics. Participants were able to gain knowledge on these related safety topics through participating in interactive games which were designed and managed by their Supply Chain colleagues. The event brought about 430 participants from various departments in the Company and from the Company's list of external vendors.

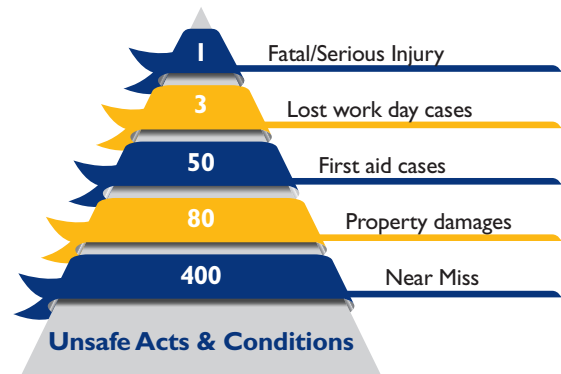


Employees attending the Safety and Health Day

2. Near Miss Reporting

As we all know, accidents can happen to anyone, anywhere at anytime. However, in order to prevent something, we have to first address the root of the problem. Based on statistics and the Heinrich Accident Triangle, all serious injuries usually happen after about 400 near misses and due to thousands of unsafe acts or conditions. Therefore, if we can identify these near misses and unsafe acts or conditions, we will be able to reduce the number of accidents that happen at the workplace or anywhere for that matter.

With this in mind, the Company launched the Near Miss Reporting initiative 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. This way, ownership in ensuring continuous effort to make British American Tobacco Malaysia a safer place to work is shared together.



Heinrich Accident Triangle

3. Work at Height Equipment Training – Genie Lift

Also as part of the Company's continuous safety efforts especially for work done at a certain height, a training session focusing on the *Safe Use and Handling of Work at Height Equipment* was conducted by the Company's Genie Lift suppliers. The training was attended by 30 participants comprising of our employees and employees of our service providers.

4. Forklift and stacker training

As part of the on-going effort to promote safe driving amongst employees, a training refresher was conducted for 13 Primary Manufacturing Department employees. The course focused on behavioural based safety operations and was administered via theoretical and practical competency tests.



Employees attending the forklift and stacker training

5. Contractor's 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 situation 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.

6. Defensive Driving Course

Every day, many of the Company's Field Force personnel are exposed to the inherent risks in driving, as well as those that follow from carrying high value goods and transferring product in and out of their vehicles to retailers' premises.

To promote safe driving and get on the path to zero accidents, the Company continued its efforts to conduct a refresher of the Defensive Driving Training Programme amongst these employees. It was aimed to refresh them on how to identify potential road hazards and how to handle their vehicles in the event of an emergency. Other topics such as vehicle safety checks, the safe way of changing a tire, understanding first aid treatments and protection from attacks or assault were also covered during the sessions. To date, eight batches of employees have attended this course which is aligned to the national 1Malaysia staff upskilling and safety programme.

7. Orientation and Induction Course

Health and Safety at the workplace is an important part of the Orientation and Induction course that is a prerequisite of all new joiners. This module is aimed at providing all employees with the knowledge, guidelines and awareness of risk mitigation processes within the workplace premises be it at the office, in the factory or out in the field. The topics that are covered in this section are mostly situations relating to Slip Trip and Fall, Fire and Electrical Safety, Road Safety, Near Miss Reporting and Accident Reporting Procedures. In 2016, the Company held three sessions with approximately 40 participants who newly joined the Company.

8. Achieved full zero Lost Time Injury

In 2016, British American Tobacco Malaysia and its wholly owned marketing subsidiary, Commercial Marketers and Distributors Sdn Bhd achieved 4,964,374 man-hours without a Lost Time Injury since September 2011, whereas its wholly owned manufacturing subsidiary, Tobacco Importers and Manufacturers Sdn Bhd achieved 919,157 man-hours without a Lost Time Injury since September 2015.

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



ENVIRONMENT

KEY HIGHLIGHTS IN 2016:

- Continued to govern our environmental management stringent policies.

- Focused on efforts of energy and water reduction.

Our environmental policies

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

Global Environmental, Health and Safety Policy

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

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

- comply with all applicable national and international laws and regulations affecting their business activities.
- establish procedures for assessing and reviewing the EHS impacts of present and future activities on a regular basis.
- 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 environment impact for a sustainable future

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

Outlined below are several of our key initiatives to this effect:

Reducing energy consumption - Energy-efficient initiatives

In 2016, as part of the continuous drive for energy efficiency, a total of 150 units of florescent lights were removed from the *Wrapping Material Warehouse A (WMS A)* and its air-conditioning supply was switched off during the night shift operations. With these simple changes, the Company was able to reduce its electricity consumption by approximately 94,608 kilowatt-hours and 131,400 kilowatt-hours respectively. The Company also installed a timer for the lighting at the Leaf Warehouse (MLS1 & MLS3) which saved 68,620 kilowatt-hours in electricity consumption. In addition, by increasing the air conditioner temperature from 23.0 to 24.0 degree Celsius at the Leaf Warehouse and switching off the TMCI plant's lighting at night, the Company was able to reduce its electricity consumption even more by 33,600 kilowatt-hours and 100,740 kilowatt-hours respectively.

Following from these initiatives, we also monitored and tracked our usage of energy and water consumption.

	2015	2016	2015 vs 2016	Remarks
Total Energy (GJ)	162,199	108,621	-33.0%	24.0 percent reduction in total energy usage versus 2015 primarily due to 43.9 percent reduction in production volume and various energy conservation projects implemented in 2016.
Total water withdrawn (m3)	137,087	92,922	-32.2%	32.2 percent reduction in total water usage versus 2015 primarily due to 43.9 percent reduction in production volume and the cessation of the TMCI plant operation since May 2015.

Benchmarking key business partners against our environmental standards

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

The Company's business partner, Benkert (M) Sdn Bhd who is our service provider for tipping paper, was identified for the EHS Mentoring Programme two years ago and is currently in their final year of the programme.



MARKETPLACE

KEY HIGHLIGHTS IN 2016:

- Continued to help address the illegal cigarette trade issue in the country.

The Continued Fight Against The Growing Black Market

The illegal cigarette trade in Malaysia has become a major concern for both the Government and the industry. It was revealed that the illegal cigarette incidence in Malaysia has reached a record high of 57.1 percent as of December 2016¹ against the backdrop of a challenging economic environment and poor consumer sentiment, and there are clear indications that it continues to grow.

Given the severity of the issue, we commend law enforcement authorities, especially the Royal Malaysian Customs (RMC), the Malaysian Maritime Enforcement Agency, and Marine Police for stepping up their enforcement efforts. RMC for example, has embarked on a new approach titled Collaborated Border Management programme to address illegal supply chain at ports and borders nationwide. This programme was launched by the Royal Malaysian Customs Deputy Director General (Enforcement & Compliance), Datuk T. Subromaniam in September 2016.

RMC also continued with the nationwide anti-illegal cigarette campaign through Ops Outlet and Ops Pacak in 2016 to address the retail point of sale of illegal cigarettes. Both campaigns focused on disrupting the illegal supply chain by targeting enforcement efforts on retailers and wholesalers.

RMC has taken deterrent action by remanding offenders to assist in investigations, and also pushed for more deterrent penalties to be meted out on those guilty of selling illegal cigarettes. As a result of these concerted efforts, it was reported that between January 2010 and April 2016, close to 12,000

cases were investigated. Out of which, almost 8,000 individuals were arrested and around 3,000 cases were brought to court for the offender's involvement in the sale and distribution of smuggled cigarettes. It was widely reported that many of those were charged with stiffer penalties including jail sentences.

In 2016, it was reported that local councils also joined in to support RMC's initiatives against errant retailers. The Municipal Council of Kuala Lumpur (Dewan Bandaraya Kuala Lumpur) and Johor Bahru (Majlis Bandaraya Johor Bahru) embarked on business licence revocation and the blacklisting of any retailers who were found guilty of selling illegal cigarettes as an additional deterrent measure to prevent retailers from being involved in the illegal cigarettes trade.

Both efforts by the RMC and the said local councils gained support from various retail associations, including the Malaysia-Singapore Coffee Shop Proprietors General Association, the Federation of Sundry Goods Merchants Association, Malaysian Muslim Wholesalers and Retailers Association, Malaysian Muslim Restaurant Owners Association, and Malaysian Indian Restaurant Owners Association, who have cautioned their members against selling illegal cigarettes.

The Confederation of Malaysian Tobacco Manufacturers (CMTM), of which British American Tobacco Malaysia is a member, continued to support and work closely with numerous Government agencies to raise awareness on the impact of the illicit cigarette trade.

¹ 2016 Illicit Cigarette Study (ICS) commissioned by the Confederation of Malaysian Tobacco Manufacturers

Delivering Commercial Benefits

2016 focus was on collaborating with vendors and business partners affected by the factory restructuring exercise to establish an effective wind down plan, whilst still maintaining the same service level to British American Tobacco. In the space of innovative savings, one significant initiative was the introduction of the Print Management Company concept to drive value engineering for marketing print and semi-permanent Point of Sale Materials.

Besides productivity savings, the Procurement team has been able to achieve significant improvement in overall vendor payment terms above the team's target. This has contributed to the release of capital tied up as well as improved cash flow for the Company.

Product Responsibility

At British American Tobacco Malaysia, we have always upheld high standards of product responsibility. We acknowledge that there are risks associated with smoking and our business has never been to persuade people to smoke, but rather to offer high quality brands and products to adult consumers who have made an informed decision.

This gave reason for the Company to take the lead ten years ago in the local tobacco industry to voluntarily disclose ingredients used in the manufacturing of our products. This information is available on a publically-accessible website (www.bat-ingredients.com) and is demonstrative of the Company's commitment towards transparency in providing information on our product ingredients to both our consumers and stakeholders.

Regulatory Developments In 2016

British American Tobacco Malaysia is committed to operate our business with high standard of corporate conduct and responsibility to meet the societal expectation especially in facing today's ever challenging environment.

Acknowledging that tobacco consumption poses real risks to health, British American Tobacco Malaysia supports evidence-based and enforceable regulations on tobacco products. We believe that tobacco products should be regulated in appropriate ways that balance the preference of consumers with societal interests and allow the business to operate and continue to compete.

In 2016, two regulatory amendments to the Control of Tobacco Product Regulations 2004 took effect.

These amendments gazetted in the Control of Tobacco Products (Amendment) Regulation 2015 on 30 July 2015 and the Control of Tobacco Products (Amendment) (No.2) Regulation 2015 on 28 December 2015 were respectively:

1. Revised Minimum Cigarette Price (MCP)

Effective 1 August 2016, the Ministry of Health has mandated that no person shall sell or offer for sale any cigarette below the minimum price of RM10.00 for a packet of twenty cigarette sticks.

2. Amended definition of "smoking"

Effective 1 January 2016, the Minister of Health has redefined 'smoking' as 'inhaling and expelling the smoke or vapour of any tobacco product and includes the holding of or control over any ignited, heated or vaporised tobacco product'.

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

GLOBAL REPORTING INITIATIVE (GRI)

G4 INDICATORS 2016

GRI is a 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 2016 Annual Report. This is the eighth year that the Company is continuing with this initiative in line with its sustainability agenda to demonstrate its commitment in operating responsibly.

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

GRI – G4 Code	Issue Area	Response for 2016
G4-EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Direct economic value generated (Revenues): RM3,756 million Economic value distributed:- Operating costs: RM810 million Employee wages and benefits: RM1111 million Payment to providers of capital: RM665 million Payment to Government in the form of taxes: RM2,102 Community investment: RM2 million Economic value retained: RM56 million
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	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.
G4-EC3	Coverage of the organisation's defined benefit plan obligations.	In 2016, 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 either 8 or 11 percent to EPF.
G4-EC4	Financial assistance received from Government.	British American Tobacco Malaysia did not receive any financial assistance from the Government in 2016.
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operations.	For 2016, the Company ensured that its workforce irrespective of gender or location is compensated above the prescribed amount in the Minimum Wages Order 2012.
G4-EC6	Proportion of senior management hired from the local community at significant locations of operations.	In 2016, the percentage of senior management in British American Tobacco Malaysia at significant locations of operations that are hired from the local community represent 92 percent. Please refer below for the definition of the terms reported: <ul style="list-style-type: none"> • Senior management – refer to job Grades 36 and above. • Significant locations of operations – refer to the Marketing, Supply Chain and Corporate Services functions. • Local community – refers to Malaysia.

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
G4-EC7	Development and impact of infrastructure investments and services supported.	Please refer to page 85 on British American Tobacco Malaysia Foundation which encompasses initiatives on helping the underprivileged, scholarships and employee volunteerism.
G4-EC8	Significant indirect economic impacts, including the extent of impacts.	<p>Listed below are some significant indirect economic impacts to British American Tobacco Malaysia in 2016:</p> <ol style="list-style-type: none"> (1) The unprecedented increase in cigarette excise of 40 percent in November 2015 had significantly increased the Alcoholic Beverages and Tobacco Consumer Price Index (CPI) by 19 percent for the period of January to November 2016 when compared to the same period last year. This has also led to a massive growth to the illegal cigarette trade. (2) Despite interventions from Malaysia's Central Bank, the Ringgit continued to slide to its lowest level since the 1998 Asian Financial Crisis, resulting in an increase in the overall imported product prices, simultaneously impacting consumer spending patterns. (3) Further rationalisation of subsidies on essentials such as fuel, wheat flour, sugar, cooking oil and electricity in 2016, led to an increase of 2.1 percent in Consumer Price Index (CPI) for the period January to November 2016 when compared to the same period last year by putting substantial pressure on consumers' affordability and driving the rapid growth of illegal cigarettes.
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.	<p>Total materials : 15,539 tonnes</p> <p>Non-renewable materials : 1,268 tonnes (Parts, fuels, cleaning materials, chemicals and processing aids)</p> <p>Direct materials: 6,749 tonnes (Leaf, wrapping, packaging, filter and flavouring)</p> <p>Normalised: 1.62 tonnes/million cigarette equivalent.</p> <p>British American Tobacco Malaysia recorded a 34.0 percent reduction in direct materials usage and 65.0 percent reduction in indirect materials usage in 2016. The decrease is mainly attributed to lower production volumes and effective usage of materials.</p>
G4-EN2	Percentage of materials used that are recycled input materials.	Not applicable in year 2016 as the Reconstituted Tobacco Plant ceased operations since May 2015.
G4-EN3	Energy consumption within the organisation.	<p>Total: 136,203 Gigajoules</p> <p>Non-renewable: 136,203 Gigajoules (Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)</p> <p>Renewable: 0 Gigajoules</p> <p>Normalised: 14.2 Gigajoules/million cigarette equivalent</p> <p>A lower direct energy usage of 40.0 percent was recorded in 2016 primarily due to significant lower production volume in-line with the factory's winding down initiatives.</p>

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
G4-EN4	Energy consumption outside of the organisation.	<p>Total: 12,443 Gigajoules</p> <p>Non-renewable: Electricity 12,443 Gigajoules</p> <p>Normalised: 1.3 Gigajoules/million cigarette equivalent</p> <p>A decrease of indirect energy consumption of 94.7 percent was recorded in 2016. This was primarily due to very low air freight for export volume in-line with the factory winding down initiatives.</p>
G4-EN5	Energy intensity.	<p>Energy intensity ratio in 2016: 15.5 Gigajoules/million cigarette equivalent produced.</p> <p>The intensity calculation is based on total energy used in British American Tobacco Malaysia's operations and marketing functions being the two biggest functions of the business divided by the total production volume produced.</p> <p>Total energy used was inclusive of direct and indirect energy.</p> <p>As for the total production volume produced, it is inclusive of total cigarette, total export cut rag and total export Diet produced.</p>
G4-EN6	Reduction of energy consumption.	<p>British American Tobacco Malaysia's initiatives:</p> <ol style="list-style-type: none"> (1) Removal of 150 florescent lights from Factory A (Reduced electricity consumption by 94,608 kilowatt-hours) (2) Installation of a timer for the lighting at the Leaf Warehouse (MLS1& MLS3) (Reduced electricity consumption by 68,620 kilowatt-hours) (3) Increasing the air conditioner temperature from 23.0 to 24.0 degree Celsius at the Leaf Warehouse (Reduced electricity consumption by 33,600 kilowatt-hours) (4) Switching off the Wrapping Materials Store's air conditioning supply at night (Reduced electricity consumption by 131,400 kilowatt-hours) (5) Switching off the TMCI plant's lighting at night (Reduced electricity consumption by 100,740 kilowatt-hours)
G4-EN7	Reductions in energy requirements of products and services.	<p>A reduction of energy consumption has been recorded since the ceased operations of the following plants in-line with the factory's winding down initiatives:</p> <ol style="list-style-type: none"> (1) Diet Plant – 582,000 kilowatt-hours (from August 2016 to December 2016) (2) Primary Manufacturing Plant – 187,948 kilowatt-hours (December 2016).
G4-EN8	Total water withdrawal by source.	<p>Total: 107,091 cubic metres</p> <p>Normalised: 11.19 cubic metres/million cigarette equivalent</p> <p>British American Tobacco Malaysia recorded a 27 percent decrease in water usage primarily due to lower production volume and the cessation of the Diet Plant in August 2016 and Primary Manufacturing Plant in December 2016.</p>
G4-EN9	Water sources significantly affected by withdrawal of water.	<p>British American Tobacco Malaysia facilities sourced water from its respective Government authorised state water supplier. The water withdrawal did not affect any of the six sites designated under the Ramsar List of Wetlands of International Importance* in Malaysia.</p> <p>* These wetlands are included under the Ramsar Convention, which is an international treaty for the conservation and sustainable utilisation of wetlands.</p>

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
G4-EN10	Percentage and total volume of water recycled and reused.	British American Tobacco Malaysia did not reuse any recycled water in 2016.
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high bio-diversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
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).	<p>Direct green-house gas emissions (CO2) from Scope 1 used by British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn Bhd (CMD): 4,080 tonnes.</p> <p>Reporting is based on the Environmental Impact Report in quarter four 2016.</p>
G4-EN16	Energy indirect green-house gas (GHG) emissions (Scope 2).	<p>Direct green-house gas emissions (CO2) from Scope 2 used by British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn Bhd (CMD): 15,288 tonnes.</p> <p>Reporting is based on the Environmental Impact Report in quarter four 2016.</p>
G4-EN17	Other indirect green-house gas (GHG) emissions (Scope 3).	<p>Direct green-house gas emissions (CO2) from Scope 3 used by British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn Bhd (CMD): 971 tonnes.</p> <p>Reporting is based on the Environmental Impact Report in quarter four 2016.</p>
G4-EN18	Green-house gas (GHG) emissions intensity.	<p>Emissions intensity ratio in 2016: 2.13 CO2 emissions/million cigarette equivalent produced.</p> <p>The green-house gas emissions intensity calculation is based on total carbon dioxide emissions divided by the total production volume produced. The total carbon dioxide emissions are derived from Scope 1, Scope 2 and Scope 3 emissions.</p> <p>As for the total production volume produced, it is inclusive of total cigarette, total export cut rag and total export Diet produced.</p>

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
G4-EN19	Reduction of green-house gas (GHG) emissions.	Total green-house gas emissions reduction achieved as a direct result of energy saving initiatives and Diet Plant ceased operations is estimated to be around 239 tonnes of CO2 equivalent. The reduction is mainly a resulted from Diet Plant.
G4-EN20	Emissions of ozone-depleting substances (ODS).	All British American Tobacco Malaysia air conditioning equipment is chlorofluorocarbon (CFC) free.
G4-EN21	NOx, SOx, 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.	British American Tobacco Malaysia facilities discharged water through these routes: (1) Public waterways (5,532 cubic metres) after water that was used in factory operations was treated at our Effluent Treatment Plant following stringent standards.
G4-EN23	Total weight of waste by type and disposal method.	<p>2014 : Hazardous Waste – 13.0 tonnes. : Non-Hazardous Waste – 2,539 tonnes</p> <p>2015 : Hazardous Waste – 11.0 tonnes. : Non-Hazardous Waste – 3,107 tonnes</p> <p>2016 : Hazardous Waste – 14.3 tonnes : Non-Hazardous Waste – 2,133 tonnes</p> <p>All our hazardous waste was sent to Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan for disposal while a majority of our non-hazardous wastes were sent to Recycle Energy Malaysia in Semenyih for conversion into refuse derived fuel pellets. The remainder of our non-hazardous waste which was not sent to Semenyih was recycled (e.g. paper, plastic and metal materials).</p> <p>British American Tobacco Malaysia noted a higher 30 percent of hazardous waste in 2016 due to: – disposal of expired casing and flavouring materials from the Wrapping Materials Store</p>
G4-EN24	Total number and volume of significant spills.	British American Tobacco Malaysia did not record any significant spills in 2015.
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.	<p>Total: 14.3 tonnes</p> <p>All hazardous wastes were sent to Government approved site (Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan) for disposal.</p> <p>British American Tobacco Malaysia noted a higher 30 percent of hazardous waste in 2016 due to: – disposal of expired casing and flavouring materials from the Wrapping Materials Store</p>
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.	British American Tobacco Malaysia continues to treat water used in factory operations at our Effluent Treatment Plant which follows stringent standards.

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
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 process and practices:</p> <ol style="list-style-type: none"> (1) Introduction of the use of hybrid cars for company usage (replacement of two units of company cars in June 2015). (2) Primary Manufacturing Department Main and Diet Condensate return recovery for water and Natural Gas (NG) usage reduction initiatives. (3) Replacement of one of the boiler to improve Natural Gas usage. (4) Factory space optimisation to improve and optimise energy usage. (5) Energy Metering initiative for energy usage monitoring and improvement initiative. (6) Replacement to LED high bay lights at the Wrapping Materials Warehouse to improve electricity usage. (7) Converted SMD A to Wrapping Materials Store, removed 150 florescent lights and still managed to meet the lighting lux level for warehouse requirement to improve electricity usage. (8) Installed timer for lighting at Leaf Warehouse (MLS1 & MLS3) to improve electricity usage. (9) Increased the air conditioner temperature from 23.0 to 24.0 degree Celsius at the Leaf Warehouse to reduce electricity usage. (10) Switching off the Wrapping Materials Store's air conditioning supply at night and switching off the TMCI plant's lighting at night to conserve electricity.
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 for 2016.
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 in 2016: RM97,370</p> <p>Below is the breakdown for total environmental protection expenditures and investments:</p> <ol style="list-style-type: none"> (1) Removal of 150 florescent lights from Factory A – RM5,000 (2) Installed timer for lighting at Leaf Warehouse (MLS1 & MLS3) – RM4,000 (3) Environment Monitoring and Protection Programme – RM88,370
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>Prior to end 2016, we use our Business Enabler Survey Tool (BEST). BEST assesses the sustainability performance, including environmental criteria, of our materials suppliers through continuous detailed reviews by an international pool of trained auditors. Suppliers must obtain Approved, Qualified or Certified status in order to be retained by British American Tobacco. As part of the process, we also provide guidelines and roadmaps to support suppliers' continuous improvement.</p>

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
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 for 2016.
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 2016.
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region.	<p>As at 31 December 2016:</p> <p>The total number of employees who left employment in 2016 by age group:</p> <ol style="list-style-type: none"> (1) less than 30 years old = 46 (2) 30 – 50 years old = 68 (3) above 50 years old = 15 <p>The total number of employees who left employment in 2016 by gender:</p> <ol style="list-style-type: none"> (1) Male = 114 (2) Female = 15 <p>The total number of employees who left employment in 2016 by region:</p> <ol style="list-style-type: none"> (1) East Coast = 5 (2) North = 3 (3) South = 7 (4) East Malaysia = 2 (5) Central = 112 <p>The total number of employees who left employment in 2016 by ethnicity:</p> <ol style="list-style-type: none"> (1) Malay: 65 (2) Chinese: 36 (3) Indian: 23 (4) Others: 5
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 fulltime management and non-management employees:</p> <ol style="list-style-type: none"> (1) Medical benefits (2) Free meals (3) Annual, calamity, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, sports, caregivers, enrichment and pilgrimage leave (4) Bonus (5) Group Term Life Insurance Scheme (6) Company vehicle and monthly cash allowance (depending on grade) (7) Corporate club membership (depending on grade) (8) Housing loan interest subsidy (depending on grade) (9) Car loan interest subsidy (depending on grade)

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
G4-LA3	Return to work and retention rates after parental leave, by gender.	<p>As at 31 December 2016:</p> <p>Total number of employees that were entitled to parental leave, by gender.</p> <p>(1) Female : 135 (2) Male : 533</p> <p>Total number of employees that took parental leave, by gender.</p> <p>(1) Female : 2 (2) Male : 25</p> <p>Total number of employees who returned to work after parental leave ended, by gender.</p> <p>(1) Female : 2 (2) Male : 25</p>
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	<p>The minimum notice period specified in Article 61 of the Collective Agreement (CA) between Tobacco Importers and Manufacturers Sdn Bhd and National Union of Tobacco Industry Workers (NUTIW) effective from 1 January 2014 to 31 December 2016 was followed in the separation exercise of the Operations employees.</p> <p>Apart from the CA, the Company has a Guideline on Employee Engagement which provides a two-week window period for the Employee/Union to provide feedback on intended initiative within scope*.</p> <p>The following areas are defined to be within the scope of these Guidelines:</p> <p>(1) Employment status (i) Voluntary Separation Schemes (VSS) (ii) Retrenchment (iii) Restructuring/regrading resulting in a change of employment</p> <p>(2) Key employment terms (i) Working days/hours (ii) Rest Days/Off Days</p>
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) were members of the Petaling Jaya EHS Committee. This Committee is headed by a chairman (Head of Production) and also includes representatives from Occupational Health, Security and an appointed Secretary (EHS Manager).</p>
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.	<p>In 2016, British American Tobacco Malaysia and its wholly owned marketing subsidiary, Commercial Marketers and Distributors Sdn Bhd achieved 4,964,374 man-hours without a Lost Time Injury since September 2011, whereas its wholly owned manufacturing subsidiary, Tobacco Importers and Manufacturers Sdn Bhd achieved 919,157 man-hours without a Lost Time Injury since September 2015.</p>
GR-LA7	Workers with high incidence or high risks of diseases related to their occupation.	<p>There was no record of workers having high incidence or high risk of diseases relating to their occupation in British American Tobacco Malaysia.</p>

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
GR-LA8	Health and safety topics covered in formal agreements with trade unions.	<p>Environment, health and safety topics were covered in a various articles in the Collective Agreement (CA) between Tobacco Importers and Manufacturers Sdn Bhd and National Union of Tobacco Industry Workers (NUTIW) effective from 1 January 2014 to 31 December 2016.</p> <p>Articles 21-22 cover employees maximum working hours, Article 23-28 cover employees' leave entitlement. Article 41 states that the Company's working environment is to be in compliance with relevant regulations including providing for medical examination for employees.</p>
GR-LA9	Average hours of training per year per employee by gender, and by employee category.	<p>International and Regional trainings were provided to 248 employees and 4588 hours were invested. Local trainings were provided to 143 employees and a total of 1115 hours were invested.</p> <p>The training programmes offered are listed as follows:</p> <ul style="list-style-type: none"> (1) Local Training: 7.8 hours (2) International and Regional Training: 18.5 hours <p>The hours calculated are based on the average hours per participant.</p> <p>Management Employees</p> <p>Global Leadership Curriculum (GLC) courses: 15.4 hours</p> <ul style="list-style-type: none"> (1) British American Tobacco Malaysia: 15.4 hours (2) Commercial Marketers and Distributors: 15.6 hours (3) Tobacco Imports and Manufacturers: 14.8 hours <p>Non-GLC courses: 14.3 hours</p> <ul style="list-style-type: none"> (1) British American Tobacco Malaysia: 13 hours (2) Commercial Marketers and Distributors: 17.5 hours (3) Tobacco Imports and Manufacturers: 14.9 hours <p>Non-Management Employees</p> <p>Global Leadership Curriculum (GLC) courses: 25.9 hours</p> <ul style="list-style-type: none"> (1) Commercial Marketers and Distributors: 25.9 hours <p>Non-GLC courses: 6.4 hours</p> <ul style="list-style-type: none"> (1) British American Tobacco Malaysia: 7 hours (2) Commercial Marketers and Distributors: 7 hours (3) Tobacco Imports and Distributors: 5.3 hours <p>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 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>

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
GR-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	<p>There are two types of regional training programmes implemented to upgrade employee skills which are Junior to Middle Development Programme, and Senior Development Programme. Some examples of these programme are as below:</p> <ul style="list-style-type: none"> (1) Leadership Training <ul style="list-style-type: none"> i. Leading Teams ii. Leading Self iii. Impact & Gravitas Pathway (2) Skills Training <ul style="list-style-type: none"> i. Present with Impact ii. Negotiation Skills iii. Microsoft Excel and Microsoft Word Training (3) Human Resources <p>Human Resources Development Programme</p> <p>British American Tobacco Malaysia also offers a list of 20 online training courses available on the Company's intranet and covers the three leadership capabilities which were identified as key focus areas last year:</p> <ul style="list-style-type: none"> (1) Thinks Strategically and Prioritises (2) Leads Change and Innovates (3) Develops Leaders and Teams <p>British American Tobacco Malaysia also ensures that every employee is integrated successfully into the organisation through the three activities below:</p> <ul style="list-style-type: none"> (1) Meet and greet presentation (2) 90 days corporate onboarding programme
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 December 2016:</p> <p>Management</p> <ul style="list-style-type: none"> (1) Male : 80.19 percent (490) (2) Female : 19.80 percent (121) <p>Non-management</p> <ul style="list-style-type: none"> (1) Male : 75.44 percent (43) (2) Female : 24.56 percent (14)

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
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> <p>(1) Male : 67 percent (4 out of 6 Directors)</p> <p>(2) Female : 33 percent (2 out of 6 Directors)</p> <p>The percentage of British American Tobacco Malaysia's Board of Directors by age groups:</p> <p>(1) Under 30 years old : 0 percent</p> <p>(2) 30-50 years old : 33 percent (2 out of 6 Directors)</p> <p>(3) Over 50 years old : 67 percent (4 out of 6 Directors)</p> <p>The percentage of employees in British American Tobacco Malaysia by gender:</p> <p>(1) Male : 80 percent (533 out of 668 employees)</p> <p>(2) Female : 20 percent (135 out of 668 employees)</p> <p>The percentage of employees in British American Tobacco Malaysia by age groups:</p> <p>(1) Under 30 years old : 19 percent (129 out of 668 employees)</p> <p>(2) 30-50 years old : 62 percent (413 out of 668 employees)</p> <p>(3) Over 50 years old : 19 percent (126 out of 668 employees)</p>
GR-LA13	Ratio of basic salary and remuneration or women to men by employee category by significant locations of operation.	<p>Male and female employees of the same grade shared the same salary scale, but their starting salary might differ based on talent, experience and skills set.</p> <p>Male and female Management Trainees were paid equal basic salaries.</p>
GR-LA14	Percentage of new suppliers that were screened using labour practices criteria.	<p>100 percent of our new and existing direct materials suppliers are screened using labour practices criteria as part of our supplier programmes.</p> <p>Prior to end 2016, we use our Business Enabler Survey Tool (BEST). BEST assesses the sustainability performance, including labour practices criteria, of our materials suppliers through continuous detailed reviews by an international pool of trained auditors. Suppliers must obtain Approved, Qualified or Certified status in order to be retained by British American Tobacco. As part of the process, we also provide guidelines and roadmaps to support suppliers' continuous improvement.</p>
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 for 2016.
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-HRI	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 Business Enabler Survey Tool (BEST) to select the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provision of education and training, regulatory compliances, business ethics and environment, health and safety responsibility.

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
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 17 employees and 210 hours were invested. Below are some examples of trainings that were attended:</p> <ol style="list-style-type: none"> (1) New Malaysian Immigration Requirements and How the Changes Impact Organisation (2) Detecting, Preventing and Reporting Fraud and Financial Irregularities (3) Corporate Financial Reporting: Are You Making the Right Decisions? (4) Industrial Relations Conference 2016: Latest Trends & Developments in Industrial Relations Law & Practice in Malaysia (5) Companies Bill 2015 – An Outline and Comparison
GR-HR3	Total number of incidents of discrimination and corrective actions taken.	<p>There was one report of discrimination reported in British American Tobacco Malaysia in 2016 where an employee alleged to have been subject to harassment and abuse at work by the Line Manager and three other employees in the team at a state office. An investigation team was formed to look into the allegations and the findings were that although there was no direct discrimination, the said employee was subjected to some occasional unsavory language by the Line Manager. The following actions were recommended and taken:</p> <ol style="list-style-type: none"> (1) The issuance of a warning letter to the Line Manager on the usage of unsavory language at the workplace. (2) The issuance of a memo to the said state team cautioning against the use of unsavory language which are vulgar, racist and sexual orientated in the workplace and notice that further disciplinary action would be taken if such incidents were found to be repeated in the future. <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> <p>Please refer to page 39 on Standards of Business Conduct.</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.	<p>There were no significant risks in exercising freedom of association or collective bargaining in British American Tobacco Malaysia in 2016.</p>

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
GR-HR5	Operations and suppliers identified as having significant risks for incident of child labour, and measures taken to contribute to the effective abolition of child 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. Topics covered by our Employment Principles include:</p> <ol style="list-style-type: none"> (1) Equality of opportunity and non-discrimination. (2) Internal communications and the free flow of ideas. (3) Worker representation and freedom of association. (4) Fairness at work and the unacceptability of harassment and bullying. (5) Do not condone or employ child labour. (6) Forced or bonded labour is completely unacceptable. (7) Performance responsibility. (8) Health, safety and environmental responsibility. (9) Community contributions and skills development for employees and communities in markets where our companies operate. (10) Personal development and learning. (11) Reasonable working hours and family friendly policies. (12) Fair, clear and competitive remuneration and benefits.
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.	<p>British American Tobacco Malaysia's significant investments were with its suppliers. Our philosophy on supplier partnership was not just about procurement but how we could increase value in the supply chain. We use the Business Enabler Survey Tool (BEST) to select the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provision of education and training, regulatory compliances, business ethics and environment, health and safety responsibility.</p>
GR-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations.	<p>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.</p>
GR-HR8	Total number of incidents of violations involving rights of indigenous people and actions taken.	<p>There were no incidents of violations involving rights of indigenous people at British American Tobacco Malaysia in 2016.</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"> (1) Equality of opportunity and non-discrimination. (2) Internal communications and the free flow of ideas. (3) Worker representation and freedom of association. (4) Fairness at work and the unacceptability of harassment and bullying. (5) Do not condone or employ child labour. (6) Forced or bonded labour is completely unacceptable. (7) Performance responsibility. (8) Health, safety and environmental responsibility. (9) Community contributions and skills development for employees and communities in markets where our companies operate. (10) Personal development and learning. (11) Reasonable working hours and family friendly policies. (12) Fair, clear and competitive remuneration and benefits.

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
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 direct materials suppliers are reviewed through our major supplier programme, the Business Enabler Survey Tool (BEST). 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 significant human rights impacts in the supply chain recorded in British American Tobacco Malaysia for 2016.
GR-HR12	Number of grievance about human rights impacts filed, addressed and resolved through formal grievance mechanism.	<p>In 2016, there were no grievances about human rights impacts filed in British American Tobacco Malaysia.</p> <p>The Standards of Business Conduct provides for 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 programs.	No environmental impact assessment has been performed amongst British American Tobacco suppliers in 2016.
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 for 2016.
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>

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
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 via its intranet and employee onboarding training, which includes detailed information on anti-corruption and bribery. All employees are also required to sign off on an annual Declaration of Compliance to the Standards of Business Conduct.</p> <p>A further reinforcement message to all employees on Standards of Business Conduct compliance was issued in November 2016.</p>
GR-SO5	Confirmed incidents of corruptions and actions taken.	There were no incidences of corruption reported at British American Tobacco Malaysia in 2016.
GR-SO6	Total value of political contributions by country and recipient/beneficiary.	<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 behaviour, anti-trust, and monopoly practices and their outcomes.	<p>British American Tobacco Malaysia has not been involved in any legal action for anti-competitive behaviour, anti-trust, and monopoly practices.</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 which was rolled out company-wide on 18 June 2009 also ensures that business activities are not in any manner anti-competitive and not in breach of the Competition Act 2011.</p>
GR-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	There were no significant fines or any non-monetary sanctions imposed on British American Tobacco Malaysia in 2016.
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>In 2016, there were no grievances about impacts on society filed at British American Tobacco Malaysia.</p> <p>The Group's Standards of Business Conduct set out 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>

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016																				
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 to product assessment to ensure that there is no further increase to the 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.																				
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.	<table border="1"> <thead> <tr> <th rowspan="2"></th><th colspan="2">2016</th></tr> <tr> <th>yes</th><th>no</th></tr> </thead> <tbody> <tr> <td>The sourcing of components of the product or service</td><td></td><td>✓</td></tr> <tr> <td>Content, particularly with regard to substances that might produce an environmental or social impact</td><td>✓</td><td></td></tr> <tr> <td>Safe use of the product or service</td><td>✓</td><td></td></tr> <tr> <td>Disposal of the product and environmental/social impacts</td><td></td><td>✓</td></tr> <tr> <td>Other (explain)</td><td>N.A</td><td>N.A</td></tr> </tbody> </table> <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 www.bat.com/imp</p>		2016		yes	no	The sourcing of components of the product or service		✓	Content, particularly with regard to substances that might produce an environmental or social impact	✓		Safe use of the product or service	✓		Disposal of the product and environmental/social impacts		✓	Other (explain)	N.A	N.A
	2016																					
	yes	no																				
The sourcing of components of the product or service		✓																				
Content, particularly with regard to substances that might produce an environmental or social impact	✓																					
Safe use of the product or service	✓																					
Disposal of the product and environmental/social impacts		✓																				
Other (explain)	N.A	N.A																				
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 2016, 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.																				

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2016

GRI – G4 Code	Issue Area	Response for 2016
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.	<p>British American Tobacco Malaysia does not sell products that are the subject of stakeholder questions or public debate apart from combustible tobacco products.</p> <p>The Malaysian Government is still considering how to regulate e-cigarettes.</p> <p>British American Tobacco Malaysia advocates for a regulatory approach that has high consumer safety and product quality standards, while encouraging innovation, growth and availability of e-cigarettes as recognised by leading scientific and public health experts, such as the Public Health England who conclude e-cigarettes are 95 percent less risky than conventional cigarettes and can help smokers to quit.</p>
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.
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.
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.



08

WINNING
ORGANISATION



WINNING ORGANISATION

DEVELOPING A WINNING ORGANISATION

British American Tobacco Malaysia believes that our people are our greatest asset. Our critical success factor as a business has always been our talented team of employees, whose collective experience, expertise, values and positive attitude have enabled us to achieve strong and consistent business results.

As a company that offers exciting opportunities for skill development and progressive careers, we believe that the first step towards creating a winning organisation is to attract, develop and retain a diverse pool of talented employees. We are strongly committed to our talent to provide the best support and motivation to face the challenging operational and market environment in the tobacco industry, to recognise their leadership and contribution, to frequently engage them and provide a conducive working environment to develop a fulfilling career.

Premised on the above principles, the key Winning Organisation highlights of 2016 are:

- Recognition for 54 recipients of the Long Service Award.
- Recognition for 131 exceptional employees through our employee recognition awards.
- Leadership Team Awards presented to two exceptional teams for consistent display of leadership behaviour and contribution to the business.
- Conducted international, regional and local training to facilitate our employees' learning and development.
- Executed activities to promote employees' wellbeing.

RECOGNISING LONG SERVICE EMPLOYEES

The Company's Long Service Awards celebrates outstanding commitment and performance of British American Tobacco Malaysia's employees, particularly those who remained steadfast in achieving significant milestones during their long tenures. For 2016, 54 employees received their Long Service Award during the Company's Annual Dinner on 19 November 2016. From the 54, 19 were awarded the Long Service Award for 10 years' service, 29 for 20 years' service, and six for 30 years' service with the Company.



10 years Long Service Award recipients



Eric Stael presents the Leadership Team award to one of the winning teams

REWARDING OUTSTANDING PERFORMANCE AND LEADERSHIP BEHAVIOURS

At British American Tobacco Malaysia, we strongly believe in the importance of recognising our employees for their outstanding performance and the display of right leadership behaviours. It is not only the end results that matter but also the means to the ends that should be duly recognised. This is why we foster a high-performance organisational culture that rewards outstanding employees who have exhibited the right business and people leadership traits and have gone beyond the call of duty to execute and deliver excellent results.

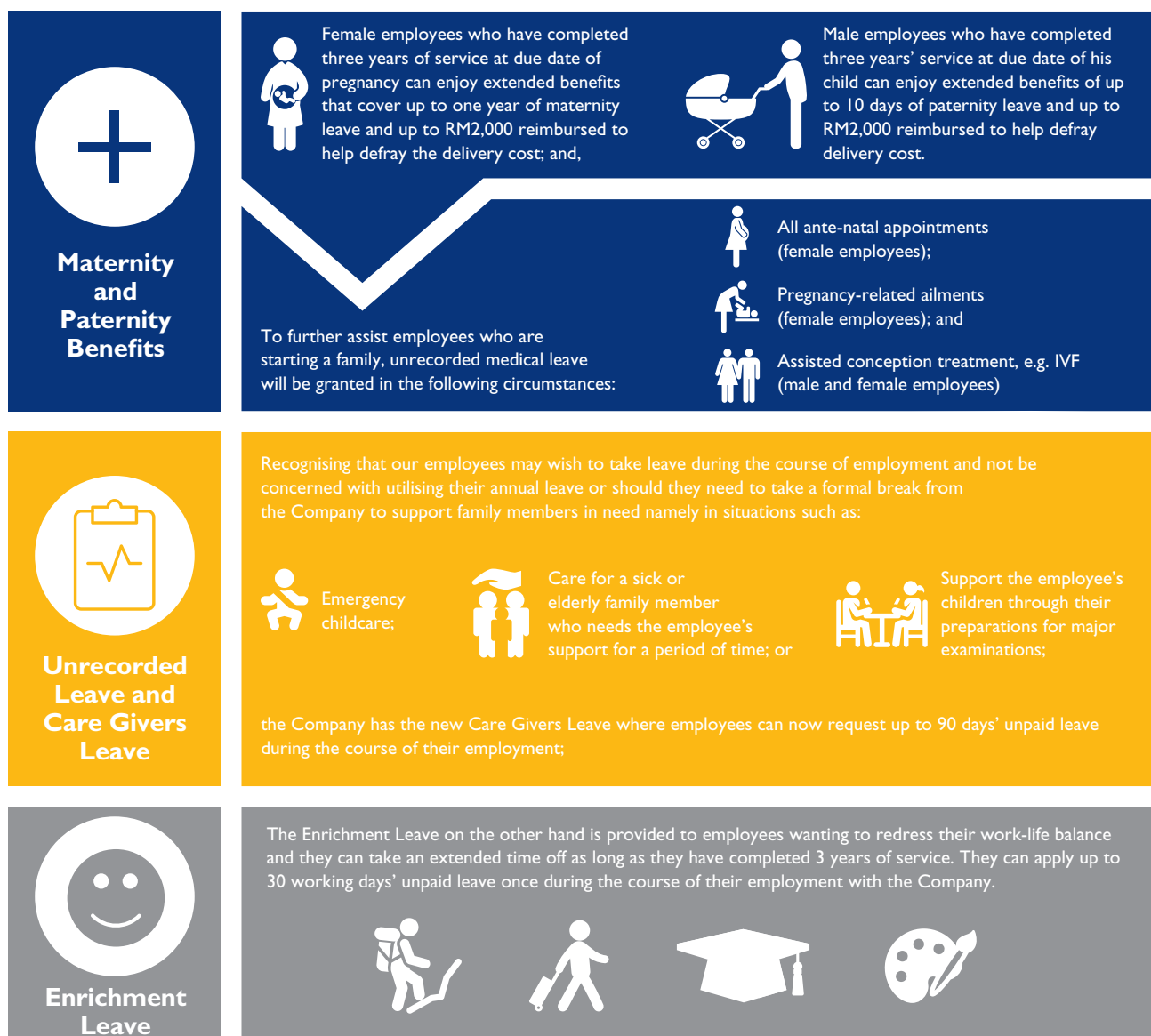
For 2016, we presented recognition awards to 131 employees for demonstrating strong business leadership and high levels of commitment towards delivering excellent work.

Other than individual team awards, British American Tobacco Malaysia also introduced the inaugural Leadership Team Awards designed to recognise and celebrate the most outstanding team achievements and efforts spearheaded by leadership behaviours that truly made a difference to the organisation, with nominations coming directly from the respective Leadership Team members. The Company is extremely proud that not one, but two well deserving teams were announced the winners of this new prestigious award for 2016.

EMPLOYEES' BENEFITS

To address workforce needs, we greatly emphasise on establishing a robust employee wellbeing strategy. British American Tobacco Malaysia frequently reviews reward practices to ensure that employees get competitive benefits such as loan interest subsidies, meals, parking, medical coverage, dental and optical reimbursements and retirement benefits through additional Employee Provident Fund (EPF) contribution.

In line with the Company's commitment to provide an inclusive working environment, one that is family-friendly and that promotes a healthy work-life balance, the Company has revamped its family benefits to include better maternity and paternity benefits and the introduction of unrecorded leave, care givers leave and enrichment leave.



EMPLOYEES' WELLBEING

Employees' wellbeing is critical to creating a conducive work environment and we believe that a high performance culture entails that we not only work hard and celebrate success but we also play hard together.

In 2016, the British American Tobacco Malaysia Sports Club organised a variety of engaging events and activities for our employees:

- Treasure Hunt from Southern Trail to Johor Bahru
- Family Day in Sunway Lagoon Theme Park
- Recreational activities such as fishing, cooking classes, badminton and futsal
- Annual Dinner and Dance at Connexion, Nexus Bangsar South, Kuala Lumpur
- Yoga classes
- Companywide *Unleash The Force* Explore Hunt – Bring It On



Unleash the Force Explore Hunt – Bring It On



The Explore Hunt winning team celebrating their big win



Southern Trail Treasure Hunt 2016



Participants during the cooking class in Nathalie's Gourmet Studio



Employees all dressed up for the 2016 Annual Dinner theme – A Black and White Affair

WINNING ORGANISATION

HIGH PERFORMANCE LEADERSHIP

Our high performance leadership culture is pivotal to creating a Winning Organisation and is honed from the way we attract, develop and retain the next generation of leaders who are empowered to deliver and take ownership of results.

Talent Sourcing: Attracting and Recruiting Great Talent



We strive to build a strong talent pipeline and encourage our people to deliver exceptional results. Staying true to our global commitment to create a *Legacy of Leaders*, we have implemented a combination of recruitment initiatives to both develop our internal talent, as well as expand our external acquisition networks.

The favourable results achieved through the recent implementation of the *Direct Recruitment Model* has allowed us to continue attracting and recruiting high quality talent for 2016. We have continued to leverage on these successes to strengthen our abilities to source for external candidates with maximum cost efficiency.

Focused Recruitment Team

A dedicated recruiter is tasked to consistently implement the *Direct Recruitment Model* that reduces our expenditure on acquisition networks. We achieved 71 percent in direct recruitment of management roles, exceeding the global target of 70 percent. We also recruited 60 percent of Global Graduates and 59 percent of Territory Executives through internal recruitment channels.

Selection and Assessment Tools

We have maintained focus on using on-line evaluation tools since its complete integration to the Jobs@bat system last year.

Through these specialised on-line evaluation tools, the Company evaluates a candidate's eligibility for a role through a *Job Specific Questionnaire*, as well as measures the candidate's cultural compatibility via a *Culture Match Questionnaire*. Candidates also undergo a series of cognitive tests to assess their numerical and verbal reasoning skills before proceeding with a *Leadership Preference Questionnaire* to evaluate the candidate's work and leadership preference.

These on-line evaluation tools are also complemented by phone interviews, face-to-face interviews and a series of assessment centre exercises to ensure that we recruit the best fitting candidates for the Company.

The recruitment process is as follows:



Talent Brand

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 influences our ability to hire the best candidates, who possess the appropriate skill-sets, working personality and leadership style to succeed in the Company.

With that in mind, our talent branding initiatives are founded upon the awareness, attractiveness, engagement, consideration and desire components of the Company's overall recruitment strategy.

2016 has proven to be another strong year for the Company, as we have clinched numerous awards for our strong recruitment strategy and best practices. We are exceptionally honoured to share our achievements for the year.



Asia Recruitment Awards

The awards acknowledge companies within Asia Pacific who are:

- At the forefront of implementing innovative and effective recruitment campaigns, adopting new HR technology and demonstrating good talent acquisition strategies in Asia
- **Gold Awards**
 - o Best Graduate Recruitment Programme
- **Silver Awards**
 - o Best Staff Referral Programme
 - o Best Use of Recruitment Technology
- **Bronze Awards**
 - o Best Candidate Experience by a Corporate Team

HR Excellence Awards 2016

One of the most prestigious HR awards that acknowledges individuals and teams who have demonstrated excellence in areas such as employee engagement, HR strategy and talent management

- **Silver Awards**
 - o Excellence in Recruitment
 - o Excellence in Innovative Use of HR Technology
- **Bronze Awards**
 - o Excellence in Employee Development

WINNING ORGANISATION

We continue 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. Equipped with 30 dedicated employees across multiple functions, we participated in the Graduan Aspire Career Fair to advocate for British American Tobacco Malaysia as the Employer of Choice in the current job market.



Showcasing British American Tobacco Malaysia as an Employer of Choice at the GRADUAN Aspire 2016

LinkedIn and Social Media Presence



We need more outstanding people like you to be our next generation of leaders. We want the best talent out there who will go beyond the call of duty and exceed expectations. If you know what you want, where you want to go and who, we are committed to providing the avenue to unleash your potential.

A progressive tomorrow can be secured by your decision to start a career at British American Tobacco today.

“In my few months as a Management Trainee in the Finance department, I have grown to be more confident. I am in awe by how free and open the culture of communication is in BAT. Personally, I have developed friendship with my peers; and professionally, I have learnt multiple aspects of finance and stakeholder engagement. BAT strategically expands the breadth of my business acumen and leadership skills.

Be clear of what you want and go for it. If you love being pushed to reach your full potential, then the BAT Management Trainee Programme is definitely a great way to accelerate your career.”

Bring your difference to bat-careers.com



We need more outstanding people like you to be our next generation of leaders. We want the best talent out there who will go beyond the call of duty and exceed expectations. If you know what you want, where you want to go and who, we are committed to providing the avenue to unleash your potential.

A progressive tomorrow can be secured by your decision to start a career at British American Tobacco today.

“As a Management Trainee, there is a steep learning curve throughout the programme. This experience has helped me in understanding myself better; after all, one will need to encounter challenges to identify your strengths and weaknesses. Personally, I understood the importance of setting specific and measurable targets in both my career and personal life. This opportunity has given me the chance to hone my soft skills such as stakeholder engagement and time management while building on my technical on-the-job knowledge.

Bear in mind that employment is a two way relationship - as much as companies have to decide if you are the right candidate for them, it is equally important for you to also consider if the employer is a company you would like to work for.”

Bring your difference to bat-careers.com



British American Tobacco Global Careers added a new photo to the album Achievement.

28 April 2016 · 🌐

BAT Malaysia was recognized for its excellence in talent acquisition by Asia Recruitment Awards. Our team in Malaysia won Gold Award for Best Graduate Recruitment Program, Two Silver Awards for Best Staff Referral Programme and Best Use of Recruitment Technology. They also took home the bronze award for Best Candidate Experience by Corporate Team. This just shows BAT Malaysia's commitment to executing best recruitment practices and delivering results in attracting and hiring quality candidates.



Some of the published content on our social media platforms



British American Tobacco Global Careers

8 November 2016 · 🌐

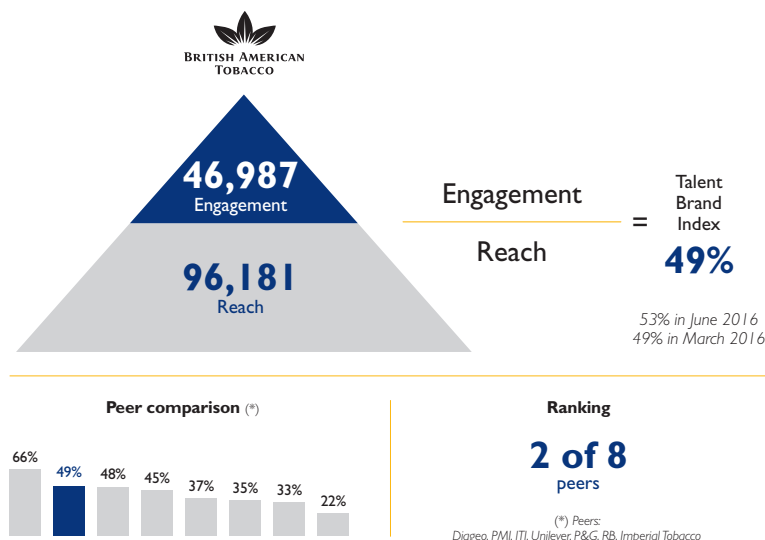
It is with great pleasure that we announce, BAT Malaysia was recognized for our HR excellence by the Human Resources magazine and was awarded not one, not two, but three awards at the recent HR Excellence Awards 2016 ceremony.

Congratulations to our BAT Malaysia team!



We underscore our global social media presence and other recruitment platforms such as LinkedIn and Graduan to increase talent brand awareness and social engagement with a wider audience. Regionally, we are proud to say that we have achieved an impressive combined total of 1,935,253 impressions across various channels such as LinkedIn, Facebook and Twitter. Some of the materials that we published on these platforms include our successes for the 2016's HR Excellence Awards as well as testimonials from British American Tobacco Malaysia Management Trainees.

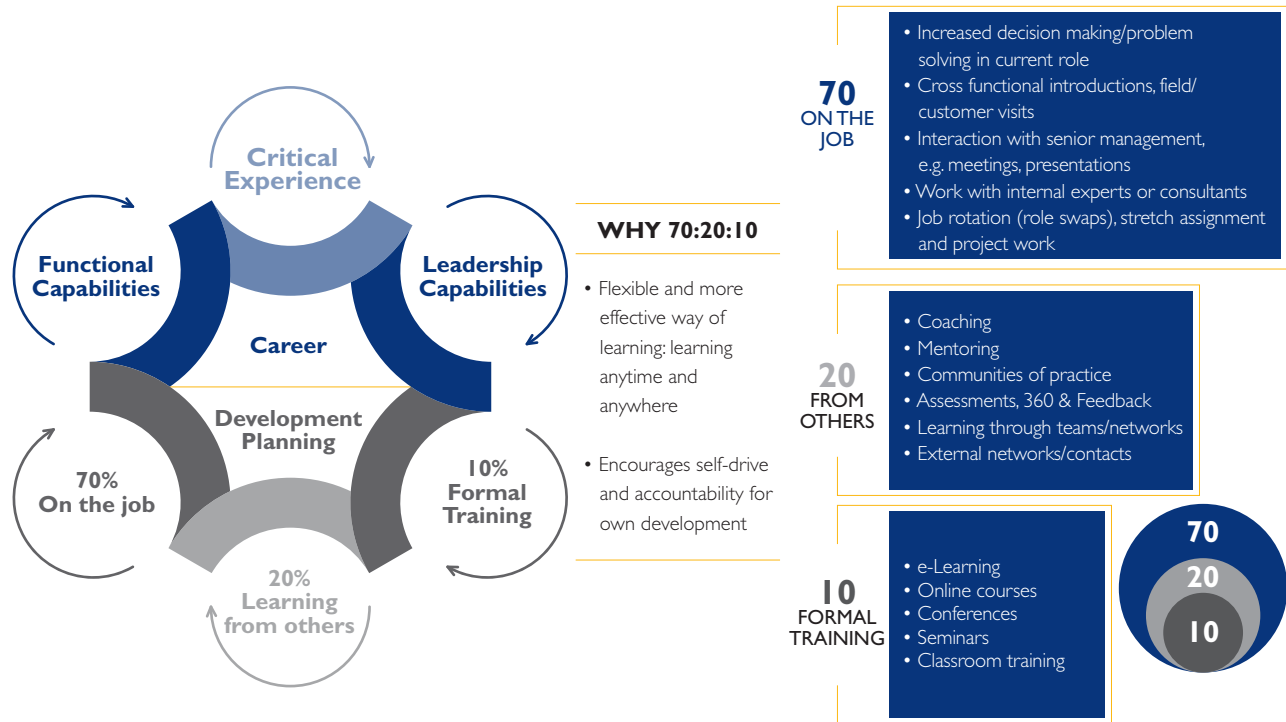
We also launched a new on-line initiative on LinkedIn to showcase the success stories of our internal talents comprising video testimonials from mid-management individuals and members of the Leadership Team.



The Company's talent brand awareness continues to remain strong in 2016, achieving a Talent Brand Index (TBI) score of 49 percent. We are proud to say that we are within the Top 5 TBI achievers among British American Tobacco Top 20 markets, after South Korea, Bangladesh, Indonesia and Ukraine. We are very encouraged by these favourable numbers and will continue improving our talent branding activities to achieve bigger milestones in the future.

LEARNING & ORGANISATIONAL DEVELOPMENT

Investing in Our People through Continuous Talent Development

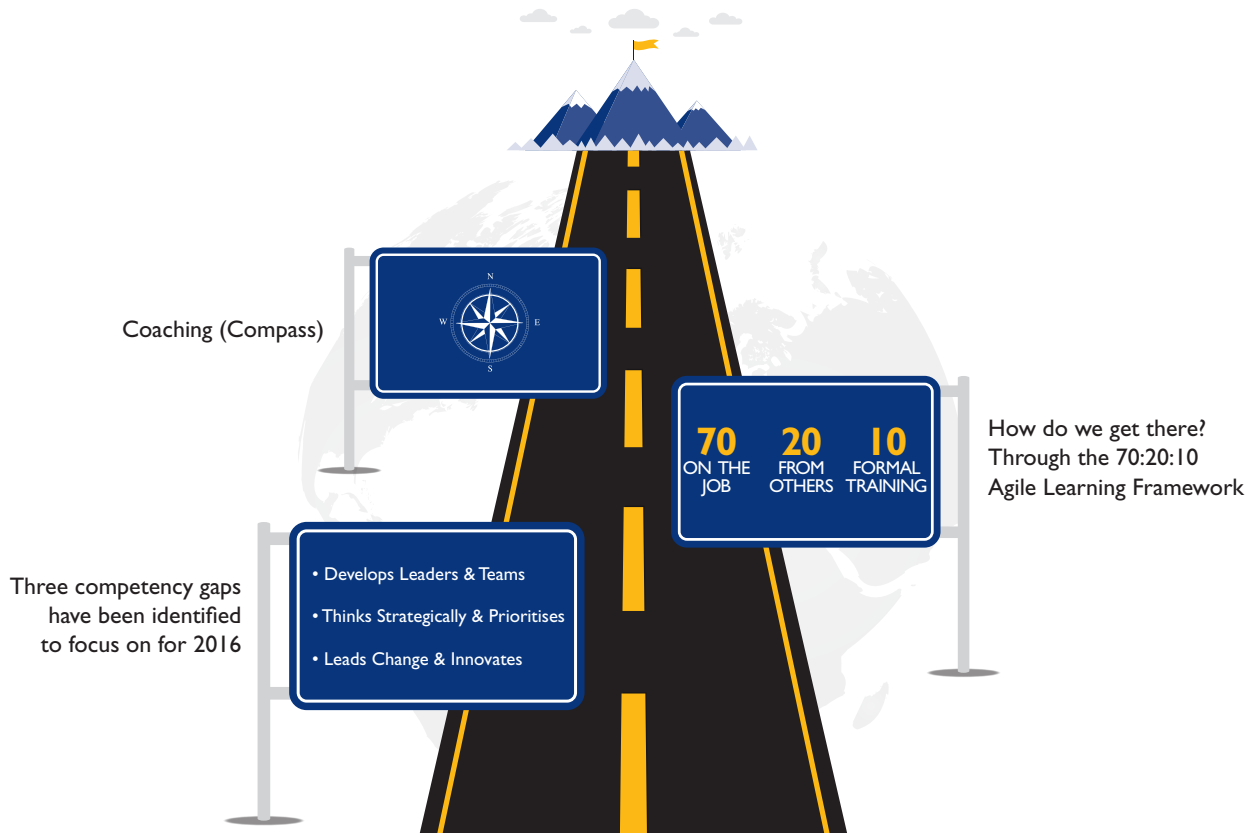


We entrust our people to take charge and drive their personal and professional development with us, and continue to strive for excellence in British American Tobacco Malaysia. We believe that enriched learning experiences cannot be restricted to the confines of a classroom. Our talent proposition to employees includes structured and on-the-job training opportunities, cross functional and international exposure and stretch projects.

In 2016, we leveraged highly on the *Agile Learning Framework (70:20:10)* to guarantee that our employees obtained the most fulfilling and flexible learning and development experience that we could offer. The *Agile Learning Framework* comprises 70 percent of on-the-job learning, 20 percent learning from others, and 10 percent formal training.

In order to truly understand and immerse in the work that we do, employees are given opportunities to undertake and collaborate in meaningful work assignments within the Company. This belief is embedded in the *Agile Learning Framework*, representing the 70 percent of on-the-job learning that we emphasise in our learning and development strategies.

To ensure peak business performance and excellent people leadership, coaching (compass) plays an important role in British American Tobacco Malaysia's sustainable and continuous growth



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.

We have conducted several training programmes to further strengthen our people's functional and leadership capabilities, making up the 10 percent formal learning component in the above framework. For example, Impact and Gravitas was a regional training programme, organised for 16 mid-career professionals to heighten their leadership, negotiation and influencing skills in the workplace. During the course, participants learned various components on personal branding, methods of stakeholder engagement and managing group dynamics in order to be effective and strong leaders in their field of expertise.

WINNING ORGANISATION

In 2016, the Company had also conducted the High Potential Leadership Development Programme (HLDP) to continuously strengthen and nurture our key talent. The HLDP encompasses robust individual development plans and strong mentorship for high potential talent, ensuring that they continue to build leadership capabilities and competencies during their career journey with us.

We constantly focus on growing and nurturing the next generation of leaders through a structured company wide talent assessment and review process, with a view of strengthening our talent pipeline, providing progressive career paths to our key talent and ensuring that our talent retention strategy is robust.

In 2016, the Company continued to invest resources to learning and development. Management and non-management employees spent 5,206 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"> • Leading Self • Leading Teams • Impact & Gravitas • Sustainability Workshop • Mandatory Accreditation Programme for Directors of Public Listed Companies 	<ul style="list-style-type: none"> • Presentation Skills • Present with Impact • Negotiation Skills • Coaching Workshops • Detecting, Preventing and Reporting Fraud and Financial Irregularities • Obligatory Employer Course on KWSP Act • Company Secretaries Training Programme Essential • The Malaysian Institute of Chartered Secretaries and Administrators Annual Conference • Industrial Relations Conference 	<ul style="list-style-type: none"> • POSITIVE Programme • Aurora Training • Accredited Certification in PRINCE2 Foundation Level • In-house Customised Microsoft Excel and Microsoft Word Training for Supply Chain • Defensive Car Driving • Mobility Management in Challenging Times • Certificate in Environmental Management • Certificate in Integrated Logistics Management • Certificate in Supervisory Management • Warehouse Operations and Management • Finance for Non-Finance Professionals • Forklift Training • Value-Based Supply Chain Management: Emerging Issues, Global Trends and Best Practices in Supply Chain Management • Conference and Exhibition on Occupational Safety and Health



DEVELOPING OUR TALENT ACROSS THE GLOBE

In British American Tobacco Malaysia, we believe in developing our people to undertake new global challenges. We are proud of our Malaysian talent who are achieving big milestones in other operating companies around the globe.



Hong Kong

General Manager – Global Travel Retail Asia Pacific, Marketing

Senior Counsel – BATUKE (HK) & ASPAC Regional



United Kingdom

Management Trainee

AIT Engagement Manager

Senior International Brand Manager – PALL MALL

Senior HR Business Partner, Global R&D

EMPLOYEE PULSE-CHECK 2016

In order to gauge and evaluate the engagement levels with employees, we conducted an employee pulse-check in 2016. A total of 231 employees were invited to participate in this survey, and respondents (81 percent) had partaken in the pulse-check session, comprising of members from the Marketing, Supply Chain and Corporate Services functions in British American Tobacco Malaysia.

We achieved favourable results in a number of dimensions, particularly organisational inclusivity, quality of feedback from managers and trust levels among employees. We identified opportunity areas for further improvement such as providing non-financial recognition at work and ensuring career satisfaction. Organisational and function specific action plans have been put in place and are being closely monitored to ensure that we address the feedback received.

Financial Statements



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DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required by the Companies Act, 1965 (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 judgements 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 2016

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 2016.

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 and cigars. 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 Group and 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	721,289	667,981

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 78.0 sen per ordinary share totalling RM222,713,000 in respect of the financial year ended 31 December 2015 on 24 March 2016.
- ii) first interim ordinary dividend of 55.0 sen per ordinary share totalling RM157,041,000 in respect of the financial year ended 31 December 2016 on 27 May 2016.
- iii) second interim ordinary dividend of 45.0 sen per ordinary share totalling RM128,489,000 in respect of the financial year ended 31 December 2016 on 25 August 2016.
- iv) third interim ordinary dividend of 55.0 sen per ordinary share totalling RM157,041,000 in respect of the financial year ended 31 December 2016 on 24 November 2016.

The Directors declared a fourth interim ordinary dividend of 77.0 sen per ordinary share and a special dividend of 46.0 sen per ordinary share at the Board of Director's meeting on 16 February 2017 amounting to RM351,202,000 in respect of the financial year ended 31 December 2016 which will be paid on 23 March 2017 to shareholders registered in the Company's Register of Members at the close of business on 13 March 2017. These financial statements do not reflect the fourth interim ordinary dividend and special dividend which will be accounted for in the financial year ended 31 December 2017.

The Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2016.

DIRECTORS' REPORT

for the year ended 31 December 2016

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Dato' Chan Choon Ngai
 Datuk Oh Chong Peng
 Datuk Zainun Aishah Binti Ahmad
 Datuk Lee Oi Kuan (f)
 Hendrik Stoel (appointed w.e.f. 1 June 2016)
 Ricardo Martin Guardo (appointed w.e.f. 1 September 2016)
 Tan Sri Dato' Seri (Dr) Aseh Bin Haji Che Mat (Chairman) (appointed w.e.f. 1 January 2017)
 Stefano Clini (resigned w.e.f. 3 May 2016)
 Pablo Daniel Sconfianza (resigned w.e.f. 1 September 2016)
 James Richard Suttie (resigned w.e.f. 31 December 2016)
 Tan Sri Mohamad Salim Bin Fateh Din (Chairman) (resigned w.e.f. 31 December 2016)

DIRECTORS' INTERESTS IN SHARES

The interests and deemed 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 of 50 sen each			
	At 1.1.2016	Bought	Sold	At 31.12.2016

Company

Shareholdings in the name of the Director:

Dato' Chan Choon Ngai	1,000	—	—	1,000
Datuk Oh Chong Peng	1,000	—	—	1,000

Shareholdings in which the Director is deemed to have an interest:

Dato' Chan Choon Ngai	6,000	—	(6,000)	—
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	Number of ordinary shares of 25p each in British American Tobacco p.l.c			
	At 1.1.2016/ Date of appointment	Bought	Sold	At 31.12.2016

Ultimate Holding Company

— British American Tobacco p.l.c

Shareholdings in the name of the Director:

Datuk Lee Oi Kuan (f)	21,104	1,474	(6,000)	16,578
Hendrik Stoel	3,243	1,269	—	4,512

DIRECTORS' REPORT

for the year ended 31 December 2016

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

	Number of ordinary shares of 25p each in British American Tobacco p.l.c			
	At 1.1.2016/ Date of appointment	Awarded	Vested	At 31.12.2016

Ultimate Holding Company

– British American Tobacco p.l.c

Deferred Share Bonus Scheme & International Share

Reward Scheme:

Shareholdings in the name of the Director:

Datuk Lee Oi Kuan (f)	3,824	1,170	(1,180)	3,814
Hendrik Stoel	3,356	2,030	–	5,386
Ricardo Martin Guardo	1,861	934	(608)	2,187

	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.2016/ Date of appointment	Granted	Exercised	Lapsed	At 31.12.2016

Ultimate Holding Company

– British American Tobacco p.l.c

Long-Term Incentive Plan

Shareholdings in the name of the

Director:

Datuk Lee Oi Kuan (f)					
LTIP – Nil (22 March 2023)	3,356	–	(335)	(3,021)	–
LTIP – Nil (28 March 2024)	4,720	–	–	–	4,720
LTIP – Nil (27 March 2025)	4,877	–	–	–	4,877
LTIP – Nil (12 May 2026)	–	3,597	–	–	3,597
Hendrik Stoel					
LTIP – Nil (22 March 2023)	368	–	–	–	368
LTIP – Nil (28 March 2024)	5,616	–	–	–	5,616
LTIP – Nil (27 March 2025)	5,154	–	–	–	5,154
LTIP – Nil (12 May 2026)	–	5,266	–	–	5,266
Ricardo Martin Guardo					
LTIP – Nil (27 March 2025)	1,600	–	–	–	1,600
LTIP – Nil (12 May 2026)	–	1,424	–	–	1,424

DIRECTORS' REPORT

for the year ended 31 December 2016

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 regarded by the Directors to be the Company's ultimate holding company). Further details on the employee share schemes offered by British American Tobacco p.l.c are contained in Note 24 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 benefit 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, 1965, other than as may arise from equity-settled share-based compensation plans offered by British American Tobacco p.l.c (British American Tobacco p.l.c is regarded by the Directors to be the ultimate holding company) as disclosed in Note 24 to the financial statements.

ISSUE OF SHARES AND DEBENTURES

There were no changes in the authorised, 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.

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

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

- i) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- 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 would 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.

DIRECTORS' REPORT

for the year ended 31 December 2016

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, except for the restructuring of business operations of the Group as disclosed in Note 31 of the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2016 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.

ULTIMATE HOLDING COMPANY

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.

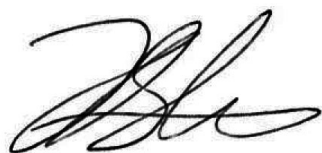
SIGNIFICANT EVENT

The significant event during the year is as disclosed in Note 31 to the financial statements.

AUDITORS

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

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



Hendrik Stoel
Managing Director



Ricardo Martin Guardo
Finance Director

Petaling Jaya

Date: 16 February 2017

INCOME STATEMENTS

for the year ended 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	3	3,756,392	4,581,547	695,170	1,022,409
Cost of sales		(2,486,775)	(2,907,401)	–	–
Gross profit		1,269,617	1,674,146	695,170	1,022,409
Other operating income		2,234	5,211	3,094	1,602
Distribution and marketing costs		(279,328)	(292,887)	–	–
Administrative expenses		(111,038)	(142,050)	(12,486)	(5,691)
Other operating expenses		(8,716)	(4,178)	(39)	(1,272)
Restructuring income/(expenses)	31	46,187	–	(4,134)	–
Profit from operations	4	918,956	1,240,242	681,605	1,017,048
Finance costs		(10,499)	(9,244)	(13,482)	(18,597)
Profit before tax		908,457	1,230,998	668,123	998,451
Tax expense	7	(187,168)	(320,936)	(142)	(1,535)
Profit for the year		721,289	910,062	667,981	996,916

The notes on pages 142 to 187 are an integral part of these financial statements.

STATEMENTS OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

Note	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit for the year	721,289	910,062	667,981	996,916
Other comprehensive income, net of tax				
Items that may be subsequently reclassified to profit or loss				
– changes in fair value of cash flow hedges	14,174	4,321	–	–
– deferred tax on fair value changes on cash flow hedges	14 (3,397)	(1,078)	–	–
Total other comprehensive income for the financial year, net of tax	10,777	3,243	–	–
Total comprehensive income for the financial year	732,066	913,305	667,981	996,916
Profit attributable to:				
Owners of the Company	721,289	910,062	667,981	996,916
Total comprehensive income for the financial year attributable to:				
Owners of the Company	732,066	913,305	667,981	996,916
Basic earnings per ordinary share (sen)	8	252.6	318.7	233.9
			349.1	

The notes on pages 142 to 187 are an integral part of these financial statements.

BALANCE SHEETS

as at 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Assets					
Property, plant and equipment	10	27,609	291,894	3,121	4,752
Computer software	11	1,700	490	81	198
Goodwill	12	411,618	411,618	—	—
Subsidiaries	13	—	—	973,395	973,395
Deferred tax assets	14	27,193	30,536	15,308	15,246
Total non-current assets		468,120	734,538	991,905	993,591
Assets held for sale	15	96,599	—	—	—
Inventories	16	214,947	234,413	—	—
Tax recoverable		23,991	398	367	398
Trade and other receivables	17	342,216	203,751	21,391	76,330
Derivative financial instruments	22	16,728	5,089	—	—
Cash and bank balances		33,131	28,811	5,552	10,842
Total current assets		727,612	472,462	27,310	87,570
Total assets		1,195,732	1,207,000	1,019,215	1,081,161
Equity					
Share capital	18	142,765	142,765	142,765	142,765
Cash flow hedge reserve		11,135	358	—	—
Retained earnings		459,505	403,500	425,960	423,263
Total equity		613,405	546,623	568,725	566,028
Liabilities					
Deferred income	20	—	413	—	—
Deferred tax liabilities	14	2,599	33,537	—	—
Total non-current liabilities		2,599	33,950	—	—
Trade and other payables	19	404,697	304,717	450,490	515,133
Deferred income	20	413	2,606	—	—
Borrowings	21	130,000	305,000	—	—
Derivative financial instruments	22	2,018	10,736	—	—
Current tax liabilities		42,275	3,368	—	—
Bank overdraft		325	—	—	—
Total current liabilities		579,728	626,427	450,490	515,133
Total liabilities		582,327	660,377	450,490	515,133
Total equity and liabilities		1,195,732	1,207,000	1,019,215	1,081,161

The notes on pages 142 to 187 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

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 2016		142,765	358	—	403,500	546,623
Profit for the year		—	—	—	721,289	721,289
Other comprehensive income:						
– changes in fair value of cash flow hedges		—	14,174	—	—	14,174
– deferred tax on fair value changes on cash flow hedges	14	—	(3,397)	—	—	(3,397)
Total comprehensive income		—	10,777	—	721,289	732,066
Transactions with owners:						
Expense arising from equity-settled share-based payment transactions	24	—	—	5,898	—	5,898
Recharge of share-based payment	24	—	—	(5,898)	—	(5,898)
Dividend for financial year ended 31 December 2015						
– fourth interim	9	—	—	—	(222,713)	(222,713)
Dividends for financial year ended 31 December 2016						
– first interim	9	—	—	—	(157,041)	(157,041)
– second interim	9	—	—	—	(128,489)	(128,489)
– third interim	9	—	—	—	(157,041)	(157,041)
Total transactions with owners of the Company		—	—	—	(665,284)	(665,284)
At 31 December 2016		142,765	11,135	—	459,505	613,405

The notes on pages 142 to 187 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

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 2015		142,765	(2,885)	–	384,290	524,170
Profit for the year		–	–	–	910,062	910,062
Other comprehensive income:						
– changes in fair value of cash flow hedges		–	4,321	–	–	4,321
– deferred tax on fair value changes on cash flow hedges	14	–	(1,078)	–	–	(1,078)
Total comprehensive income		–	3,243	–	910,062	913,305
Transactions with owners:						
Expense arising from equity-settled share- based payment transactions	24	–	–	2,848	–	2,848
Recharge of share-based payment	24	–	–	(2,848)	–	(2,848)
Dividend for financial year ended 31 December 2014						
– fourth interim	9	–	–	–	(222,713)	(222,713)
Dividends for financial year ended 31 December 2015						
– first interim	9	–	–	–	(222,713)	(222,713)
– second interim	9	–	–	–	(222,713)	(222,713)
– third interim	9	–	–	–	(222,713)	(222,713)
Total transactions with owners of the Company		–	–	–	(890,852)	(890,852)
At 31 December 2015		142,765	358	–	403,500	546,623

The notes on pages 142 to 187 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

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 2016		142,765	–	423,263	566,028
Profit for the year		–	–	667,981	667,981
Total comprehensive income		–	–	667,981	667,981
Transactions with owners:					
Expense arising from equity-settled share-based payment transactions	24	–	3,936	–	3,936
Recharge of share-based payment	24	–	(3,936)	–	(3,936)
Dividend for financial year ended 31 December 2015					
– fourth interim	9	–	–	(222,713)	(222,713)
Dividends for financial year ended 31 December 2016					
– first interim	9	–	–	(157,041)	(157,041)
– second interim	9	–	–	(128,489)	(128,489)
– third interim	9	–	–	(157,041)	(157,041)
Total transactions with owners of the Company		–	–	(665,284)	(665,284)
At 31 December 2016		142,765	–	425,960	568,725

The notes on pages 142 to 187 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

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 2015		142,765	—	317,199	459,964
Profit for the year		—	—	996,916	996,916
Total comprehensive income		—	—	996,916	996,916
Transactions with owners:					
Expense arising from equity-settled share-based payment transactions	24	—	2,072	—	2,072
Recharge of share-based payment	24	—	(2,072)	—	(2,072)
Dividend for financial year ended 31 December 2014					
– fourth interim	9	—	—	(222,713)	(222,713)
Dividends for financial year ended 31 December 2015					
– first interim	9	—	—	(222,713)	(222,713)
– second interim	9	—	—	(222,713)	(222,713)
– third interim	9	—	—	(222,713)	(222,713)
Total transactions with owners of the Company		—	—	(890,852)	(890,852)
At 31 December 2015		142,765	—	423,263	566,028

The notes on pages 142 to 187 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2016

Note	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Operating activities				
Cash receipts from customers and fellow subsidiaries	3,857,223	4,785,710	142,799	32,059
Cash paid to suppliers, employees and fellow subsidiaries	(3,005,920)	(3,407,605)	(82,847)	(72,864)
Dividends received from subsidiaries	—	—	688,990	1,015,003
Cash from operations	23	851,303	1,378,105	748,942
Income tax paid		(244,821)	(398,525)	(142)
Net cash flow from operating activities	606,482	979,580	748,800	973,701
Investing activities				
Property, plant and equipment				
– additions	10	(14,416)	(14,348)	(831)
– disposals		1,417	5,342	—
Assets held for sale				
– additions	15	(8,131)	—	—
– disposals		268,658	6,756	—
Computer software				
– additions	11	(1,426)	—	—
Interest income received		2,194	2,553	942
Net cash flow from investing activities	248,296	303	111	7,850
Financing activities				
Dividends paid to shareholders	9	(665,284)	(890,852)	(665,284)
Interest expense paid		(10,499)	(9,244)	(13,482)
Repayment of revolving credit		(175,000)	(55,000)	—
Repayment of subsidiary for cash pooling		—	—	(75,435)
Net cash flow used in financing activities	(850,783)	(955,096)	(754,201)	(961,811)
Net increase/(decrease) in cash and cash equivalents		3,995	24,787	(5,290)
Cash and cash equivalents at 1 January		28,811	4,024	10,842
Cash and cash equivalents at 31 December	32,806	28,811	5,552	10,842

The notes on pages 142 to 187 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2016

Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise of the following balance sheet amounts:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and bank balances	33,131	28,811	5,552	10,842
Bank overdraft	(325)	—	—	—
Cash and cash equivalents at 31 December	32,806	28,811	5,552	10,842

The notes on pages 142 to 187 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

Virginia Park, Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the Group and individually referred to as 'Group entities'). The financial statements of the Company as at and for the financial year ended 31 December 2016 do not include any other entities.

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 and cigars. 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), to be its immediate and ultimate holding company respectively.

These financial statements were authorised for issue by the Board of Directors on 16 February 2017.

I. 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, 1965 in Malaysia.

The following are accounting standards, amendments and interpretations 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 2017

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities* (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments* (2014)
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures* (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

NOTES TO THE FINANCIAL STATEMENTS

I. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

- MFRS 16, *Leases*

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*

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

- from the annual period beginning on 1 January 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018.
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

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

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 9.

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 15.

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 IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 16.

(b) Basis of measurement

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

NOTES TO THE FINANCIAL STATEMENTS

I. BASIS OF PREPARATION (CONTINUED)

(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 year 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
- Note 31 – restructuring of business operations

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 Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations from the acquisition date, which is the date on which control is transferred to the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments is recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(ii) 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.

(iii) 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 an available-for-sale financial asset depending on the level of influence retained.

(iv) 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.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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 available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'.

(ii) Foreign entities

Assets and liabilities of foreign subsidiaries are translated at closing rates for purposes of consolidation. Profit or loss items are translated at average rates during the financial year and resulting exchange differences are dealt with in equity for the financial year.

NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments

(i) Initial recognition and 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.

A financial instrument is recognised initially, at its fair value plus, 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.

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

(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 cash equivalents 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(i)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities

The Group classifies borrowings and trade and other payables as financial liabilities.

All financial liabilities are 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

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with 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 the ineffective portion is recognised in the income statement.

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.

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 the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(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 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 expires. 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 instruments

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(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 fifty years.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(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 the 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 except for one of the subsidiaries where its plant, machinery and equipment are depreciated over the shorter of the model useful life or projected production volume. 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. Buildings are depreciated on a straight-line basis over the shorter of 50 years or the lease period. 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.

(e) Leased assets

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

(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. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets (continued)

(i) Finance lease (continued)

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 the income statement in the reporting period in which they are incurred. Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in the income statement when incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments. The payments are amortised over the lease terms which are not more than one year.

(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, 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 is not amortised but is 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

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

NOTES TO THE FINANCIAL STATEMENTS

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 first in first out method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads and gains or losses on qualifying cash flow hedges for purchases of raw materials. It excludes borrowing costs. 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.

The cost of inventories include the transfer from equity of any gains or losses on qualifying cash flow hedges for purchases of raw materials.

(h) 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.

In the balance sheet, bank overdraft is presented in current liabilities.

(i) Impairment

(i) Financial assets

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment (continued)

(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, 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 (groups 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 the income statement in the financial year in which the reversals are recognised.

(j) Equity instrument

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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) Defined benefit plan

The Group's and the Company's contributions to statutory pension funds are charged to the 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 fifty percent equity interest in the Company and is regarded by the Directors to be the Company's ultimate holding company).

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed off over the vesting period, based on British American Tobacco p.l.c's estimate of awards that will eventually vest. Fair value is measured by the use of the Black-Scholes and Monte-Carlo pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations, forfeiture and historical experience.

The grant by British American Tobacco p.l.c of options over its equity instruments to the employees of the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an expense in the income statement, with a corresponding credit to equity.

(iv) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after end of the reporting period are discounted to present value.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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) 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.

(m) Revenue and other income

(i) Goods sold

Revenue from sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of the revenue as the sales are recognised.

(ii) Services

Revenue from services rendered is recognised in the income statement as and when the services are performed.

(iii) 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.

(iv) 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.

(n) 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 ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Borrowing costs (continued)

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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

(o) 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 it relates 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.

(p) Earnings per ordinary share

The Group presents basic earnings per share data for its ordinary shares ('EPS').

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group regards its Board of Directors as its chief operating decision maker, as the Board is responsible for allocating resources, assessing performance, and making strategic decisions.

The Group is a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products and this forms the focus of the Group's internal reporting systems. While the Group has clearly differentiated brands, segmentation within a wide portfolio of brands is not part of the regular internally reported financial information to the chief operating decision maker and it is not possible to segment the Group results by brand without a high degree of estimation.

(r) 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.

(s) Fair value measurement

Fair value of an asset or a liability, except for 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.

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. There has been no transfer between Level 1 and Level 2 fair values during the financial year (2015: no transfer in either directions).

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) 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.

(u) Deferred income

Deferred income relates to distribution rights fee payable up front by third party distributors to the Group for the right to distribute the Groups' products for a minimum contract period of five years. The distribution rights fee is recognised into the income statement over the five year contractual period on a straight-line basis. Deferred income are classified as current liabilities if they are earned within one year or less. If not, they are presented as non-current liabilities.

(v) Assets held for sale

Property, plant and equipment are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is expected to be recovered principally through a sale transaction and sale is considered highly probable rather than through continuing use. These assets held for sale cease to be depreciated as their economic benefits are no longer consumed.

On disposal of an asset held for sale, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement in the period of the disposal.

If there are changes to a plan of sale, the asset held for sale will be reclassified as property, plant and equipment or investment property with its carrying amount at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognised had the asset not been classified as held for sale and its recoverable amount at the date of the change to the plan of sale.

3. REVENUE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Sale of semi-finished goods, cigarettes, pipe tobaccos and cigars	3,756,392	4,581,547	—	—
Dividend income from unquoted subsidiaries	—	—	688,990	1,015,003
Management fee received from subsidiaries	—	—	4,517	4,852
Fee for usage of property, plant and equipment received from subsidiaries	—	—	1,663	2,554
	3,756,392	4,581,547	695,170	1,022,409

NOTES TO THE FINANCIAL STATEMENTS

4. PROFIT FROM OPERATIONS

Note	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000

Profit for the year is arrived at after charging:

Auditors' remuneration:

– statutory audit	424	400	268	225
– non-audit fees	20	192	20	142

Raw materials and consumables used	373,549	512,685	–	–
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Excise duties	1,883,815	2,031,688	–	–
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Property, plant and equipment:

– depreciation	10	12,649	39,038	925	1,761
– loss on disposal		–	296	–	76
– write off		7	3,163	7	31

Computer software:

– amortisation	11	216	544	117	447
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Rental of land and buildings		7,064	5,654	–	–
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Inventories written off		9,440	4,304	–	–
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Net foreign exchange loss		–	–	–	1,206
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Allowance for doubtful debts written off		–	214	–	20
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Interest expense		10,499	9,244	15,714	20,952
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Staff costs	6	110,600	126,983	24,467	24,332
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and after crediting:

Gain on disposal:

– assets held for sale		–	2,658	–	2,658
– property, plant and equipment		39	–	–	–

Allowance for doubtful debts written back		167	–	–	–
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Net foreign exchange gain		3,694	12,685	2,039	–
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Interest income on cash pooling		–	–	2,232	2,355
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Interest income on deposits		2,194	2,553	942	1,519
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* The amounts charged/credited in relation to significant event – restructuring of business operations during the year is not disclosed above and is disclosed in Note 31.

5. DIRECTORS' REMUNERATION

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Fees	745	745	745	745
Other emoluments	13,898	8,100	13,898	8,100
	14,643	8,845	14,643	8,845

NOTES TO THE FINANCIAL STATEMENTS

5. DIRECTORS' REMUNERATION (CONTINUED)

The estimated monetary value of benefits in kind provided to Directors of the Group and of the Company during the financial year amounted to RM1,028,000 (2015: RM1,203,000) and RM1,028,000 (2015: RM1,203,000) respectively.

Included within other emoluments are share-based payments amounting to RM1,608,000 (2015: RM1,118,000) 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 24.

Details of the movements of certain Directors' equity-settled share-based payments arrangements during the financial year ended 2016, 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 1.1.2016	Awarded	Vested	Other movements*	At 31.12.2016
Executive Directors					
Deferred Share Bonus Scheme	8,916	4,046	(1,788)	—	11,174
International Share Reward Scheme	125	88	—	—	213
	9,041	4,134	(1,788)	—	11,387

* Other movements relate to options that would have lapsed or movement of Directors during the financial year.

Details of the movements of the Directors' participation in the equity-settled Long-Term Incentive Plan is as follows, representing costs incurred by the Group and the Company during the tenure of the Directors' service with the Group and the Company.

	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.2016	Granted	Exercised	Other movements*	At 31.12.2016
Grant price					
£32.58	10,336	—	—	—	10,336
£35.05	3,724	—	(335)	(3,021)	368
£36.25	11,631	—	—	—	11,631
£42.34	—	10,287	—	—	10,287
	25,691	10,287	(335)	(3,021)	32,622

* Other movements relate to options that would have lapsed or movement of Directors during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

6. STAFF COSTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Wages, salaries and bonuses	84,576	84,682	18,542	16,119
Defined contribution plan	11,896	13,243	1,739	1,720
Voluntary redundancy package	5,367	11,821	285	1,523
Other staff related expenses	8,761	17,237	3,901	4,970
	110,600	126,983	24,467	24,332

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 and does not include provision for redundancies as a result of the restructuring of business operations as disclosed in Note 31.

Staff costs recharged by the Company to the subsidiaries amounted to RM20,732,000 (2015: RM18,510,000).

7. TAX EXPENSE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current tax expense				
– current year	220,983	324,314	204	342
– (over)/under provision in prior year	(2,823)	3,118	–	–
	218,160	327,432	204	342
Deferred tax expense				
– reversal and origination of temporary differences	(30,992)	(6,496)	(62)	1,193
	187,168	320,936	142	1,535

	Group		Company	
	2016 %	2015 %	2016 %	2015 %
Reconciliation of tax expense				
Statutory tax rate	24	25	24	25
Expenses not deductible for tax purposes	1	1	2	1
Income not subject to tax	(5)	–	(26)	(25)
Real property gain tax	1	–	–	–
Average effective tax rate	21	26	–	1

NOTES TO THE FINANCIAL STATEMENTS

8. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the number of ordinary shares in issue.

	Group		Company	
	2016	2015	2016	2015
Profit for the year (RM'000)	721,289	910,062	667,981	996,916
Number of ordinary shares of 50 sen each in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per ordinary share (sen)	252.6	318.7	233.9	349.1

The Group and the Company does not have in issue any financial instrument or other contract that may entitle its holders to ordinary shares and therefore, dilutive to its earnings per share.

9. DIVIDENDS

Dividends paid, declared or proposed in respect of the financial year are as follows:

	Sen per share RM	Total amount RM'000
2016		
Fourth interim	78.0	222,713
First interim	55.0	157,041
Second interim	45.0	128,489
Third interim	55.0	157,041
Total amount	233.0	665,284
2015		
Fourth interim	78.0	222,713
First interim	78.0	222,713
Second interim	78.0	222,713
Third interim	78.0	222,713
Total amount	312.0	890,852

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 77.0 sen per ordinary share and a special dividend of 46.0 sen per ordinary share at the Board of Directors' meeting on 16 February 2017 amounting to RM351,202,000 in respect of the financial year ended 31 December 2016 which will be paid on 23 March 2017 to shareholders registered in the Company's Register of Members at the close of business on 13 March 2017. These financial statements do not reflect the fourth interim ordinary dividend and special dividend which will be accounted for in the financial year ended 31 December 2017.

The Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

	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
Group								
Cost								
At 1 January 2015	105	26,629	101,808	647,166	63,003	36,674	8,195	883,580
Additions	–	–	–	3,184	1,516	1,542	8,820	15,062
Disposals/write off	–	–	–	(22,799)	(1,511)	(3,308)	–	(27,618)
Reclassifications	–	–	–	7,257	–	–	(7,257)	–
At 31 December 2015/ 1 January 2016	105	26,629	101,808	634,808	63,008	34,908	9,758	871,024
Additions	–	–	–	–	1,733	5,177	7,506	14,416
Disposals	–	–	–	–	–	(3,890)	–	(3,890)
Write off	–	–	–	–	(2,138)	–	–	(2,138)
Reclassifications	–	–	–	13,637	–	–	(13,637)	–
Reclassifications to assets held for sale	–	(26,195)	(100,018)	(647,668)	–	–	(50)	(773,931)
At 31 December 2016	105	434	1,790	777	62,603	36,195	3,577	105,481
Accumulated depreciation and impairment								
At 1 January 2015	–	10,591	54,812	423,525	57,131	12,136	–	558,195
Charge for the year	–	594	2,224	29,522	2,768	3,930	–	39,038
Additions	–	–	–	714	–	–	–	714
Disposals/write off	–	–	–	(15,270)	(1,478)	(2,069)	–	(18,817)
At 31 December 2015/ 1 January 2016	–	11,185	57,036	438,491	58,421	13,997	–	579,130
Charge for the year	–	151	563	6,080	1,956	3,899	–	12,649
Disposals	–	–	–	–	–	(2,512)	–	(2,512)
Impairment	–	–	353	33,775	1,852	–	–	35,980
Write off	–	–	–	–	(2,131)	–	–	(2,131)
Reclassifications to assets held for sale	–	(11,213)	(56,462)	(477,569)	–	–	–	(545,244)
At 31 December 2016	–	123	1,490	777	60,098	15,384	–	77,872
Net book value								
At 1 January 2015	105	16,038	46,996	223,641	5,872	24,538	8,195	325,385
At 31 December 2015/ 1 January 2016	105	15,444	44,772	196,317	4,587	20,911	9,758	291,894
At 31 December 2016	105	311	300	–	2,505	20,811	3,577	27,609

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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
Company							
Cost							
At 1 January 2015	105	434	1,790	777	16,988	3,198	23,292
Additions	–	–	–	–	697	–	697
Disposals/write off	–	–	–	–	(1,471)	(994)	(2,465)
At 31 December 2015/ 1 January 2016	105	434	1,790	777	16,214	2,204	21,524
Additions	–	–	–	–	831	–	831
Write off	–	–	–	–	(2,138)	–	(2,138)
At 31 December 2016	105	434	1,790	777	14,907	2,204	20,217
Accumulated depreciation and impairment							
At 1 January 2015	–	108	996	589	14,560	844	17,097
Charge for the year	–	10	107	30	1,328	286	1,761
Disposals/write off	–	–	–	–	(1,440)	(646)	(2,086)
At 31 December 2015/ 1 January 2016	–	118	1,103	619	14,448	484	16,772
Charge for the year	–	5	34	8	592	286	925
Impairment	–	–	353	150	1,027	–	1,530
Write off	–	–	–	–	(2,131)	–	(2,131)
At 31 December 2016	–	123	1,490	777	13,936	770	17,096
Net book value							
At 1 January 2015	105	326	794	188	2,428	2,354	6,195
At 31 December 2015/ 1 January 2016	105	316	687	158	1,766	1,720	4,752
At 31 December 2016	105	311	300	–	971	1,434	3,121

NOTES TO THE FINANCIAL STATEMENTS

11. COMPUTER SOFTWARE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cost				
At 1 January	35,605	35,605	30,187	30,187
Additions	1,426	—	—	—
At 31 December	37,031	35,605	30,187	30,187
Accumulated amortisation				
At 1 January	35,115	34,571	29,989	29,542
Charge for the year	216	544	117	447
At 31 December	35,331	35,115	30,106	29,989
Net book value				
At 31 December	1,700	490	81	198

12. GOODWILL

	Group	
	2016 RM'000	2015 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 (i.e. Commercial Marketers and Distributors Sdn. Bhd. for the marketing business and Tobacco Blenders and Manufacturers Sdn. Bhd. for the tobacco manufacturing business) acquired on 2 November 1999, the date of acquisition.

The carrying amount of goodwill is reviewed for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculations. The key assumptions for the recoverable amount of all units are management's current estimates of net cash flows over a period of five years (2015: five years) based on historical growth rate, taking into account industry developments and at the pre-tax discount rate of 12.9 percent (2015: 12.3 percent). Based on the assessment, the recoverable amount exceeded the carrying amount of the goodwill. Accordingly, no impairment charges were recognised in 2016 (2015: nil). Any reasonable change in the key assumptions used will not result in any significant change to the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

13. SUBSIDIARIES

	Company	
	2016 RM'000	2015 RM'000
Cost		
Unquoted shares in subsidiaries	975,262	975,262
Impairment losses	(1,867)	(1,867)
	973,395	973,395

The reduction in the cost of investments in the subsidiaries is due to the impairment losses 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 and cigars
Rothmans Brands Sdn. Bhd.	Holding of trademarks
Tobacco Importers and Manufacturers Sdn. Berhad	Manufacture and sale of cigarettes and other tobacco related products

Non-operating	Principal activities
Tobacco Blenders and Manufacturers Sdn. Bhd.	The Company has been placed under member's voluntary liquidation on 1 September 2015
The Leaf Tobacco Development Corporation Of Malaya Sdn. Berhad	The Company has been placed under member's voluntary liquidation on 1 September 2015
Commercial Importers and Distributors Sdn. Bhd.	The Company was dissolved on 11 August 2016

Incorporated in Negara Brunei Darussalam

Commercial Marketers and Distributors Sdn. Bhd.*	Dormant
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* Not audited by KPMG PLT

NOTES TO THE FINANCIAL STATEMENTS

14. DEFERRED TAX

		Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Note					
Deferred tax assets					
At 1 January		30,536	25,736	15,246	16,439
(Charged)/Credited to income statements	14(i)	(379)	5,329	62	(1,193)
Charged to statements of comprehensive income	14(ii)	(2,964)	(529)	–	–
At 31 December		27,193	30,536	15,308	15,246
Represented by:					
Property, plant and equipment		1,592	4,980	57	3,164
Tax losses		6,744	6,744	6,744	6,744
Provisions		36,302	24,865	8,551	5,555
Cash flow hedge		15,092	14,560	–	–
Deferred tax assets (before offsetting)		59,730	51,149	15,352	15,463
Offsetting		(32,537)	(20,613)	(44)	(217)
Deferred tax assets (after offsetting)		27,193	30,536	15,308	15,246
Deferred tax liabilities					
At 1 January		33,537	34,155	–	–
Credited to income statements	14(i)	(31,371)	(1,167)	–	–
Charged to statements of comprehensive income	14(ii)	433	549	–	–
At 31 December		2,599	33,537	–	–
Represented by:					
Property, plant and equipment		16,532	39,475	44	217
Cash flow hedge		18,604	14,675	–	–
Deferred tax liabilities (before offsetting)		35,136	54,150	44	217
Offsetting		(32,537)	(20,613)	(44)	(217)
Deferred tax liabilities (after offsetting)		2,599	33,537	–	–

NOTES TO THE FINANCIAL STATEMENTS

14. DEFERRED TAX (CONTINUED)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deferred tax assets:				
Deferred tax assets to be recovered after more than 12 months	15,353	11,507	8,552	9,691
Deferred tax assets to be recovered within 12 months	11,840	19,029	6,756	5,555
At 31 December	27,193	30,536	15,308	15,246
Deferred tax liabilities:				
Deferred tax liabilities to be recovered after more than 12 months	(2,133)	(22,467)	—	—
Deferred tax liabilities to be recovered within 12 months	(466)	(11,070)	—	—
At 31 December	(2,599)	(33,537)	—	—
Deferred tax assets/(liabilities), net	24,594	(3,001)	15,308	15,246

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(i) (Charged)/Credited to income statements:				
– (Charged)/Credited in respect of deferred tax assets	(379)	5,329	62	(1,193)
– Credited in respect of deferred tax liabilities	31,371	1,167	—	—
Net credit to income statements	30,992	6,496	62	(1,193)
(ii) Charged to statements of comprehensive income:				
– Charged in respect of deferred tax assets	(2,964)	(529)	—	—
– Credited in respect of deferred tax liabilities	(433)	(549)	—	—
Net charge to statements of comprehensive income	(3,397)	(1,078)	—	—

NOTES TO THE FINANCIAL STATEMENTS

15. ASSETS HELD FOR SALE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	–	4,540	–	4,374
Transfer from property, plant and equipment	228,687	–	–	–
Additions	8,131	–	–	–
Disposals	(140,219)	(4,540)	–	(4,374)
At 31 December	96,599	–	–	–

The movement to assets held for sale was related to the restructuring of business operations as disclosed in Note 31.

16. INVENTORIES

	Group	
	2016 RM'000	2015 RM'000
Raw materials	70,685	127,648
Work-in-progress	1,594	9,719
Finished goods	142,668	94,803
Consumable stores	–	2,243
	214,947	234,413

Inventories recognised as cost of sales in the current financial year is RM296,426,000 (2015: RM328,216,000).

17. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade receivables	17.1	132,326	116,473	–	–
Allowance for doubtful debts	17.1	(160)	(80)	–	–
Trade receivables, net		132,166	116,393	–	–
Amounts due from fellow subsidiaries*	17.2	37,514	55,174	377	–
Amounts due from subsidiaries		–	–	19,107	76,126
Other receivables, deposits and prepayments	17.3	172,536	32,184	1,907	204
		210,050	87,358	21,391	76,330
Total receivables		342,216	203,751	21,391	76,330

* Fellow subsidiaries through a common ultimate major shareholder, British American Tobacco p.l.c

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

17.1 Trade receivables

Credit terms of trade receivables range from 1 to 60 days (2015: 1 to 60 days).

The ageing of gross trade receivables as at the end of the financial year ended was:

	Group	
	2016 RM'000	2015 RM'000
Not past due	128,574	114,175
Past due 0 – 60 days	3,752	2,298
	132,326	116,473

The movements in the allowance for doubtful debts on trade receivables during the financial year were:

	Group	
	2016 RM'000	2015 RM'000
At 1 January	80	273
Provision for receivables impairment	98	422
Receivables written back/(off) during the year	18	(413)
Unused amounts reversed	(36)	(202)
At 31 December	160	80

17.2 Amounts due from fellow subsidiaries

The Group's amounts due from fellow subsidiaries arose mainly from export sales which have a credit term of 30 to 60 days (2015: 30 to 60 days). These amounts are unsecured and interest free.

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.

The ageing of amount due from fellow subsidiaries as at the end of the financial year ended was:

	2016 RM'000	2015 RM'000
Group		
Not past due	27,045	51,377
Past due 0 – 30 days	3	–
Past due 31 – 120 days	3,601	3,797
Past due more than 120 days	6,865	–
	37,514	55,174

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

17.2 Amounts due from fellow subsidiaries (continued)

	2016 RM'000	2015 RM'000
Company		
Not past due	305	—
Past due 0 – 30 days	72	—
	377	—

As at the end of the financial year ended, there was no indication that the amounts due from fellow subsidiaries are not recoverable.

17.3 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments are prepayments of the Group mainly relating to tax stamp purchases amounting RM69,371,000 (2015: nil), leaf purchases from a fellow subsidiary of nil (2015: RM28,650,000) and compensation of RM31,022,000 (2015: nil) for the disposal of property, plant and equipment to a fellow subsidiary in the current financial year.

18. SHARE CAPITAL

	Group and Company			
	Number of shares 2016 '000	Amount 2016 RM'000	Number of shares 2015 '000	Amount 2015 RM'000

Authorised:

770,000,000 ordinary shares of 50 sen each	770,000	385,000	770,000	385,000
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Issued and fully paid:

285,530,000 ordinary shares of 50 sen each	285,530	142,765	285,530	142,765
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NOTES TO THE FINANCIAL STATEMENTS

19. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade payables	19.1	25,118	47,201	—	—
Trade accruals		92,922	65,597	—	—
Amounts due to subsidiaries		—	—	407,620	482,652
Amounts due to fellow subsidiaries*	19.2	59,542	56,100	3,030	4,468
Other payables		227,115	135,819	39,840	28,013
		404,697	304,717	450,490	515,133
Other payables comprised the following:					
Accruals for employee expenses		24,156	21,899	5,360	6,567
Accruals for administrative expenses		135,431	101,982	32,481	19,949
Provision for employee expenses		10,780	10,717	70	276
Provision for restructuring expenses		54,912	—	94	—
Other non-operating creditors		1,836	1,221	1,835	1,221
		227,115	135,819	39,840	28,013

* 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 no credit to 120 days (2015: no credit to 120 days).

19.2 Amounts due to fellow subsidiaries

The Group's amounts due to fellow subsidiaries are repayable within credit terms of 30 to 60 days (2015: 30 to 60 days). These amounts are unsecured and interest free.

20. DEFERRED INCOME

The Group changed its distribution model from company-owned distribution to exclusive third party distributorship starting in 2011 by stages and this continued in the current financial year. Distribution rights fee is payable up front by the distributors to the Group in return for the rights granted to distribute the Group's products for a minimum contract period of five years, and expired during the financial year. This income to the Group is recognised over the five-year period on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

21. BORROWINGS

The Group's borrowings as at 31 December 2016 amounting to RM130,000,000 (2015: RM305,000,000) are revolving credits maturing between one week to three months. The Group's borrowings are denominated in Ringgit Malaysia and the fair value of borrowings are detailed in Note 26.

Maturity of the Group's borrowings is as follows:

	Group	
	2016 RM'000	2015 RM'000
Current		
Revolving credit - unsecured	130,000	305,000

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Group				
Forward foreign exchange contract				
– cash flow hedges	16,728	2,018	5,089	10,736

The fair values of derivative financial instruments are determined based on the quoted market price of similar derivatives, as they are not traded on an active market. These derivatives are classified as Level 2 financial instruments in accordance with MFRS 13.

During the year, a gain of RM1,413,000 arising from cash flow hedges was recognised in the income statement. In prior year, the ineffective portion recognised in the income statement that arose from cash flow hedges amounted to RM9,893,000.

The Group's cash flow hedges are principally net exposure in the respective foreign currencies of sales receipts from fellow subsidiaries and future payment for leaf, wrapping materials, machinery and services generally over the next 12 months. The timing of expected cash flows in respect of derivatives designated as cash flow hedges is expected to be comparable to the timing of when the hedged item will affect the income statement, which are expected to occur at various dates during the next 18 months.

Gains and losses recognised in other comprehensive income on forward foreign exchange contracts are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months from the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset. During the year, a gain of RM14,174,000 (2015: RM4,321,000) was recognised in the other comprehensive income and RM1,363,000 (2015: RM13,065,000) was reclassified from equity to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The notional principal amounts of the outstanding forward foreign exchange contracts is as follows:

Hedged item	Currency	RM'000 equivalent	Average contracted rate
Group			
2016			
Currency to be received over the next 12 months			
USD31,100,000 (net)	US Dollar	127,809	1 USD = RM4.1096
GBP5,000,000 (net)	Pound Sterling	28,596	1 GBP = RM5.7192
Currency to be received over 1 year to 2 years			
USD3,550,000 (net)	US Dollar	14,993	1 USD = RM4.2233
GBP750,000 (net)	Pound Sterling	4,193	1 GBP = RM5.5906
2015			
Currency to be paid over the next 12 months			
USD7,700,000 (net)	US Dollar	25,716	1 USD = RM3.3397
GBP6,100,000 (net)	Pound Sterling	36,877	1 GBP = RM6.0454

23. CASH FROM OPERATIONS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit for the year	721,289	910,062	667,981	996,916
Adjustment for:				
Interest income	(2,194)	(2,553)	(942)	(1,519)
Property, plant and equipment:				
– depreciation	12,649	39,038	925	1,761
– impairment	35,980	–	1,530	–
– write off	7	3,163	7	31
– (gain)/loss on disposal	(39)	296	–	76
Computer software:				
– amortisation	216	544	117	447
Assets held for sale:				
– gain on disposal	(159,461)	(2,658)	–	(2,658)
(Reversal)/Allowance for doubtful debts written off	(167)	214	–	20
Inventories written off	9,440	4,304	–	–
Provision for obsolete materials	14,550	–	–	–
Interest expense	10,499	9,244	13,482	18,597
Tax expense	187,168	320,936	142	1,535
Changes in working capital:				
– inventories	19,466	24,579	–	–
– trade and other receivables	(92,389)	32,474	54,939	(46,587)
– trade and other payables	94,289	38,462	10,761	5,579
	851,303	1,378,105	748,942	974,198

NOTES TO THE FINANCIAL STATEMENTS

24. 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 10 years. Payout is subject to performance conditions based on earnings per share relative to inflation (50 percent of grant) and 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:

	Equity-settled		
	Note	2016 RM'000	2015 RM'000
Group			
LTIP	24.1	3,264	1,158
DSBS	24.2	2,595	1,648
Other schemes	24.3	39	42
Total recognised in the income statement		5,898	2,848
Company			
LTIP	24.1	2,439	890
DSBS	24.2	1,458	1,152
Other schemes	24.3	39	30
Total recognised in the income statement		3,936	2,072

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE-BASED PAYMENTS (CONTINUED)

Share-based payment expense (continued)

24.1 Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2016 and 31 December 2015, were as follows:

	Equity-settled Number of options in thousand	
	2016	2015
Group		
Outstanding at start of financial year	61	44
Granted during the period	23	30
Exercised during the period	(13)	—
Forfeited during the period	(32)	(13)
Outstanding at end of financial year	39	61
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 £48.02 (2015: nil) for equity-settled options.

The outstanding shares for the year ended 31 December 2016 had a weighted average contractual life of 7.86 years (2015: 8.31 years) for the equity-settled scheme.

	Equity-settled Number of options in thousand	
	2016	2015
Company		
Outstanding at start of financial year	44	25
Granted during the period	17	23
Exercised during the period	(11)	—
Forfeited during the period	(27)	(4)
Outstanding at end of financial year	23	44
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 £48.19 (2015: nil) for equity-settled options.

The outstanding shares for the year ended 31 December 2016 had a weighted average contractual life of 8.31 years (2015: 8.62 years) for the equity-settled scheme.

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE-BASED PAYMENTS (CONTINUED)

Share-based payment expense (continued)

24.2 Deferred Share Bonus Scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2016 and 31 December 2015, were as follows:

	Equity-settled Number of options in thousand	
	2016	2015
Group		
Outstanding at start of financial year	26	27
Granted during the period	13	9
Exercised during the period	(16)	(8)
Forfeited during the period	(1)	(2)
Outstanding at end of financial year	22	26
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 £44.62 (2015: £36.68) for equity-settled options.

The outstanding shares for the year ended 31 December 2016 had a weighted average contractual life of 1.42 years (2015: 1.30 years) for the equity-settled scheme.

	Equity-settled Number of options in thousand	
	2016	2015
Company		
Outstanding at start of financial year	13	10
Granted during the period	7	6
Exercised during the period	(11)	(3)
Forfeited during the period	(1)	–
Outstanding at end of financial year	8	13
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 £46.98 (2015: £37.00) for equity-settled options.

The outstanding shares for the year ended 31 December 2016 had a weighted average contractual life of 1.75 years (2015: 1.48 years) for the equity-settled scheme.

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE-BASED PAYMENTS (CONTINUED)

Share-based payment expense (continued)

24.3 Other schemes

SRS and ISRS

Group

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 808 (2015: 632).

Company

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 399 (2015: 223).

Valuation assumptions

Assumptions used in the Black-Scholes models to determine the fair value of share options at grant date were as follows:

	2016		2015	
	LTIP	DSBS	LTIP	DSBS
Group and Company				
Expected volatility (%)	18.0	17.0	17.0	17.0
Average expected term to exercise (years)	3.5	3.0	3.5	3.0
Risk-free rate (%)	0.6	0.6	0.8	0.7
Expected dividend yield (%)	3.6	3.7	4.0	4.0
Share price at date of grant (£)	42.34	40.08	36.25	36.25
Fair value at grant date (£)	26.53	35.82	14.29	32.15

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:

	2016 %	2015 %
Group and Company		
Average share price volatility FMCG comparator group	19	19
Average correlation FMCG comparator group	35	33

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c share price volatility was determined by taking into 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.

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE-BASED PAYMENTS (CONTINUED)

Share-based payment expense (continued)

24.3 Other schemes (continued)

Valuation assumptions (continued)

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.

25. SEGMENT REPORTING

The Company is domiciled in Malaysia. The revenue from external customers in Malaysia is RM3,500,025,000 (2015: RM4,115,663,000), and the total revenue from fellow subsidiaries from other countries is RM256,367,000. In the prior year, the total revenue from external customers and fellow subsidiaries from other countries is RM465,884,000. The Group does not have any non-current assets that are located in countries other than Malaysia. There are also no revenue arising from transactions with a single external customer that comprises 10 percent or more of the Group's revenue for the years ended 31 December 2016 and 31 December 2015.

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.

26. FINANCIAL INSTRUMENTS

26.1 Credit risk

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, setting of counterparty limits and monitoring procedures. The Group seeks to invest cash assets safely and profitably. Credit risks are minimised given the Group's policy of selecting only counterparties with high creditworthiness.

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 57 percent (2015: 62 percent) of the Group's trade receivables are derived from its sales to four (2015: three) of its key customers. The Group closely monitors collections from these customers. In addition, the Group's historical experience in collection of trade receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in the Group's trade receivables. The Group does not foresee any credit risk arising from amounts due from fellow subsidiary companies.

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.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.1 Credit risk (continued)

Management has taken reasonable steps to ensure that trade receivables that are neither past due nor impaired are stated at their realisable values. 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.

26.2 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 or cash equivalents 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 cash equivalents are to concentrate cash at the centre for better cash management.

The table below summarises the maturity profile of the Group's and the Company's liabilities based on contractual undiscounted repayment obligations.

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Maturity of borrowings				
– within 1 year	130,000	305,000	–	–
Trade and other payables				
– within 1 year	404,697	304,717	450,490	515,133
Derivative financial instruments				
– within 1 year	2,018	10,736	–	–

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.3 Currency risk

The Group is subject to currency exchange risk as a result of its purchases of certain raw materials, equipment and services in foreign currencies. The Group's primary currency exchange risk exposures are to the US dollar ('USD'), British Pound ('GBP') and Euro ('EUR').

The objectives of the Group's foreign exchange policies are to allow the Group to manage exposures that arise from trading activities effectively within a framework of controls that does not expose the Group to unnecessary foreign exchange risks.

The Group enters into forward foreign exchange contracts to hedge 50 percent to 100 percent of its exposure on foreign currency sales and payables and on cash flows to be used in anticipated transactions denominated in foreign currencies for the subsequent 18 months.

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

	2016 Denominated in			2015 Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000	USD RM'000	GBP RM'000	EUR RM'000
Group						
Trade receivables	—	—	—	1,010	—	—
Trade payables	(2,863)	—	(2,056)	(2,051)	(182)	(1,335)
Cash and bank balances	20,259	1,590	(325)	11,707	2,855	423
Amounts due from fellow subsidiaries	33,517	1,710	—	50,085	4,712	—
Amount due to fellow subsidiaries	(23,897)	(3,215)	(53)	(15,842)	(8,177)	(96)
Net exposure in the balance sheet	27,016	85	(2,434)	44,909	(792)	(1,008)

Currency risk sensitivity analysis

A 10% (2015: 10%) 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, remained constant and ignores any impact of forecasted sales and purchases.

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.3 Currency risk (continued)

	Group	
	2016 RM'000	2015 RM'000
USD	2,702	4,491
GBP	9	(79)
EUR	(243)	(101)

A 10% (2015: 10%) 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.

26.4 Interest rate risk

Interest rate risk comprises interest price risk that results from borrowing 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 21, 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.

26.5 Fair value information

The carrying amounts of cash and cash equivalents, 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 22. The fair values of forward foreign exchange contracts are determined based on the quoted market price of similar derivatives, as they are not traded on an active market. These derivatives are classified as Level 2 financial instruments in accordance with MFRS 13.

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 their carrying value.

NOTES TO THE FINANCIAL STATEMENTS

27. CAPITAL MANAGEMENT

The Group defines capital as net debt and equity. Net debt is calculated as total borrowings less cash and cash equivalents.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

The Group assesses its financial capacity by reference to cash flow and interest cover. Group policies include a set of financing principles including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-back are decided.

There was no change in the Group's approach to capital management during the financial year.

28. CAPITAL COMMITMENTS

Capital expenditure not provided for in the financial statements are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Property, plant and equipment				
Authorised but not contracted for	19	2,277	19	39

29. CONTINGENCIES

The Group has on 8 January 2014 received a letter from the Royal Malaysian Customs disputing the method of calculation of sales tax following the change in transfer price valuation base imposed on 18 October 2012.

On 16 April 2014, the Group received a bill of demand from Royal Malaysian Customs for RM12.9 million in respect of sales tax and penalties (sales tax RM8.8 million and penalties RM4.1 million) for the period from October 2012 through December 2013. The Group stood firm in its position that there is a challengeable case which is supported by external legal opinion on the matter. Accordingly, the Group pursued this matter through a judicial review filed on the 12 August 2014 in the Kuala Lumpur High Court. The High Court had granted a full stay pending the ultimate decision of the case.

On 12 August 2016, the High Court, in rendering its decision ruled in favour of the Group and held that the Royal Malaysian Customs uplift and calculation of sales tax was without legal basis. The High Court further awarded costs of RM7,000 to be paid to the Group. On 6 September 2016, Royal Malaysian Customs filed a notice of appeal to the High Court's decision. Pending the hearing(s) at the Court of Appeal, the decision date for the appeal would most likely be in the third quarter of 2017.

As such, no provision has been made in respect to this matter. Should a liability crystallise, the estimated value as at 31 December 2016 is RM24,900,000 (2015: RM24,900,000).

NOTES TO THE FINANCIAL STATEMENTS

30. 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 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 50 percent equity interest in the Company and is regarded to be 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 below transactions are shown in Note 17 and Note 19.

	Group	
	2016 RM'000	2015 RM'000

(i) Sale of goods

Sale of cigarettes and tobacco products to:

– British-American Tobacco Company (Hong Kong) Limited	18,721	30,434
– Rothmans (Far East) B.V. – Louisville	–	1,047
– British-American Tobacco (Singapore) Private Limited	10,877	48,948
– British-American Tobacco Marketing (Singapore) Private Limited	9,784	12,148

NOTES TO THE FINANCIAL STATEMENTS

30. RELATED PARTIES (CONTINUED)

Significant related party transactions (continued)

	Group	
	2016 RM'000	2015 RM'000
(i) Sale of goods (continued)		
Sale of cigarettes and tobacco products to (continued):		
– British American Tobacco Sales & Marketing Singapore Pte. Ltd.	3,615	5,746
– B.A.T. China Limited	7,104	11,409
– British American Tobacco International Limited	37,579	91,186
– British American Tobacco Korea Manufacturing Limited	15,079	32,508
– British American Tobacco Taiwan	15,620	26,753
– BATUS Japan, INC.	–	29,716
– British American Tobacco (New Zealand) Limited	–	5,962
– British American Tobacco (Australia) Limited	22,195	16,024
– British American Tobacco Manufacturing Australia Pty Ltd.	–	34,766
– British American Tobacco (PNG) Limited	21,902	23,576
– Solomon Islands Tobacco Company Limited	6,240	7,138
– British American Tobacco (Samoa) Limited	3,598	5,065
– British American Tobacco Western Europe Commercial Trading Limited (formerly known as BAT Supply Chain WE Ltd)	–	209
– Central Manufacturing Company Ltd.	2,270	3,528
– PT Bentoel Prima	11,536	9,008
– Ceylon Tobacco Company Limited	747	242
– British American Tobacco Philippines Limited	–	13,846
– Rothmans Far East B.V. Korea Branch Office	253	788
– British American Tobacco UK and Export	45,551	47,018
– PT Bentoel Internasional Investama, Tbk.	163	–
– BAT Global Travel Retail Limited	23,319	–
– Pakistan Tobacco Company Limited	214	–
	256,367	457,065
(ii) Purchase of goods		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
– British-American Tobacco (Singapore) Private Limited	24,343	34,833
– British American Tobacco (GLP) Limited	107,398	200,514
– PT Export Leaf Indonesia	44,551	56,279
– CTBAT International Co. Limited	62	204
– PT Benteol Internasional Investama, Tbk.	1,036	1,500
– British American Tobacco Korea Manufacturing Limited	2,104	3,780
– British American Tobacco Western Europe Commercial Trading Limited (formerly known as BAT Supply Chain WE Ltd)	5,401	8,872
	184,895	305,982

NOTES TO THE FINANCIAL STATEMENTS

30. RELATED PARTIES (CONTINUED)

Significant related party transactions (continued)

	Group	
	2016 RM'000	2015 RM'000
(iii) Procurement of services		
Procurement of information technology services from:		
– British American Shared Services (GSD) Limited	24,778	28,339
(iv) Technical and advisory (includes share-based payment charges)		
Payment for technical and advisory support services to:		
– British American Tobacco Investments Ltd.	21,101	38,549
– British American Tobacco Aspac Service Centre Sdn. Bhd.	9,545	9,450
– British American Tobacco (Holdings) Limited	6,148	2,793
– British-American Tobacco (Singapore) Private Limited	8,887	8,826
	45,681	59,618
(v) Royalties		
Royalties paid/payable to:		
– British American Tobacco (Holdings) Ltd.*	102,254	136,895
– Dunhill Tobacco of London Limited*	1,985	2,648
– Benson & Hedges (Overseas) Limited*	2,855	3,730
– The American-Cigarette Company (Overseas) Ltd.*	15,937	10,215
– Turmac Tobacco Company B.V.*	147	60
– B.A.T. China Limited**	34	49
	123,212	153,597
(vi) Sale and purchase of equipment		
(Sale)/Purchase of equipment (to)/from:		
– British American Tobacco Korea Manufacturing Limited	(5,998)	(618)
– British-American Tobacco (Singapore) Private Limited	–	(3,393)
– British American Tobacco Manufacturing Australia Pty Ltd.	–	5
– Pakistan Tobacco Company Limited	–	(366)
– British American Tobacco International Limited	8,181	–
– British American Tobacco Bangladesh Company Limited	(9,370)	–
– PT Bentoel Prima	(35,291)	–
– British American Tobacco (PNG) Limited	(130)	–
	(42,608)	(4,372)
(vii) Provision of technical and advisory support services to:		
– British American Tobacco Sales & Marketing Singapore Pte. Ltd.	1,503	1,348
(viii) Rental of space from:		
– Jutaria Gemilang Sdn. Bhd.	51	74

* 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

NOTES TO THE FINANCIAL STATEMENTS

30. RELATED PARTIES (CONTINUED)

Significant related party transactions (continued)

	Company	
	2016 RM'000	2015 RM'000
(i) Management fee		
Management fee received from:		
– Commercial Marketers and Distributors Sdn. Bhd.	3,715	4,042
– Tobacco Importers and Manufacturers Sdn. Berhad	802	810
	4,517	4,852
(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.	1,097	1,734
– Tobacco Importers and Manufacturers Sdn. Berhad	566	820
	1,663	2,554
(iii) Procurement of services*		
Procurement of information technology services from:		
– British American Shared Services (GSD) Limited	3,483	6,623
(iv) Technical and advisory (includes share-based payment charges)*		
Payment of fees for technical and advisory support services to:		
– British American Tobacco Investments Ltd.	2,147	4,551
– British American Tobacco Aspac Service Centre Sdn. Bhd.	8,286	8,150
– British American Tobacco (Holdings) Limited	4,103	2,013
	14,536	14,714
(v) Provision of technical and advisory support services to:		
– British American Tobacco Sales & Marketing Singapore Pte. Ltd.	1,503	688
(vi) Interest income		
Interest income on cash pooling:		
– Tobacco Importers and Manufacturers Sdn. Berhad	2,232	2,355
(vii) Interest expense		
Interest expense on cash pooling:		
– Commercial Marketers and Distributors Sdn. Bhd.	15,714	20,952

* These costs have been fully re-charged to certain subsidiaries during the year.

NOTES TO THE FINANCIAL STATEMENTS

31. SIGNIFICANT EVENT – RESTRUCTURING OF BUSINESS OPERATIONS

On 17 March 2016, the Company announced that it would be restructuring its business operations by sourcing tobacco products for its domestic market from other British American Tobacco ('BAT') factories regionally and would cease the manufacturing operations of its subsidiary, Tobacco Importers and Manufacturers Sdn. Berhad ('TIM') located at Virginia Park, Jalan Universiti, 46200, Petaling Jaya, Selangor. The winding down of factory operations at the Virginia Park site will be carried out in stages and targeted to complete by the second half of 2017.

The restructuring is in line with the Company's efforts towards realising a new and more sustainable business model, amidst an increasingly challenging business environment. The higher excise environment has ultimately led to the sharp rise in illegal cigarettes and significantly lower legal sales volumes resulting in rising cigarette production costs. The restructuring will enable the Company to sharpen its commercial capabilities whilst optimising the supply chain and transactional activities to ensure that the Company remains a competitive consumer-focused market leader.

The winding down of the factory operations will affect approximately 230 employees who will be provided with a benefit package as well as the option to undergo a career-transition programme. Most of the equipment and machinery currently used for factory operations is intended to be sold to related parties within BAT group of entities.

The land and building upon which the factory operations are located was disposed of by way of a public tender exercise. On 24 May 2016, the management of the Company as well as the Board of Directors ('Board') had decided that the successful bidder of the public tender is LGB Realty Sdn. Bhd. and on 8 June 2016, the Board announced that TIM had entered into the sale and purchase agreement with the purchaser, LGB Properties (M) Sdn. Bhd. (subsidiary of LGB Realty Sdn. Bhd.), to dispose the said property for a total consideration of RM218 million. The proposed disposal has been duly approved by shareholders during the Extraordinary General Meeting held on 6 September 2016. The proposed disposal was completed and the sale proceeds was received on 9 November 2016.

In relation to the winding down of its factory operations at the current Virginia Park site and the disposal of the said property, as at 31 December 2016, the Group has recorded a disposal gain of RM159 million and a provision for restructuring expenses of RM113 million.

The financial impact arising from the above mentioned restructuring of business operations is set out below:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Gain on disposal of land and buildings	(159,461)	—	—	—
Impairment of assets	35,980	—	1,530	—
Provision for redundancies	40,786	—	—	—
Provision for obsolete materials	14,550	—	—	—
Leaseback rental	12,971	—	—	—
Provision for project cost	8,987	—	2,604	—
Restructuring (income)/expense	(46,187)	—	4,134	—

NOTES TO THE FINANCIAL STATEMENTS

32. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company as at 31 December, into realised and unrealised profits or losses, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total retained earnings of the Company and its subsidiaries:				
– Realised profit	559,209	536,857	409,175	408,696
– Unrealised profit/(loss)	26,721	(2,420)	16,785	14,567
Less: Consolidation adjustments	(126,425)	(130,937)	–	–
Total retained earnings	459,505	403,500	425,960	423,263

The determination of realised and unrealised profits or losses is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

The unrealised portion within retained earnings for the Group as at 31 December 2016 predominantly relates to net deferred tax assets/(liabilities) of RM24,594,000 (2015: (RM3,001,000)).

The consolidation adjustments recognised for the Group mainly relate to accumulated goodwill amortisation recognised from years 2000 to 2005.

The unrealised portion within retained earnings for the Company as at 31 December 2016 predominantly relates to net deferred tax assets of RM15,308,000 (2015: RM15,246,000).

The disclosure of realised and unrealised profits/(losses) above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

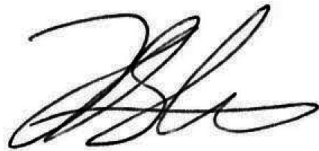
STATEMENT BY DIRECTORS

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

In the opinion of the Directors, the financial statements set out on pages 133 to 187 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 1965 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 2016 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 32 on page 188 to the financial statements has been compiled in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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



Hendrik Stoel
Managing Director



Ricardo Martin Guardo
Finance Director

Petaling Jaya

Date: 16 February 2017

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

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 133 to 188 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 above named in Petaling Jaya in the state of Selangor on 16 February 2017.



Ricardo Martin Guardo

Finance Director

Before me:



No. 29-3-1, Jalan Teknologi 2/6E,
The Core Kota Damansara,
47810 Petaling Jaya, Selangor

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 2016 of the Group and of the Company, and the income statements and statements of other comprehensive income, statement 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 133 to 187.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our auditors' 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.

INDEPENDENT AUDITORS' REPORT

To the Members of British American Tobacco (Malaysia) Berhad (Company No 4372-M)
(Incorporated in Malaysia)

Goodwill assessment

Refer to Note 2 (f)(i) and 2 (i)(ii) 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 2016 amounts to RM412 million.

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 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 cash generating unit's recoverable amount; and
- the impairment test is sensitive to a reasonably possible change in assumptions.

How the matter was addressed in our audit

Our audit procedures included, amongst others:

- Evaluated Group's cash flow forecasts and the process by which they were developed; and
- 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 accuracy of the projections; and
- Confirmed that the key assumptions were reviewed by the Directors and Management; and
- 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 whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

Restructuring of business operations

Refer to Note 2 (l)(i) to the financial statements (accounting policy) and Note 31 to the financial statements (financial disclosures)

The key audit matter

On 17 March 2016, the Group announced that it will be restructuring its business operations by sourcing tobacco products for its domestic market from other British American Tobacco Group factories regionally and would cease the manufacturing operations of its subsidiary, Tobacco Importers and Manufacturers Sdn. Berhad. The winding down of factory operations will be carried out in stages and targeted to complete by the second half of 2017. This resulted in restructuring expenses of RM113 million.

The restructuring of the Group's business operations also involves the disposal of its factory land and buildings with disposal gain amounting to RM159 million. The sale was completed in November 2016 and also involved the entering of a tenancy agreement for a rental period of 12 months with the purchaser.

We have identified the restructuring of business operations as a key audit matter because:

- the amounts involved are significant; and
- the application of accounting standards to determine the amount of restructuring expenses and the gain on disposal to be recognised requires judgement.

How the matter was addressed in our audit

Our audit procedures included, amongst others:

- Performed substantive testing in relation to the Group's process for determining the amounts of the restructuring expenses; and
- Assessed Group's assumptions and estimates in arriving at the amounts of the restructuring expenses and performed testing, on a sample basis, the restructuring expenses incurred; and
- Assessed the carrying value on the remaining property, plant and equipment as a result of this restructuring exercise; and
- Evaluated the terms and conditions of the Sales and Purchase Agreement as well as the tenancy agreement between Tobacco Importers and Manufacturers Sdn. Berhad and LGB Properties (M) Sdn. Bhd., and considered its potential impact on the gain on disposal; and
- Considered the adequacy of the financial statements disclosures, including assets held for sale classification, in accordance with the accounting standards.

INDEPENDENT AUDITORS' REPORT

To the Members of British American Tobacco (Malaysia) Berhad (Company No 4372-M)
(Incorporated in Malaysia)

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 Directors' Report, Chairman's Letter, Management Discussion and Analysis, Statement on Corporate Governance, Audit Committee Report and Statement on Risk Management and Internal Control included in the annual report but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will 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 other information identified above and, in doing so, consider whether the other information 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 on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, 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, 1965 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.

INDEPENDENT AUDITORS' REPORT

To the Members of British American Tobacco (Malaysia) Berhad (Company No 4372-M)
(Incorporated in Malaysia)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with approved standards on auditing in Malaysia, we exercise professional judgement and maintain professional skepticism 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.

INDEPENDENT AUDITORS' REPORT

To the Members of British American Tobacco (Malaysia) Berhad (Company No 4372-M)
(Incorporated in Malaysia)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a. In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- b. We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 13 to the financial statements, being accounts that have been included in the consolidated accounts.
- c. We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- d. The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comments made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 32 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

The financial statements of the Group and of the Company as at and for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 17 February 2016.

This report is made solely to the members of the Company, as a body in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Petaling Jaya

Date: 16 February 2017

Adrian Lee Lye Wang
Approval Number: 2679/11/17(J)
Chartered Accountant

ANALYSIS OF SHAREHOLDINGS

as at 28 February 2017

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 Holdings	%
Less than 100	778	12.98	10,178	0.00
100 – 1,000	3,142	52.43	1,285,037	0.45
1,001 – 10,000	1,432	23.89	5,359,471	1.88
10,001 – 100,000	460	7.68	13,713,611	4.80
100,001 – 14,276,499*	180	3.00	122,396,703	42.87
14,276,500 and above**	1	0.02	142,765,000	50.00
Total	5,993	100.00	285,530,000	100.00

Notes:

* Less than 5% of issued and paid-up share capital

** 5% and above of issued and paid-up share capital

CATEGORY OF SHAREHOLDERS

Category of Shareholders	No. of Shareholders	% of Shareholders	No. of Shares held	% of Issued Shares
1. Individual	4,339	72.40	6,554,197	2.29
2. Body Corporate				
a. Banks/Finance Companies	19	0.32	7,273,096	2.55
b. Investments Trusts/Foundations/Charities	5	0.08	54,508	0.02
c. Industrial and Commercial Companies	119	1.99	143,809,552	50.37
3. Government Agencies/Institutions	2	0.03	27,548	0.01
4. Nominees	1,507	25.15	127,810,098	44.76
5. Others	2	0.03	1,001	0.00
Total	5,993	100.00	285,530,000	100.00

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.	Employees Provident Fund Board	16,835,902	5.90	–	–
3.	Aberdeen Asset Management PLC and its subsidiaries	–	–	14,325,520	5.02

ANALYSIS OF SHAREHOLDINGS

as at 28 February 2017

DIRECTORS' DIRECT AND INDIRECT INTERESTS IN THE COMPANY AND ITS RELATED CORPORATIONS

(As per Register of Directors' Shareholdings)

Interest in the Company

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*	—	—

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
Interest in the Ultimate Holding Company – British American Tobacco p.l.c				
1. Datuk Christine Lee Oi Kuan	16,578	0.00*	—	—
2. Hendrik Stoel	4,512	0.00*	—	—

Note:

* Less than 0.01%

Number of ordinary shares of 25p each in British American Tobacco p.l.c				
Interest in the Ultimate Holding Company – British American Tobacco p.l.c				Direct Interest No. of Shares Held
Deferred Share Bonus Scheme & International Share Reward Scheme				
1. Datuk Christine Lee Oi Kuan				3,814
2. Hendrik Stoel				5,386
3. Ricardo Martin Guardo				2,187

Number of options in ordinary shares of 25p each in British American Tobacco p.l.c				
Interest in the Ultimate Holding Company – British American Tobacco p.l.c				Direct Interest No. of Options Held
Long Term Incentive Plan				
1. Datuk Christine Lee Oi Kuan				13,194
2. Hendrik Stoel				16,404
3. Ricardo Martin Guardo				3,024

Save as disclosed above, none of the Directors of the Company has any interest direct or indirect in the Company and its related corporations.

ANALYSIS OF SHAREHOLDINGS

as at 28 February 2017

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	13,863,402	4.86
3.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund 4545 for Lazard Emerging Markets Portfolio	7,861,100	2.75
4.	Valuecap Sdn Bhd	4,584,200	1.61
5.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for JPMorgan Chase Bank, National Association (U.S.A.)	3,934,714	1.38
6.	Cartaban Nominees (Asing) Sdn Bhd Exempt AN for State Street Bank & Trust Company (West CLT OD67)	3,813,915	1.34
7.	HSBC Nominees (Asing) Sdn Bhd BBH and Co Boston for Matthews Asian Growth and Income Fund	3,498,400	1.23
8.	HSBC Nominees (Asing) Sdn Bhd BNP Paribas SECS SVS LUX for Aberdeen Global	3,434,920	1.20
9.	Cartaban Nominees (Asing) Sdn Bhd GIC Private Limited for Government of Singapore (C)	2,823,000	0.99
10.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for The Bank of New York Mellon (Mellon ACCT)	2,450,607	0.86
11.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Murray International Trust PLC	2,400,000	0.84
12.	HSBC Nominees (Asing) Sdn Bhd BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund	2,384,587	0.84
13.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for JPMorgan Chase Bank, National Association (JPMelab AIF APG)	2,365,300	0.83
14.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for J.P. Morgan Bank Luxembourg S.A. (2)	2,050,343	0.72
15.	Cartaban Nominees (Tempatan) Sdn Bhd PAMB for Prulink Equity Fund	1,985,000	0.70
16.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (PAR I)	1,783,400	0.62
17.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB PRIN)	1,746,200	0.61
18.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for JPMorgan Chase Bank, National Association (Resident USA-2)	1,614,700	0.57
19.	DB (Malaysia) Nominee (Asing) Sdn Bhd State Street Australia Fund 7FAF for Monetary Authority of Singapore	1,380,800	0.48
20.	Citigroup Nominees (Asing) Sdn Bhd CBHK for Kuwait Investment Authority (Fund 221)	1,310,400	0.46

ANALYSIS OF SHAREHOLDINGS

as at 28 February 2017

No.	Name	No. of Shares Held	% of Issued Shares
21.	HSBC Nominees (Asing) Sdn Bhd BNP Paribas SECS SVS Paris for Aberdeen Asia Pacific Equity Fund	1,281,800	0.45
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.	Permodalan Nasional Berhad	1,257,400	0.44
24.	Cartaban Nominees (Asing) Sdn Bhd SSBT Fund SWFE for California Public Employees Retirement System	1,233,500	0.43
25.	HSBC Nominees (Asing) Sdn Bhd BNP Paribas SECS SVS Jersey for Aberdeen Asian Income Fund Limited	1,129,200	0.40
26.	Cartaban Nominees (Asing) Sdn Bhd RBC Investor Services Bank S.A. for Vontobel Fund - Emerging Markets Equity	1,107,555	0.39
27.	HSBC Nominees (Asing) Sdn Bhd TNTC for British Columbia Investment Management Corporation	1,075,385	0.38
28.	HSBC Nominees (Asing) Sdn Bhd TNTC for GIC Private Limited	1,023,900	0.36
29.	HSBC Nominees (Asing) Sdn Bhd TNTC for Somerset Small Mid Cap EM All Country Fund LLC	946,300	0.33
30.	Citigroup Nominees (Asing) Sdn Bhd UBS AG	921,278	0.32
Total		219,284,806	76.83

PARTICULARS OF PROPERTIES

The properties held by the Group and Company at **31 December 2016** 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
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Freehold

No. 36A, Jalan Lengkok Canning Ipoh Garden, Ipoh, Perak	30.11.1989	shop and office	28	143.07	65
No. A79, Jalan Telok Sisek Kuantan, Pahang	28.4.1994	shop and office	25	110.59	194

Leasehold

No. 2, Jalan Foochow Kuching, Sarawak (999 year lease expiring 31.12.2923)	3.10.1991	shop and office	27	156.10	135
Lot 1, Block A Hong Tong Centre, Miles 4 Penampang, Kota Kinabalu, Sabah (99 year lease expiring 31.12.2080)	30.9.1999	shop and office	23	136.56	349
No. 8, Jalan Melaka Raya 13 Taman Melaka Raya, Melaka (99 year lease expiring 7.7.2093)	30.3.1996	shop and office	22	143.00	250

CORPORATE DIRECTORY

PRINCIPAL OFFICES

HEAD OFFICE

**BRITISH AMERICAN TOBACCO
(MALAYSIA) BERHAD**
(Company No. 4372-M)

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

FACTORY

**TOBACCO IMPORTERS AND
MANUFACTURERS SDN. BERHAD**
(Company No. 4414-U)

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

**COMMERCIAL MARKETERS AND
DISTRIBUTORS SDN. BHD.**
(Company No. 42316-T)

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

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. BBI-1
Jalan Shamelin Niaga 2
Shamelin Heights Business Park
Taman Shamelin Perkasa
56100 Kuala Lumpur
Tel : +60 (3) 9200 8371
Fax : +60 (3) 9200 8370

Selangor

No. 3, Jalan Industri PBP3
Taman Perindustrian Pusat Bandar
Puchong
47100 Puchong
Selangor
Tel : +60 (3) 5891 9888
Fax : +60 (3) 5891 9882

Melaka

12, Jalan Abadi 3
Taman Malim Jaya
75250 Melaka
Tel : +60 (6) 337 6593/336 5435
Fax : +60 (6) 335 6449

Johor 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 8373/573 7831
Fax : +60 (9) 573 7484

Kota Bharu

Lot PT 1453 & 1454, 1st Floor
Kawasan Perindustrian
Pengkalan Chepa 2
Seksyen 39 Kemumin
16100 Kota Bharu, Kelantan
Tel. : +60 (9) 773 8831/773 8873
Fax. : +60 (9) 773 8968

Kota Kinabalu

Lot L180-101/000
Block A, HSK Industrial Centre
Jalan Bundusan, Mile 5
Off Jalan Penampang
89500 Kota Kinabalu, Sabah
Tel : +60 (88) 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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-Sixth Annual General Meeting of British American Tobacco (Malaysia) Berhad (the Company) will be held at Ballroom 2, 1st Floor, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Tuesday, 18 April 2017 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 2016 and the Reports of the Directors and Auditors thereon. | Note A |
| 2. To re-elect the following Directors who retire pursuant to Article 103 of the Constitution of the Company: | |
| (i) Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat | Resolution 1 |
| (ii) Hendrik Stoel | Resolution 2 |
| (iii) Ricardo Martin Guardo | Resolution 3 |
| 3. To re-elect the following Directors who retire pursuant to Articles 97(1) and (2) of the Constitution of the Company: | |
| (i) Datuk Zainun Aishah binti Ahmad | Resolution 4 |
| (ii) Datuk Lee Oi Kuan | Resolution 5 |
| 4. To re-appoint Datuk Oh Chong Peng as Director of the Company. | Resolution 6 |
| 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 1 January 2017 until the next Annual General Meeting of the Company. | Resolution 7 |
| 6. To re-appoint KPMG PLT as Auditors of the Company for the financial year ending 31 December 2017 and to authorise the Directors to fix their remuneration. | Resolution 8 |

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following Ordinary Resolutions:

- | | |
|---|---------------------|
| 7. Retention of Independent Director | Resolution 9 |
| <p>"THAT subject to the passing of Resolution 6, approval be and is hereby given for the Company to retain Datuk Oh Chong Peng who has served as an Independent Non-Executive Director of the Company for more than nine (9) years in accordance with the Malaysian Code on Corporate Governance 2012."</p> | |

NOTICE OF ANNUAL GENERAL MEETING

8. **Proposed Renewal of Shareholders' Mandate for the Company and Its Subsidiaries to enter into Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties (Proposed Renewal of the Recurrent RPTs Mandate)** **Resolution 10**

"THAT, the Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 27 March 2017) granted by the shareholders of the Company pursuant to Paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad authorising the Company and/or its subsidiaries ("British American Tobacco Malaysia Group") to enter into recurrent related party transactions of a revenue or trading nature (Recurrent RPTs) with Related Parties (as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad) as set out in Paragraph 2.2 and Appendix II of the Circular to Shareholders dated 27 March 2017 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 RPTs Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM the mandate is again renewed;
- (ii) the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 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 RPTs Mandate."

9. To transact any other business of which due notice shall have been given.

By Order of the Board

DAVID CHIAM JOY YEOW

LS0009734

Secretary

Petaling Jaya

27 March 2017

NOTICE OF ANNUAL GENERAL MEETING

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 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 Form of Proxy but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the meeting as his/her proxy.
5. The original Form of Proxy 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 before 11.30 a.m. on Monday, 17 April 2017 not less than twenty-four (24) hours before the time appointed for the taking of poll.
6. Only members whose names appear in the Record of Depositors as at 10 April 2017 (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 2016 under Agenda 1 are meant for discussion only in accordance with the provision of Section 340(1)(a) 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.

Resolution 6 – Re-appointment of Director

Datuk Oh Chong Peng who will hold office until the conclusion of this Annual General Meeting, has offered himself for re-appointment as Director at the Fifty-sixth Annual General Meeting.

Resolution 7 – payment of Directors' fees and benefits to the Non-Executive Directors

The shareholders at the Fifty-first Annual General Meeting of the Company held on 10 April 2012 had approved the limit of Non-Executive Directors' fees be increased from RM800,000.00 to RM1,000,000.00.

There is no proposed revision to the existing Directors' fees and the resolution for payment of fees and benefits with effect from 1 January 2017 until the next Annual General Meeting of the Company is tabled herewith in accordance to Section 230 (1) of the Companies Act, 2016.

10. Explanatory Notes on Special Business

Resolution 9 – Retention of Independent Director pursuant to the Malaysian Code on Corporate Governance 2012

Datuk Oh Chong Peng was appointed as Non-Executive Director of the Company in January 1998, has served for more than nine (9) years. He has met the independence guidelines as set out in Chapter 1 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The Board has determined that Datuk Oh Chong Peng is able to bring independent and objective judgements to the Board as a whole and strongly recommended him be retained as Independent Non-Executive Director of the Company.

Resolution 10 – Recurrent Related Party Transactions Mandate

This 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 RPTs Mandate is set out in the Circular to Shareholders dated 27 March 2017, which is despatched together with the Company's 2016 Abridged Annual Report.

ADMINISTRATIVE DETAILS

FOR BRITISH AMERICAN TOBACCO MALAYSIA FIFTY-SIXTH ANNUAL GENERAL MEETING

Day/Date : Tuesday, 18 April 2017

Time : 10.30 a.m.

Place : Ballroom 2, 1st Floor, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur.

Registration

1. Registration will start at 8.00 a.m. at the entrance of Ballroom 3, 1st Floor, Sime Darby Convention Centre and the Annual General Meeting (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 (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. You will be given the following upon registration:
 - (a) Wristband
 - (b) Polling slip
 - (c) One Meal Voucher
 - (d) One Door Gift

Each individual present as shareholder OR proxy OR corporate representative; or representing more than one (1) shareholder is entitled to one (1) Meal Voucher and one (1) Door Gift only. Additionally, if two (2) proxies represent one (1) shareholder, they will be jointly entitled to one (1) Meal Voucher and one (1) Door Gift only.

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 and/or voucher are lost, stolen or misplaced.
5. To place your votes, please place your polling forms in the ballot box after the Meeting proceeded to take the poll.
6. The registration counter only handles verification and registration. You may proceed to the Help Desk for any other clarification or queries.

Refreshment

7. There will be NO food served before and after the meeting. Shareholders/proxies will be served with morning tea and coffee only.

Entitlement to Attend and Vote

8. Only Members whose names appear in the Record of Depositors as at **5.00 p.m. on 10 April 2017** (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 name at that time.

ADMINISTRATIVE DETAILS FOR BRITISH AMERICAN TOBACCO MALAYSIA FIFTY-SIXTH ANNUAL GENERAL MEETING

Proxy

9. 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.
10. 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.
11. To appoint a proxy, the original Form of Proxy which is attached together with the Company's Abridged Annual Report 2016 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 before 11.30 a.m. on Monday, 17 April 2017 not less than twenty-four (24) hours before the time appointed for the taking of poll.
12. In the case of a member which is a company, the Form of Proxy must be executed either under its seal or under the hand of any officer or attorney duly authorised.

Revocation of Proxy

13. 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 Form of Proxy or the authority served by 17 April 2017 at 11.30 a.m.;
 - c. appointing new proxy by depositing a new Form of Proxy in favour of another person by 17 April 2017 at 11.30 a.m.; or
 - d. transfer of shares by the appointer.

Corporate Member

14. Any corporate member who wishes to appoint a representative instead of a proxy to attend this AGM should lodge the certificate of appointment under the seal of the corporation, 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 before 11.30 a.m. on Monday, 17 April 2017 not less than twenty-four (24) hours before the time appointed for the taking of poll.

Annual Report 2016

15. The Annual Report 2016 is available on Bursa Malaysia's website at www.bursamalaysia.com under Company Announcements and also at the British American Tobacco Malaysia's website at www.batmalaysia.com.

ADMINISTRATIVE DETAILS FOR BRITISH AMERICAN TOBACCO MALAYSIA FIFTY-SIXTH ANNUAL GENERAL MEETING

Other Meeting Details

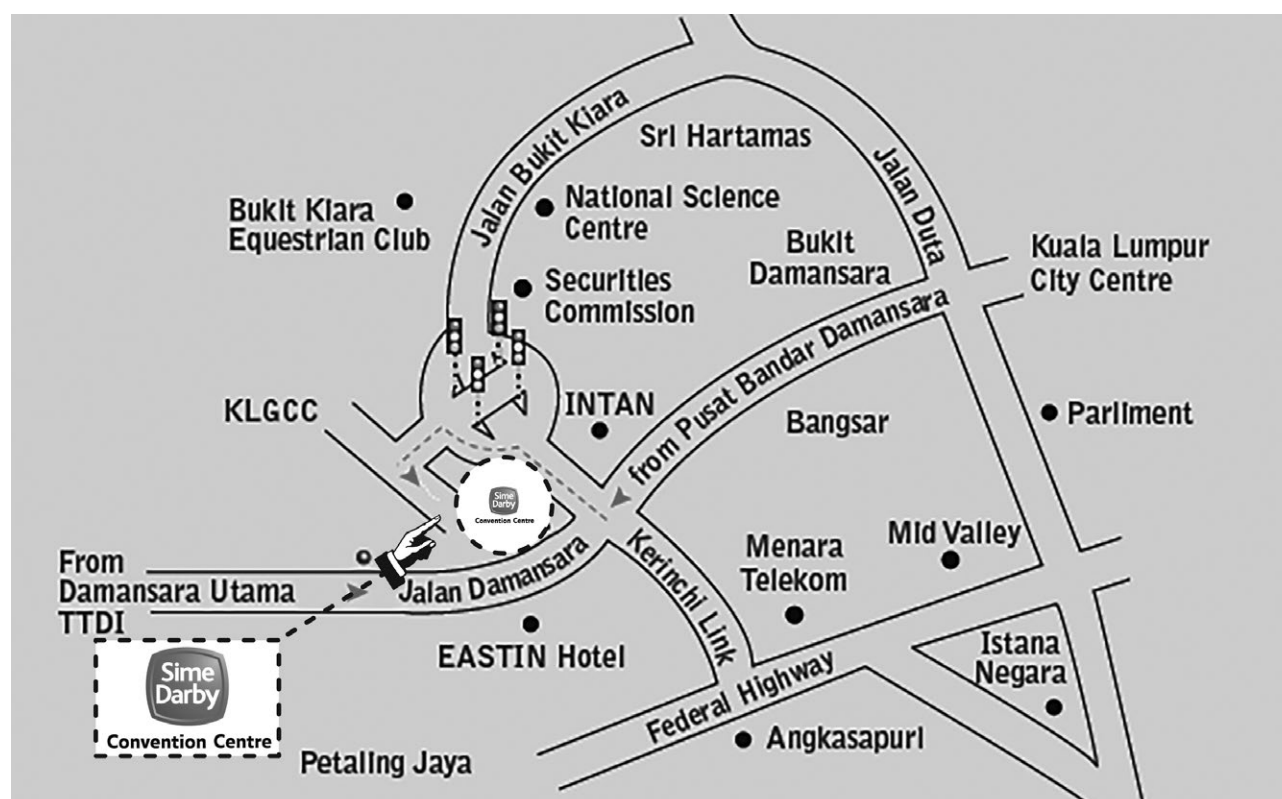
16. Free WIFI is available at the Sime Darby Convention Centre for the convenience of shareholders/proxies.
17. Indoor and outdoor parking is freely available at the Sime Darby Convention Centre (subject to availability).
18. A medical doctor is available on standby for any emergency. Please refer to the Help Desk should any assistance be required.

Enquiry

19. If you have general queries prior to the meeting, please contact the British American Tobacco Malaysia Legal and Secretarial Department at +60(3) – 74917100 or 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 Sime Darby Convention Centre



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**BRITISH AMERICAN
TOBACCO
MALAYSIA**

CDS Account No.

PROXY FORM

British American Tobacco (Malaysia) Berhad
(Company No. 4372-M)
(Incorporated in Malaysia)

I/We _____ (NRIC/Passport/Co. No.: _____)
(Name as per NRIC/Passport/Certificate of Incorporation in Capital Letters)

of _____
(Full Address)

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint _____

_____ (NRIC/Passport No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

and/or failing him/her _____ (NRIC/Passport No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____ or failing him/her, the Chairman of the
(Full Address)

Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fifty-Sixth Annual General Meeting of the Company, to be held at Ballroom 2, 1st Floor, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Tuesday, 18 April 2017 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
Resolution 1	Re-election of Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat who retires pursuant to Article 103 of the Constitution of the Company.		
Resolution 2	Re-election of Hendrik Stoel who retires pursuant to Article 103 of the Constitution of the Company.		
Resolution 3	Re-election of Ricardo Martin Guardo who retires pursuant to Article 103 of the Constitution of the Company.		
Resolution 4	Re-election of Datuk Zainun Aishah binti Ahmad who retires pursuant to Articles 97 (1) and (2) of the Constitution of the Company.		
Resolution 5	Re-election of Datuk Lee Oi Kuan who retires pursuant to Articles 97 (1) and (2) of the Constitution of the Company.		
Resolution 6	Re-appointment of Datuk Oh Chong Peng as Director of the Company.		
Resolution 7	Approval of payment of Directors' fees and benefits to the Non-Executive Directors with effect from 1 January 2017 until next Annual General Meeting of the Company.		
Resolution 8	Re-appointment of KPMG PLT as Auditors of the Company for the financial year ending 31 December 2017 and to authorise the Directors to fix their remuneration.		
Resolution 9	Retention of Datuk Oh Chong Peng as an Independent Non-Executive Director of the Company.		
Resolution 10	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.		

Dated this _____ day of _____ 2017.

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 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 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 Form of Proxy but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the meeting as his/her proxy.
5. The original Form of Proxy 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 before 11.30 a.m. on Monday, 17 April 2017 not less than twenty-four (24) hours before the time appointed for the taking of poll.
6. Only members whose names appear in the Record of Depositors as at 10 April 2017 (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.

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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.

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**BRITISH AMERICAN
TOBACCO**
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