

Building A Fair Society

Annual Report 2017



Building a Fair Society

At British American Tobacco Malaysia, we believe that sustainable growth for a company, the country, the people and the community are deeply intertwined. And it starts with our commitment and actions that lead towards a society where diversity is treasured, positive actions are required, freedom of choice is respected and fairness is expected.



**BRITISH AMERICAN
TOBACCO
MALAYSIA**



Diversity

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







Positive Action

We believe that changes that can bring real value to the society can only take place when we all take steps to enact positive actions.



Freedom of Choice

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







Fairness

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



57th Annual General Meeting (AGM) of British American Tobacco (Malaysia) Berhad

Venue: Ballroom 2, 1st Floor, Sime Darby Convention Centre
1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur

Date: Thursday, 19th April 2018

Time: 10.30a.m.

 Information online at www.batmalaysia.com



Leadership



Growth



Productivity



Sustainability



Winning
Organisation

Results At A Glance

RM3,002
MILLION

Revenue

RM382
MILLION

Shareholder's Fund

RM639
MILLION

Profit Before Tax

RM493
MILLION

Net Profit

129%

Net Returns on
Shareholder's Fund

RM169
SEN

Net Dividend Per Share

Overview of British American Tobacco Malaysia

497
Employees

100+
Years of History
in Malaysia

53.9%
Market Share

172.5 sen
Earnings Per Share



Certified Top Employer

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“Our transformation has allowed us to strengthen our commercial capabilities, underlined by our gradual share recovery in 2017, and as such we are confident that we can continue our 100 years of legacy in Damansara City.”

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

Erik Stoel
Managing Director

Message to Shareholders

Dear Shareholders,

The 'Journey of Transformation' initiated by British American Tobacco Malaysia (the Group) in 2016, necessitated by the challenging environment and impact caused by significant levels of illegal cigarettes in Malaysia, has been successfully completed in 2017. The transformation aimed to strengthen our business model via reinforcing our commercial capabilities and optimising our supply chain and transactional activities. All done in order to maintain our leadership and to maximise shareholder returns given the challenging times for the legal tobacco industry.

As you are well aware, this included the decision to close down our iconic Virginia Park manufacturing site at the 'Rothmans roundabout' in Petaling Jaya after 55 years of service. On 22 June 2017, we ran our last production run, in the presence of all our employees to pay respect to over 200 Operations colleagues who consequently had to leave the Group in 2017, but also a tribute to 'our' site in PJ, that supported us with high quality products to become the undisputed market leader in the Malaysian tobacco market.

We left Virginia Park in PJ with a lot of memories in our hearts and stepped into our new modern corporate office in Damansara City on September 2017 with excitement and confidence. Our transformation has allowed us to strengthen our commercial capabilities, underlined by our gradual share recovery in 2017. As such, we are confident that we can continue our 100 years of legacy in Damansara City, being the leading legal tobacco company in Malaysia, albeit still undergoing challenging circumstances for the industry.

As the Group went through a successful transformation, the same cannot be said of the overall state of the tobacco market in Malaysia. Though the illegal cigarette trade has stabilised in 2017, it still fuels 58.3 percent of the total tobacco consumption in this country. This will continue to undermine the performance of the Group and position Malaysia in unflattering light of being one of the countries with the highest illegal cigarette trade level unless it is drastically reduced through aggressive enforcement and other alternative solutions.

Whilst the tobacco industry is seen as controversial, we are proud that British American Tobacco Malaysia stands for more than just a leading and legal tobacco company in the country. We are recognised as a respectable corporate citizen with an excellent track record in corporate governance and known as a leading employer with a multitude of awards and recognitions for 'best in class' talent development. We are also recognised as one of the best tax payers by Inland Revenue Board in addition

to being an active contributor to the community through our various corporate social investments.

These are testaments of our belief that the growth of our Group and the legal tobacco industry is deeply intertwined with the growth of our shareholder value, our people, society at large and therefore the development of Malaysia.

On that note, on behalf of the Board of Directors, we are pleased to present the Group's Annual Report and Financial Statements for the financial year ended 31 December 2017.

Performance Review

The financial year under review was challenging for the Group. We continued to be adversely impacted by the effects of the steep excise increase in November 2015, which greatly affected the purchasing power of tobacco consumers and as a consequence accelerated the rise of illegal cigarette consumption at unacceptably high levels.

While the illegal cigarette incidence stabilised, at a level of 58.3 percent it did not unfortunately increase the legal tobacco market due to the persistent consumer demand for low priced offers (below RM10 per pack). This has put significant pressure on our operating results for the second year in a row, in spite of our gradual share growth and stable volume trend throughout 2017 compared to the fourth quarter of 2016.

On a year-on-year comparison, our revenue, and profit from operations were down mainly due to a decline in share and volume following the legal market size decline compared to 2016 and the significantly reduced export volumes as a result of the factory closure. Results were marginally off-set by reductions in the cost base.

In addition, a new trend of seemingly legal brands with falsified tax stamps has manifested itself and they are mainly selling below the Ministry of Health mandated minimum price of RM10 per pack, putting further pressure on the legal market.

We welcome the efforts of the Royal Malaysian Customs and some other law enforcement agencies, that have resulted in a form of stabilisation of consumption of illegal cigarettes. However, the situation remains dire, fuelling the black market economy, therefore undermining the legal industry, the Government's tax revenues and society at large.

In the absence of a strong national agenda against illegal cigarette trade, covering enforcement and other legal industry supporting alternatives, the legal industry and therefore the

Group will continue to face significant challenges to deliver sustainable growth for the future.

In spite of all of this, we managed to strengthen our position in the market via solid share growth at the end of 2017 compared to end of 2016 (+1.4 percent share growth to 54.6 percent) and stable volume with our flagship brand DUNHILL, reinforcing our leadership in the Premium Segment. We managed to take leadership in the Aspirational Segment via a solid performance of PETER STUYVESANT that grew by 1.0 percent to 7.5 percent in 2017. With affordability remaining a key concern for our consumers, the Group decided to enter the Value For Money segment (lowest price segment in the legal market) with ROTHMANS in October 2017. The brand has rapidly established a strong position (2.8 percent in December 2017) against other competitive offers in this segment. Although the current excise framework is not conducive for a favourable margin compared to the Premium Segment, the Group considers the ROTHMANS launch in the Value For Money segment as a strategic initiative that will strengthen our portfolio for the long term and help us to retain down trading consumers to remain in the legal market. The Group achieved 53.9 percent corporate market share for 2017.

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 43 sen per share.

Corporate Governance

We are committed to good corporate governance and achieving our business objectives in a fair, honest, transparent and accountable way. We regard good corporate governance a key element underpinning the sustainable, long-term growth of our business. During the year under review, the Group has reviewed and strengthened the Standards of Business Conduct (SOBC) to

reflect our continuous commitment to uphold high standard of governance practices.

The Group was therefore exceptionally proud to once again be recognised in the Minority Shareholder Watchdog Group (MSWG) Awards 2017. This award celebrates the best practices for corporate governance, disclosures and transparency of public listed companies. The Group won for Industry Excellence in Consumer Goods and this was the third consecutive win for the Group.

Other Awards and Recognition

In recognition of the Group's brand and leadership success, the Group was honoured by The Brand Laureate Best Brands Award 2016-2017 with our Managing Director, Erik Stoel receiving the award for being the winner of the illustrious Brand Transformational Leadership Award and British American Tobacco Malaysia receiving the Most Sustainable Brand Award in the Business and Community Leadership category.

For the first time, British American Tobacco Malaysia was officially certified as a Top Employer for 2018 in Malaysia in an annual international research undertaken by the globally highly accredited Top Employers Institute to recognise leading employers around the world which provide excellent employee conditions, nurture and develop talent throughout all levels of the organisation, and which strive to continuously optimise employment practices.

The Group's reputation as a leading employer with outstanding employee engagement initiatives was further strengthened when we received five awards recognising our HR and talent management strategies.

The Group picked up four awards from Asia's biggest HR industry awards, the HR Excellence Awards for Excellence in Employee Engagement (Gold), Excellence in Employer Branding (Silver), Excellence in Leadership Development (Silver) and Excellence in Innovative Use of HR Tech (Bronze). The Group was also named



as one of Malaysia Best Employers by the Employer Branding Institute, after review of a panel comprising of senior HR leaders from all around the world.

While we are proud of our leadership in the Malaysian tobacco market, we are equally proud of the recognition for our leading achievements in talent management and delivery of our business through 'best in class' corporate governance practices.

Leadership

We are happy to report that there were no changes in the Group's Board and Leadership Team, signifying a strong and stable leadership.

Outlook for 2018

The Group remains concerned that the legal domestic market continues to suffer due to the escalating illegal cigarette trade in the country with the absence of a national enforcement agenda nor any other clear pragmatic alternative solutions being implemented. We believe this is required against the backdrop of a challenging economic environment and poor consumer sentiment, that is not only impacting the tobacco industry, but many other Fast Moving Consumer Goods (FMCG) companies as well as the retail sector.

While we will work to improve our results on the back of our stronger business model, improved capabilities and a

strengthened and highly competitive brand portfolio, any significant legal industry growth and as such our growth, will require big interventions and actionable solutions in reducing the illegal market. The truth is, illegal cigarettes is not just a challenge for the legal industry, it is a societal problem that fuels many other undesirable elements that should not be tolerated in the country.

We will remain committed to constructively co-operate with the Government via providing alternative solutions to solve this matter. We look forward to the Government's increased commitment to eradicate the illegal cigarette trade to sustain and grow employment, investments, shareholder return, government tax revenue and eliminate underaged tobacco consumption.

Appreciation

Finally, on behalf of the Board of Directors, we wish to thank the management team and all employees of the Group for their tremendous efforts, passion and resilience in maintaining our market leadership and delivering greater value for our shareholders despite the challenging business environment, especially during the intensive transformation period in 2017.

In addition, we convey our sincere appreciation to all our shareholders, customers, distributors, business partners and other stakeholders for their confidence and continued belief in British American Tobacco Malaysia.



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



Erik Stoel
Managing Director

Management Discussion & Analysis



Erik Stoel

Managing Director

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 2017 and the Group's expectations on the business going into 2018.

2017 Performance Overview

Amidst a challenging business environment where illegal cigarettes are technically the biggest tobacco player in Malaysia, the Group's performance has not been spared. Total legal domestic volume contracted by 8.8 percent in 2017 compared to the previous year, resulting in 14.5 percent decline in the Group's domestic volume and 20.1 percent reduction in total revenue for 2017.

The harsh reality is that the legal tobacco market has not recovered from the blow it suffered from the steep excise increase since November 2015, though the silver lining being the fact that the legal consumption levels have stabilised at end 2017 when compared with end 2016. Consumers continued to face affordability problems affecting their access to legal and regulated cigarettes. Despite an increase of enforcement against the illegal cigarette trade by the Royal Malaysian Customs and some initiatives by other agencies in 2017, the illegal cigarette trade has not reduced, which signifies the magnitude of the challenge. It is only fair to point out that contrary to messages in the public domain, the solution could not simply be expected to come from enforcement by the Royal Malaysian Customs. It seems abundantly clear that this societal problem can only be brought under control via an integrated national agenda of

enforcement amongst all law enforcement agencies and the willingness to consider alternative solutions that could reduce the illegal cigarette trade, whilst allowing the legal tobacco companies to recover for sustainable growth.

Facing such extraordinary circumstances, the Group persevered and had undertaken significant steps to transform the business since 2016, resulting in a much stronger organisation, through a leaner and more efficient operating model, significant improved capabilities and an enhanced brand portfolio to grow our market leadership in Malaysia.

We remain the market leader with approximately 53.9 percent of legal market share, driven by our portfolio of high-quality tobacco products and strong brands that are designed to meet our consumers' diverse needs. Understanding the need for a Value For Money (VFM) product given the affordability pressure faced by consumers, the Group has introduced ROTHMANS to strengthen our portfolio of world-famous brands including DUNHILL, KENT, PETER STUYVESANT and PALL MALL. ROTHMANS is an excellent addition to our brand portfolio, allowing us to establish a strong competitive position in the VFM segment and provide a legally lower priced alternative for down trading consumers to illegal brands. Whilst margins in the VFM segment is less favourable than in the Premium Segment, we are confident that in the longer term, ROTHMANS will be essential to strengthen and grow our leadership position.

We will continue to double up on our efforts to protect the legal market. The Group can only encourage the Government to initiate significant actions that can address the illegal cigarette trade situation. Stronger and joined task force enforcement is essential and introducing pragmatic solutions that can address affordability

to allow adult consumers, currently with no other option than to opt for illegal and unregulated products, to choose for legal alternatives.

Business and Operations

Products and Services

British American Tobacco Malaysia's business is focused on the sale and marketing of tobacco products.

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

Currently the Group employs 497 employees who are involved in the marketing and distribution of our products as well as functions that support our talent development, enabling leading edge corporate governance, financial support and stakeholder and shareholder engagement.

Operating Facilities

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

Our Bukit Damansara office also houses the Asia Pacific Regional Product Centre of British American Tobacco p.l.c, which provides research and development services to the Group and other British American Tobacco entities in the Asia Pacific.

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

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

Our Vision and Strategic Focus

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

It is our aim to create a win for society, our consumers, our shareholders as well as providing a deeper purpose for our employees. In order to achieve this, we focus our commercial activities at leading in growth, productivity, winning organisation and sustainability.



Growth

Developing brands, innovations and new products to meet consumers' evolving needs enabled via excellent TM&D capabilities



Winning Organisation

Ensuring we have great talent, great teams and a great place to work



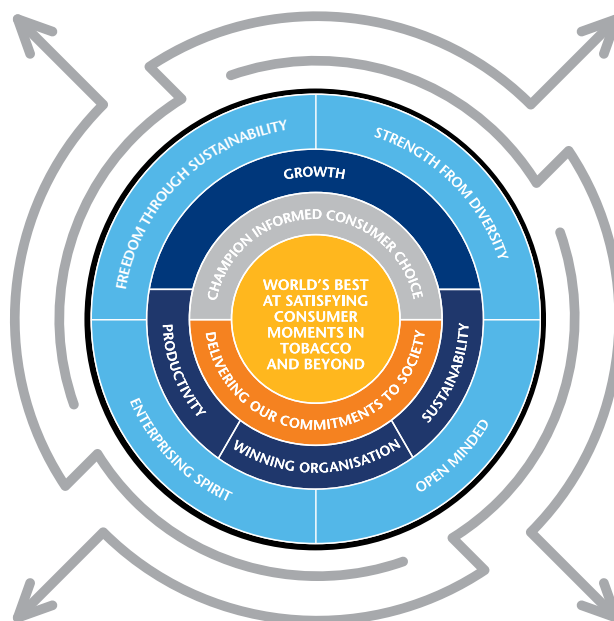
Productivity

Effectively deploying resources to generate the funds to invest in our business



Sustainability

Ensuring a sustainable business that meets stakeholders' expectations



Review of Financial Results

Ricardo Martin Guardo
Finance Director



RM 3,002 MIL

Revenue

-20.1%

(2016: RM 3,756 mil)

RM 651 MIL

Profit From Operations

-29.2%

(2016: RM 919 mil)

RM 493 MIL

Net Profit

-31.7%

(2016: RM 721 mil)

RM 655 MIL

EBITDA

-29.6%

(2016: RM 930 mil)

172.5 sen

Earnings Per Share

-80.1 sen

(2016: 252.6 sen)

21.7%

Operating Profit Margin

-2.8pp

(2016: 24.5%)

129%

Return On Equity

+11pp

(2016: 118%)

RM 11.4 BIL

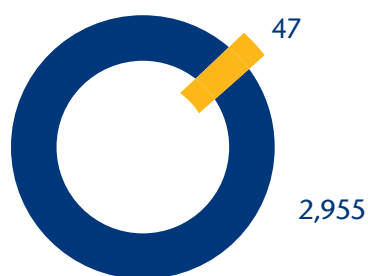
Market Capitalisation

-10.3%

(2016: RM 12.7bil)



Gross Revenue (RM million)



- Malaysia and Duty Free
- Other Countries

Revenue

Revenue in the domestic and duty free market declined by 15.4 percent (RM540 million) compared to 2016. This revenue performance was mainly attributed to the volume decline from the domestic and duty free market of 14.2 percent versus 2016 due to the sharp increase in illegal cigarettes incidence. Illegal cigarettes incidence has increased by 5.8 percentage points versus 2016, reaching a record level at 59.0 percent in December 2017. This was driven by the price gap between legal and illegal cigarettes and the multitude of challenges affecting enforcement on curbing illegal cigarettes trade.

Contract manufacturing revenue declined by 82.0 percent (RM214 million) due to the cessation of contract manufacturing for export markets as of 31 December 2016.

Cost of Sales

The reduction in cost of sales of 20.7 percent (RM515 million) versus the same period last year resulted primarily from the lower volume from domestic market and cessation of contract manufacturing for export markets. During the year, cost of sales

was unfavourably impacted by inflationary cost increase on raw materials as well as escalating cost pressures due to lower production volume in the first half of 2017. The change to full importation model in the second half of the year mitigated the cost pressure and this has led to a 10.0 percent reduction in cost of sales per unit when compared to 2016.

Operating Expenses (RM million)

-4.7%



In 2017, Operating Expenses were 4.7 percent (RM19 million) lower than last year despite inflationary pressures. This was attributed to overhead savings from cost base transformation initiatives the Group has undertaken, rental income from sub-lease of unutilised space in the first three quarters of 2017 and foreign exchange gain arising from the sale of manufacturing equipment. Additionally, British American Tobacco p.l.c Group services recharge was lower.

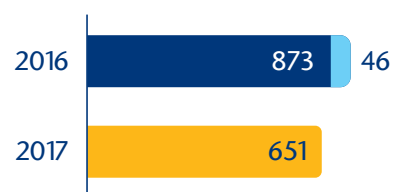
During the year, the Group made a provision for impairment of prepaid excise duties of RM21 million (1.3 percent of total excise duties paid in 2017) that is pending refund from Royal Malaysian Customs (RMC). The pending excise duties refund was related to unutilised tax stamps and tax stamps wastages encountered during the manufacturing process. The provision for impairment was made because decision on the refund of prepaid excise duties has yet to be made by the RMC. The Group had decided to take a prudent approach by recording the provision. Although

a provision for impairment has been recorded, the Group is actively engaging RMC to obtain the refund. Operating expenses, excluding the provision for impairment of prepaid excise duties declined 9.8 percent (RM39 million) versus 2016.

Restructuring Income/Expenses

In relation to the cessation of the manufacturing operations announced on 17 March 2016, the Group has further recorded a one-off restructuring expenses of RM9 million. The one-off restructuring expenses in 2017 consisted of on-going cost of the project, outplacement programme costs and one-off expenses associated with the storage and transfer of unprocessed leaf and raw materials.

Profit from Operations (RM million)



● Restructuring income

The Group recorded a decline in Profit from Operations of 29.2 percent (RM268 million) when compared to previous year. The reduction was led by the overall impact of the loss in volumes and absence of the one-off restructuring income from the disposal of the land and building in 2016. The unfavourable impact was partially offset by lower operating expenses. Profit from operations, excluding the impact of one-off restructuring income in 2016, declined 24.4 percent (RM213 million).

This profit delivery resulted in Operating Profit Margin of 21.7 percent in 2017.

Taxation

The average effective tax rate of the Group for the financial year ended 31 December 2017 was 22.9 percent versus 20.6 percent in 2016. The increase in average effective tax rates of 2.3 percentage point in 2017 was due to the absence of the one-off non-taxability on capital gains arising from the sale of the equipment and machinery to related parties in 2016.

Dividends

The Group continued its strong commitment to pay dividends at a level above 90 percent of earnings. In 2017, the Group declared four quarterly interim dividends amounting to 169 sen per share, which represents a 98 percentage earnings per share payout (2016: 110 percent, which included special dividend). This translated into a dividend decline of 39.2 percent when compared to 2016. Dividend growth, excluding the special dividend in 2016, declined 27.0 percent.

Debt Structure

In 2017, there is no change in the Group's debt structure with a total debt facility of RM580 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 2017, the Group had RM378 million of revolving credits with tenure between one week to one month, as compared to RM130 million in 2016.

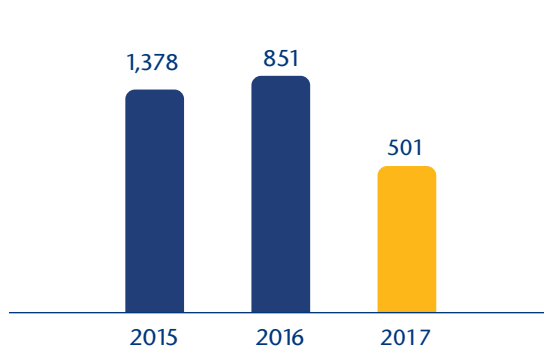
Working Capital and Liquidity

The closing cash and cash equivalents amounted to RM12 million, a reduction of RM21 million from year 2016. The decrease can be largely attributed to absence of the one-off sale proceeds from the disposal of the land and building (RM218 million) lower cash receipts from customers and payment to vendors due to lower volume and cessation of contract manufacturing for export markets (RM167 million), higher working capital (RM183 million) due to the full importation model and capital expenditure incurred for the new office (RM12 million). The cash outflow was partially offset by higher cash inflows from the sale of factory equipment (RM77 million), lower income tax payment (RM116 million) and higher short-term borrowings (RM423 million). Borrowings in 2016 were at a lower level due to the one-off sale proceeds from the disposal of the land and building.

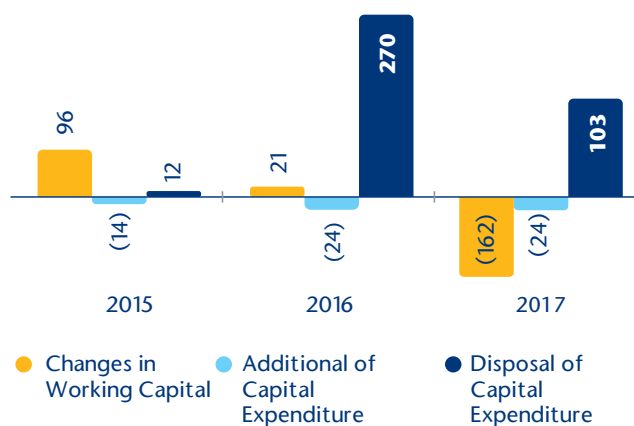
	12 months 2017 RM million	12 months 2016 RM million	Favourable/ (Adverse) %
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	655	930	-30%
Profit from Operations	651	919	-29%
Cash from Operations	501	851	-41%
EBITDA Cash Conversion	77%	92%	-15pp
Decrease In Cash And Cash Equivalents	-21	+4	-632%

The EBITDA cash conversion recorded a deterioration of 15 percentage points, which was primarily driven by higher working capital as a result of the sourcing change from local manufacturing to full importation and the absence of the one-off sale proceeds from the disposal of the land and building in 2016.

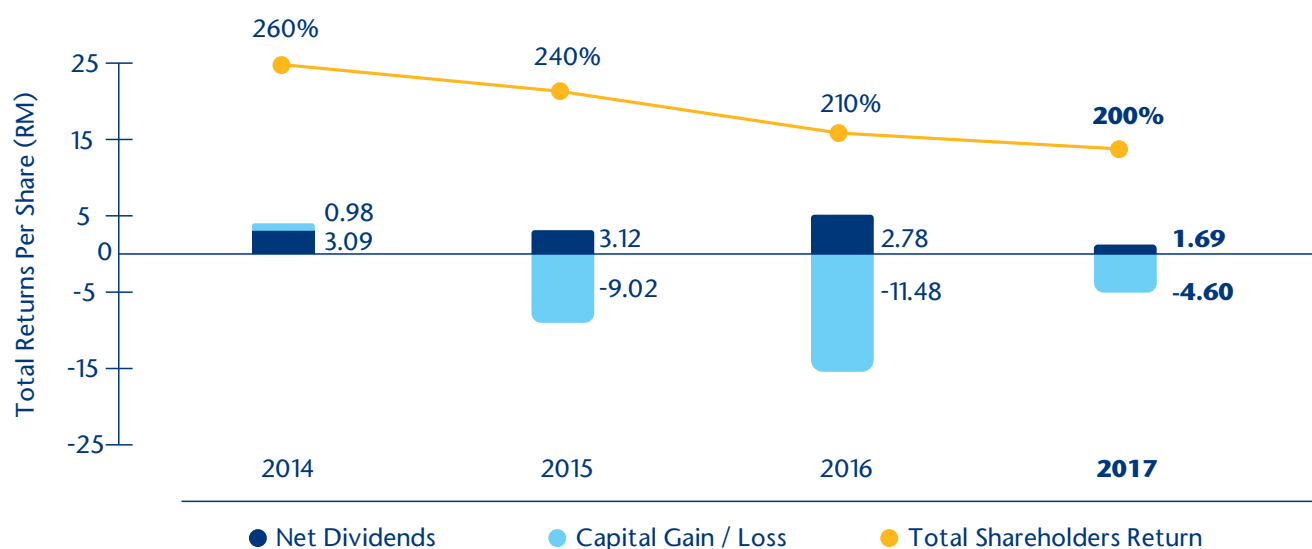
Cash from Operations (RM million)



Key Cash Flow Components (RM million)



Shareholders' Return



2017 without a doubt, proved to be a very challenging year for the legal tobacco industry, due to the continuous increase in illegal cigarette incidence.

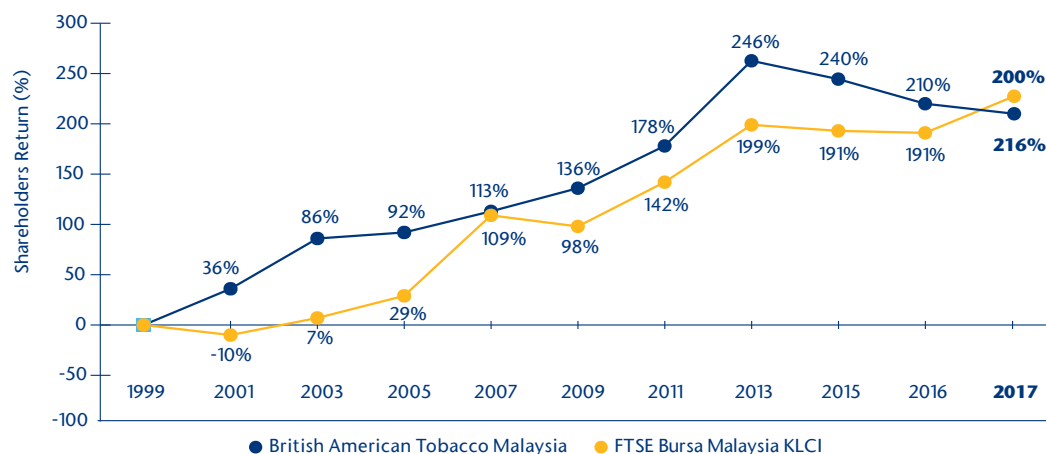
This situation translated into share price fluctuations for British American Tobacco Malaysia, with a total annual shareholder return loss of RM2.91 per share. This represented a total annual return decline of 6.5 percent when compared to 2016, comprised of dividends for the year and a 10.3 percent decline in share price.

Despite the weaker 2017 share price performance, when measured since the merger in 1999, total shareholder's return remains solid at a 6.3 percent return per annum on a compounded basis. British

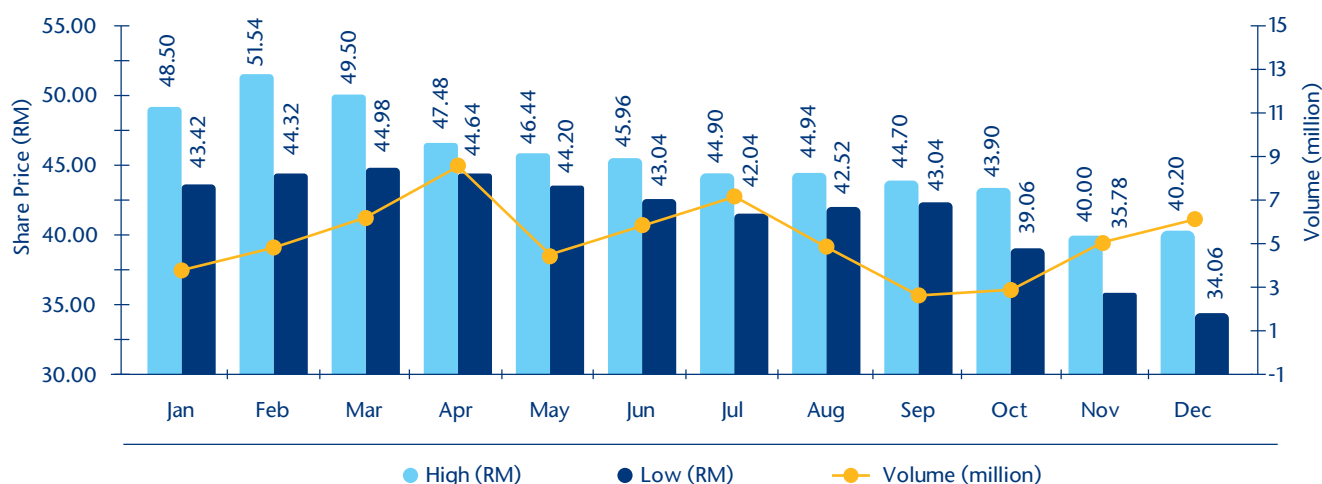
American Tobacco Malaysia has consistently outperformed the FTSE Bursa Malaysia Kuala Lumpur Composite Index for the past 18 years since the merger, with market capitalisation exceeding RM11 billion as at end of year 2017. The Group will continue its commitment to deliver long term sustainable shareholders 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.

British American Tobacco Malaysia Total Shareholders Return Compared Against FTSE Bursa Malaysia Kuala Lumpur Composite Index from 1999 to 2017



Share Performance 2017



Treasury

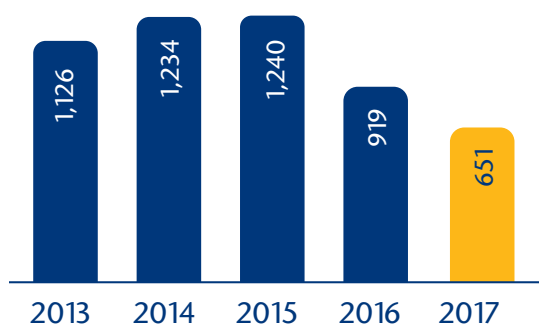
The Group's foreign currency exposure mainly comes from purchases of finished goods. The currency exposure is minimised by partially hedging the net exposure for the next six months, in line with the hedging period that was allowed under the Foreign Exchange Control guideline enforced by Bank Negara Malaysia. The permitted range on the hedge ratio within the six months of transaction date is 50 percent to 95 percent. This strategy is to avoid any ineffective hedges when the cash flow forecast changes before settlement date.

2018 Outlook

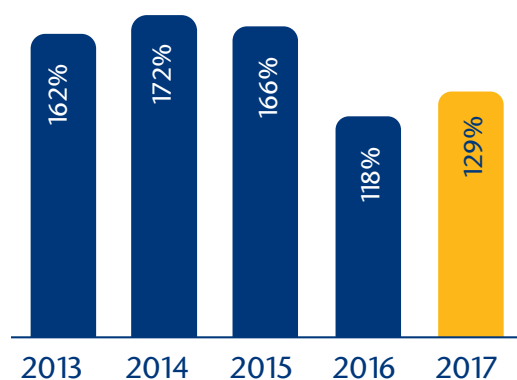
Looking ahead to 2018, the Group remains very concerned of the high illegal cigarette trade incidence of 58.3 percent and the contraction of the legal market as a consequence. We are encouraged by the Government's decision not to impose any excise increase for two years now as a means to help address this escalating problem and we hope going into 2018, we will see also renewed rigour on the part of the Government to drive enforcement to reduce illegal cigarettes incidence down to a sizeable percentage. As a corporate citizen with more than a hundred years of proud legacy in Malaysia, we remain committed to our investments in the country.



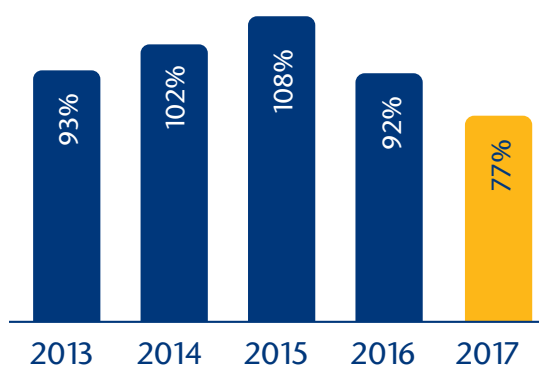
Profit from Operations (RM million)



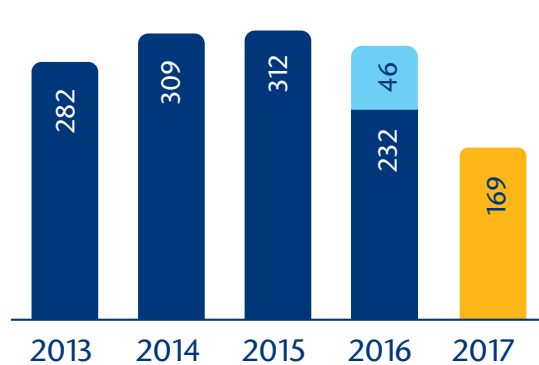
Return on Equity



EBITDA Cash Conversion



Dividend per Share (sen)



● Special Dividend

Five Year Performance Highlights

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 Note (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. The restructuring was in line with The Group's efforts towards realizing 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).

2017

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

Corporate Profile



British American Tobacco Malaysia is the leading tobacco company in Malaysia with approximately 53.9 percent of market share in the legal market. This strong position is built upon a portfolio of high-quality tobacco brands, that are developed based on a diverse set of consumer needs. Our portfolio includes world-famous brands like DUNHILL, KENT, PETER STUYVESANT, PALL MALL and ROTHMANS.

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

We currently employ 497 employees directly (indirectly 1576 via our external distributors and dedicated shared services) who are involved in a wide spectrum of disciplines, from generating insights, developing brands and making these available on a national level. In addition, we also set leading edge talent development practices as well as ensure a strong foundation of corporate governance and shareholder relations.

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

BAT Malaysia's brand success recognised at Brandlaureate Award



BAT MALAYSIA BAGS 2 ACCOLADES



BAT, UNIT BAG 'TOP EMPLOYER' AWARDS

Companies bags nod and has continued effort to become more vibrant, progressive firm, B&P



英美烟草荣获最佳雇主



BAT Malaysia diiktiraf Majikan Terbaik 2018



BERSEKUTUAN dengan majlis anugerah BAT Malaysia dan Perindustrian Perdagangan Antarabangsa, BAT Malaysia telah menerima dua anugerah sebagai Majikan Terbaik 2018.

Salah satu anugerah tersebut adalah 'Majikan Terbaik' yang diberikan oleh Majlis Perindustrian Perdagangan Antarabangsa (MPPA) kepada BAT Malaysia.

Anugerah kedua adalah 'Majikan Terbaik' yang diberikan oleh Majlis Perindustrian Perdagangan Antarabangsa (MPPA) kepada BAT Malaysia.

BAT Malaysia mengucapkan terima kasih kepada semua pihak yang telah menyokong dan memberi kerjasama dalam pencapaian ini.

British American Tobacco Malaysia In The News

BAT Malaysia triples 2Q net profit, pays 43 sen dividend

BY NIKHIL K. L.

KUALA LUMPUR, Aug 15 (Bernama) — British American Tobacco (BAT) Malaysia announced today that its second-quarter (2Q) results tripled its net profit to RM10.3 million, up from RM3.4 million in the same period last year. BAT also announced a dividend of 43 sen per share.

The 2Q net profit for BAT Malaysia tripled from RM3.4 million in 2Q 2017 to RM10.3 million in 2Q 2018. Revenue for the same period grew by 1.1% to RM104.1 million.

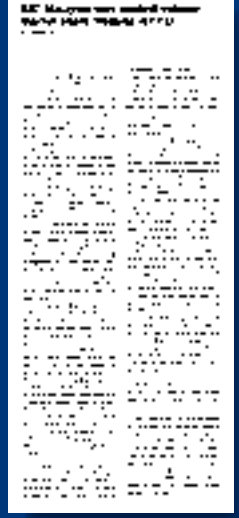
Consolidated revenue for BAT Malaysia for the 2Q 2018 was RM104.1 million, up from RM102.8 million in 2Q 2017. Revenue for the 2Q 2018 was RM104.1 million, up from RM102.8 million in 2Q 2017.

The 2Q 2018 net profit was RM10.3 million, up from RM3.4 million in 2Q 2017. Revenue for the 2Q 2018 was RM104.1 million, up from RM102.8 million in 2Q 2017.

The 2Q 2018 net profit was RM10.3 million, up from RM3.4 million in 2Q 2017. Revenue for the 2Q 2018 was RM104.1 million, up from RM102.8 million in 2Q 2017.



14. Industry Excellence Award – Sime Darby Bhd, KPI Healthcare Bhd, Tenaga Nasional Bhd, British American Tobacco (Malaysia) Bhd, Telekom Malaysia Bhd, Top Glove Corporation Bhd, Nestlé (Malaysia) Bhd, Petronas Dagangan Bhd, Sunway Construction Group Bhd and LPI Capital Bhd



Awards and Achievements

We continue to strive in ensuring all aspects of our business conduct 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 below.



2017

1. Certified as a Top Employer-Malaysia by the Top Employer Institute, an independent global certification company.
2. Winner of the CG Award for Industry Excellence in the Consumer Goods category at the MSWG-ASEAN Corporate Governance Awards 2017 for the third consecutive year in a row.
3. Winner of Excellence in Employee Engagement (GOLD), Excellence in Employer Branding (SILVER) and Excellence in Leadership Development (SILVER) and Excellence in Innovative Use of HR Tech (Bronze) at the HR Excellence Awards 2017.
4. Winner of Most Sustainable Brand Award in the Business and Community Leadership category and winner of the Brand Transformational Leadership Award (Erik Stoel) at The BrandLaureate BestBrands Award 2016-2017.
5. Winner of Malaysia's Best Employer Brand Awards from the Employer Branding Institute.
6. Commercial Marketers & Distributors Sdn Bhd, a subsidiary of British American Tobacco Malaysia (Berhad) was awarded Best Tax Payer Award 2016 in the Private Limited Company category by the Inland Revenue Board of Malaysia.
3. Received the Pioneer Members Award Tribute to *Selangor Members of 45 years and above* from the Federation of Malaysian Manufacturers Selangor Branch as recognition of our longstanding membership with them.
4. Highest Return on Equity in the Consumer Product Sector for the Edge Billion Ringgit Club Awards 2015.
5. Silver award for Employer of Choice Award at the Malaysia HR Awards in partnership with JobStreet.com.
6. Top 10 public listed companies in Malaysia recognised for their excellence in corporate reporting at the Building Trust Awards 2015 by Pricewaterhouse Cooper.
7. Top 20 Companies shortlisted for their *Reporting within An Annual Report* at the ACCA Malaysia Sustainability Reporting Awards 2015.
8. Winner of the CG Award for Industry Excellence in the Consumer Services and Goods category at the MSWG-ASEAN Corporate Transparency Index, Findings and Recognition 2015 – The Malaysian Chapter.

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, Standards by Sustainalytics, a responsible investment research firm.
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.

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 3 years in the Consumer Product Sector for the seventh consecutive year at The Edge Billion Ringgit Club Awards 2016.
3. Winner of the Best Graduate Recruitment Programme (GOLD), Best Use of Recruitment Technology (SILVER), Best Staff Referral Programme (SILVER) and Best Candidate Experience by a Corporate HR Team (BRONZE) at the Asia Recruitment Awards 2016.
4. Winner of Excellence in Recruitment (SILVER), Excellence in Innovative Use of HR Technology (SILVER) and Excellence in Employee Development (BRONZE) at the HR Excellence Awards 2016.

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.

Corporate Event Highlights

JANUARY

- PETER STUYVESANT Limited Edition Pack (LEP) continues



FEBRUARY

- Financial analyst briefing on Fourth Quarter 2016 financial results

MARCH

- Fishing competition and Go-Kart outing organised by BAT Malaysia Sports Club
- Corporate Annual Kick Off 2017
- Commercial Marketers & Distributors Sdn Bhd awarded Best Tax Payer Award 2016 in the Private Limited Company category by the Inland Revenue Board of Malaysia



APRIL

- Financial analyst briefing on First Quarter 2017
- Conducted the Company's Annual Treasure Hunt



- Launched Special Edition Pack (DUNHILL)
- British American Tobacco Malaysia's Annual General Meeting (AGM)



MAY

- Awarded Malaysia's Best Employer Brand Awards from the Employer Branding Institute



JUNE

- Launched Limited Edition Pack (DUNHILL Red)
- British American Tobacco Malaysia's Chinese New Year Celebration



JULY

- Financial analyst briefing on Second Quarter 2017 financial results
- British American Tobacco Malaysia's Hari Raya Lunch Celebration



AUGUST

- Eat & Drink session in celebration of Virginia Park



SEPTEMBER

- Opening of new Headquarter Office



OCTOBER

- Introduced ROTHMANS
- Winner of four awards in various categories at the HR Excellence Awards 2017
- Financial analyst briefing on Third Quarter 2017 financial results



NOVEMBER

- Company Annual Dinner and Dance themed *BAT Arena*, which also honoured long-serving and retiring employees



- Launch of new British American Tobacco Malaysia Warehouse



DECEMBER

- Awarded scholarships to 33 scholars pursuing higher education



- Winner of the CG Award for Industry Excellence in the Consumer Goods category at the MSWG-ASEAN Corporate Governance Awards 2017

- Certified as a Top Employer-Malaysia by the Top Employer Institute



- *Deck the Halls* Christmas Competition



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



Chapter 3:

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

Datuk Christine Lee Oi Kuan
(LS0009536)

Tel: +60 (3) 2720 8188

Fax: +60 (3) 2720 8106

E-mail: christine_lee@bat.com

Registered Office

Level 19, Guoco Tower

Damansara City

No. 6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: +60 (3) 2720 8188

Fax: +60 (3) 2720 8106

Email: bat_malaysia@bat.com

Company Website

www.batmalaysia.com

Share Registrar

Tricor Investor & Issuing House Services Sdn Bhd

Unit 32-01, Level 32, Tower A

Vertical Business Suite, Avenue 3

Bangsar South, No. 8, Jalan Kerinchi

59200 Kuala Lumpur

Tel: +60 (3) 2783 9299

Fax: +60 (3) 2783 9222

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

Stock Exchange Listing

Main Market of Bursa Malaysia Securities Berhad

Listed Since : 27 October 1961

Stock Code : 4162

Stock Name : BAT

Corporate Structure



Board of Directors



From Left :

Dato' Chan Choon Ngai

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

Datuk Zainun Aishah Binti Ahmad

Datuk Oh Chong Peng

Datuk Christine Lee Oi Kuan

Erik Stoel

Ricardo Martin Guardo

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 66, 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 Limkokwing 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:

- 5/5

Present Directorship(s):

Listed Entities

- MWE Holdings Berhad
- Lion Diversified Holdings Berhad

Other Public Companies:

- Nil

Working Experience:

- Tan Sri Dato' Seri Dr Aseh is active in community service with his roles as Trustee and Chairman of the 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. He was the Chairman of the University Council of Limkokwing

University of Creative Technology from 2008 to 2017. Tan Sri Dato' Seri Dr Aseh was appointed as the Chairman of Social Security Organisation in August 2017.

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

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

HENDRIK STOEL (ERIK)

Non-Independent Executive Director
(Managing Director)

Aged 49, 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:

- 5/5

Present Directorship(s):

Listed Entity

- Nil

Other Public Companies

- Nil

Working Experience:

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

- Erik was the Brand Manager in Ukraine when first joined the BAT Group in 1995.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

DATUK OH CHONG PENG**PJN, JSM**

Independent Non-Executive Director

Aged 73, 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:

- 3/5

Present Directorship(s):

Listed Entities

- Malayan Flour Mills Berhad
- Dialog Group Berhad
- WCE Holdings Berhad
- PUC 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), Nanyang Press Holdings Berhad (2001-2005), Alliance Financial Group Berhad (2006-2017) and was a board member of Rashid Hussain Berhad Group of Companies (1998-2003) and Star Publications (M) Bhd (1987-2009).

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

DATO' CHAN CHOON NGAI
DSNS

Independent Non-Executive Director

Aged 62, 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:

- 5/5

Present Directorship(s):

Listed Entity

- Nil

Other Public Companies

- Nil

Working Experience:

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

- Dato' Chan joined Rothmans of Pall Mall (Malaysia) Berhad in 1979, as a Production Management Trainee and held various positions in the production division including Production Executive Make and Pack (1980-1982), Personal Assistant to Rothmans International World Production Director, Rothmans International United Kingdom (1982-1984), Acting Factory Manager Rothmans of Pall Mall (Malaysia) Berhad (1984-1986), Factory Manager Rothmans of Pall Mall (Malaysia) Berhad (1986-1994) and Production Director (Designate) of Rothmans of Pall Mall (Malaysia) Berhad (1994-1995). Dato' Chan was then appointed Production Director of the then Rothmans of Pall Mall (Malaysia) Berhad in October 1995. He was a director of Tien Wah Press Holdings Berhad from May 1997 to June 2003.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

DATUK ZAINUN AISHAH BINTI AHMAD
KMN, PMP, DPMP, JSM, PJN
 Independent Non-Executive Director

Aged 71, 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:

- 5/5

Present Directorship(s):

Listed Entities

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

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

DATUK CHRISTINE LEE OI KUAN
DPSM

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

Aged 59, 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:

- 5/5

Present Directorship(s):

Listed Entity

- Nil

Other Public Companies

- Nil

Working Experience:

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

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

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

RICARDO MARTIN GUARDO

Non-Independent Executive Director
(Finance Director)

Aged 40, 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:

- 5/5

Present Directorship(s):

Listed Entity

- Nil

Other Public Companies

- Nil

Working Experience:

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

Manager from February 2008 to February 2011.

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

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

Leadership Team



From Left :
Karl Yap Chee Keong
Erik Stoel
Ricardo Martin Guardo
Jonathan David Jones
Datuk Christine Lee Oi Kuan
Samanmalee Priyanvada Chandrasiri

Profile of Leadership Team

HENDRIK STOEL (ERIK)

Managing Director

Aged 49, Dutch (Male)



Date Appointed to the Leadership Team:

- 1 June 2016

For details of Erik Stoel's profile, please refer to page 39 of this Annual Report.

RICARDO MARTIN GUARDO

Finance Director

Aged 40, Argentinian (Male)



Date Appointed to the Leadership Team:

- 1 September 2016

For details of Ricardo Martin Guardo's profile, please refer to page 44 of this Annual Report.

DATUK CHRISTINE LEE OI KUAN

Legal and External Affairs Director

Aged 59, Malaysian (Female)



Date Appointed to the Leadership Team:

- 1 January 2006

For details of Datuk Christine Lee's profile, please refer to page 43 of this Annual Report.

KARL YAP CHEE KEONG

Marketing Director

Aged 44, 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 was appointed as Marketing Director of British American Tobacco (Malaysia) Berhad (Company) on 1 October 2016.
- Prior to his appointment, he was the Head of Marketing in British American Tobacco (BAT) Philippines.
- Before his move to Philippines, he held various positions in the Company as Area Head of Strategy, Planning & Insights and subsequently Area Head of Trade.
- In 2006, he joined the International Brand Group in London as Senior International Brand Manager.
- Karl Yap first joined the Company as a Management Trainee in 1998 and held various positions in Marketing.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

SAMANMALEE PRIYANVADA CHANDRASIRI

Human Resources Director

Aged 36, 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:

- Samanmalee was appointed as Human Resources Director of British American Tobacco (Malaysia) Berhad on 1 March 2016 and has now been in service with the British American Tobacco (BAT) Group for 16 years.
- Prior to her current role, she was Human Resources Director of BAT Sri Lanka since 2013 where she facilitated the implementation of a more sustainable business model.
- Before her move to Sri Lanka, she was the Organisation Effectiveness Advisor for Bentoel Group in Indonesia.
- She first joined the BAT Group as a Management Trainee in BAT Sri Lanka and held various Human Resources roles in Sri Lanka and South Asia including Area Head of Talent SAA.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

JONATHAN DAVID JONES

Operations Director

Aged 53, 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:

- Jonathan was appointed as Operations Director of British American Tobacco (Malaysia) Berhad on 15 November 2016.
- Prior to his current role, he was the British American Tobacco (BAT) Group Head of Environment Health and Safety from May 2014 to November 2016.
- In 2006, Jonathan 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, Jonathan drove efficiencies and cost reduction through a focus on Continuous Improvement and reduction of waste. He has further developed his business knowledge through time spent working in Research & Development (R&D), Marketing and as an International Auditor.

- Jonathan joined BAT at its UK Headquarters in 1993 as a Project Engineer. He has held various roles within the BAT Group within Manufacturing, R&D, Supply Chain and Marketing.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2017.

Chapter 4:

Governance



Standards of Business Conduct Statement

British American Tobacco (Malaysia) Berhad and subsidiaries (the Group) is committed to upholding high standards of business conduct in operating its business. It is a fundamental policy of the Group to require 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 Group's Standards of Business Conduct (Standards) are an integral part of the Group's principles of corporate governance and are designed to:

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

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



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

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

The areas covered by the Standards are:

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

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.

For the year 2017, 31 employees made declarations on conflict of interest, of which 22 consisted of employees having family members working within the Group, four consisted of employees having family members working within the British American Tobacco p.l.c Group and five employees having family members working with service providers of the Group.

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 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. In 2018, the Group rolled out a new *Speak Up* hotline and portal that is managed by a third party, which provides employees and business partners with additional channels via telephone and online to raise concerns.

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 Group's sound corporate governance practices and will increase investors' confidence in the Group.

The Group had also put in place the Procedures on Incident Reporting and Investigation (Incident Procedures). The Incident Procedures is made available to all employees via the Group's intranet and informed to all employees during corporate on-boarding 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 Group and non-employee who is a business partner/ service provider of the Group in a prompt and effective manner. The evaluation of any incidences reported is conducted by a formal evaluation committee comprising a majority of the Group's Leadership Team (EVT). The EVT is tasked to effectively drive and evaluate the investigation of any reported incident and decide on appropriate action to be taken arising from the investigation and is guided in its review of all investigation of incidents reported by a set of standard operating procedures (EVT SOP). The EVT SOP amongst others sets out clearly the roles and responsibilities of the EVT, the Head of Investigation, the Head of Legal and the timelines for the review to be completed to ensure that speedy action is taken after an incident has been reported.

All incidents which are reported will be investigated by an investigation team mandated by the EVT to ensure that all cases which have been reported or discovered are investigated upon promptly. The resulting reports of investigation are then forwarded to the EVT for review and evaluation and if the case warrants it, police reports will be made, domestic inquiries will be conducted and appropriate disciplinary 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 Group will be reported to the Audit Committee of British American Tobacco (Malaysia) Berhad and further submitted to the Regional Audit Committee for the British American Tobacco p.l.c's Main Board Audit Committee. The Group maintains a register of all whistleblowing and breach of Standards incidences.

Supplier Code of Conduct

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

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

Statement on Corporate Governance

Corporate Governance Framework

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

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

The Group's corporate governance framework is directed towards achieving its business objectives in a manner which is responsible and in accordance with high standards of honesty, transparency and accountability. The Company's corporate governance framework is set out in the British American Tobacco Malaysia's Code of Corporate Governance (BATM Code), which has been endorsed, developed and continuously enhanced based on the compliance of the rules and regulations and observation of the principles and best practices outlined in the following:

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

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

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

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

Principle A: Board Leadership and Effectiveness

I. Board Responsibilities



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

Roles of The Board

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

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

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

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

Leadership Roles and Responsibilities

Roles	Key Responsibilities
Chairman	The Chairman is responsible for the efficient and effective functioning of the Board.
Managing Director	The Managing Director assumes overall responsibility for the execution of the Group's strategies in line with the Board's direction and drives the Group's businesses and performance towards achieving its vision and goals.
Executive Directors	The Executive Directors are responsible for the day-to-day management of financial and operational matters in accordance with the strategic direction established by the Board.
Non-Executive Directors	The Non-Executive Directors are responsible for acting as a check and balance on the Company's Board and management by providing independent and unbiased views and also act as caretakers of minority interest.
Leadership Team	The Board is assisted by the Senior Management of the Company, namely the Leadership Team. The Leadership Team consists of senior employees holding the positions of Managing Director, Legal and External Affairs Director, Finance Director, Marketing Director, Operations Director and Human Resources Director. The responsibilities and authorities of the Leadership Team are clearly defined in the Company's Corporate Authority Limit, which is read with the Statement of Delegated Authorities. The Leadership team is tasked with the responsibility of managing of the Company's business, implementing the Board's strategies, policies and decisions. The relevant member of the Leadership Team will also be invited to attend Board meetings to advise and furnish the Board with information and clarification as and when required on items in the agenda tabled to the Board and Board Committees.

Roles of the Chairman and Managing Director

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

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

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

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

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

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

Role of the Company Secretary

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

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

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

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

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

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

Access to Information and Advice

In the discharge of their duties, all Directors have direct access to the Senior Management and have unrestricted as well as immediate access to information relating to the Company's business affairs.

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

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

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

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

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

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



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

BATM Code

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

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

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

Meeting and Time Commitment

Board

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

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

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

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

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

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

Board Committees

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

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

(c) Remuneration Committee (RC)

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

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

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

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

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

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

(a) Audit Committee (AC)

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

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

(b) Nomination Committee (NC)

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

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

Sub-Committees

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

Sub-Committees	Roles
Executive Compensation Committee (ECC) Chairman: Managing Director	Reviews and approves all elements of remuneration, compensation payments, bonuses, rewards and benefits which include <i>inter alia</i>, the elements set out below, save and except salaries of employees in the Company which are reviewed and approved by the relevant Head of Functions with the Human Resources Director. The current members include the Managing Director, Finance Director and Human Resources Director. The Company Secretary acts as the Secretary of the ECC. 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.
Corporate Social Responsibility (CSR) Committee Chairman: Managing Director	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. The members are the Company's Leadership Team and the Corporate Affairs Manager act as the Secretary to the CSR Committee. The CSR Committee met twice in the financial year to deliberate on among others, the review of the Company's current sustainability framework and strategy and the update on the Company's 2017 sustainability initiatives. For details of the corporate responsibility activities, please refer to pages 108 to 138 of this Annual Report.
Risk Management Team (RMT) Chairman: Finance Director	Reviews and updates the Leadership Team and AC on the Company's Enterprise Risk Management Programme, ongoing status of the key risks response measures and status of the business continuity plans. The RMT meets at least twice annually. The Committee met twice during the financial year ended 31 December 2017 to deliberate on among others, the review of the Risk Register, key learnings from the conducted Business Continuity Plan tests as well as risk mitigation plans. For details of the Company's Enterprise Risk Management activities in 2017, please refer to pages 78 to 85 of this Annual Report.

Dealing in Securities

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

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

Directors' Training

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

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

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

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

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

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



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

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

Ethical and Procedural Standards

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

a. Standards of Business Conduct

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

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

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

b. Supplier Code of Conduct

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

c. Code of Practice on Sexual Harassment

Ensures all employees are treated with respect and dignity regardless of gender and to outline that any form of sexual harassment, which disrupts or interferes with the work performance and dignity of another will not be tolerated.

d. Competition Compliance Guidelines

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

e. Employment Principles

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

f. Guidelines on Employee Engagement

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

g. Guidelines on Dawn Raid

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

h. International Marketing Principles

An internal framework to govern all aspects of tobacco marketing.

i. Policy on Business Security

Provides for effective business focused security throughout the Company.

j. Policy on Data Protection

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

k. Policy on Indirect Procurement

Outlines the processes for obtaining the best overall value and quality for each amount spent and to ensure timely delivery of goods and services to meet the Company's business requirements.

II. Board Composition



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

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

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

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

Board Independence

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

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

Tenure of Independent Director

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

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

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

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

Senior Independent Non-Executive Director

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

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

Tel: +603 2720 8188

Fax: +603 2720 8106

Email: ocpeng@bat.com

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



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

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

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

III. Remuneration



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

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

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

The RC is responsible for reviewing and recommending to the Board, the remuneration package for the Executive Directors. For the Executive Directors of the Company, corporate and individual performance are rewarded through the use of an integrated pay benefits and bonus structure and reflects the competitive nature of the Group's operations in order to contribute to its strategy. Executive Directors who are full time employees, receive no additional compensation for services as a Director of the Board. On an annual basis, the RC considers market competitiveness, business results and individual performance in evaluating the Executive Directors' remuneration.

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

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

a. Fees

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

b. Salaries

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

c. Other Emoluments*

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

d. Benefits-in-kind**

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

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

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

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

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



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

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

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

Principle B: Effective Audit and Risk Management

I. Audit Committee



There is an effective and independent Audit Committee.

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



The Audit Committee comprise solely of Independent Directors.

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

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

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

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

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

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

II. Risk Management and Internal Control Framework



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

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

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

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

Internal Audit



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

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

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

Compliance With Applicable Financial Reporting Standards

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

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

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

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

Related Party Transactions

The Company has an internal compliance framework to ensure it meets its obligations under the Listing Requirements of Bursa Securities including obligations relating to related party transactions. The Board, through its AC, reviews all related party transactions. The Directors further acknowledge that by declaring their conflict of interests in any transaction, they are to abstain from deliberation and voting on the relevant resolutions at the Board or any general meeting convened to consider the matter.

There are procedures established by the Company to ensure that all related party transactions are undertaken on an arm's length basis and on normal commercial terms, consistent with the Company's usual business practices and policies, which are generally not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.

The internal framework pertaining to the governance of related party transactions is summarised below:

- a. a list of related parties of the Company will be circulated to the Directors and management of the Company to notify that all related party transactions are required to be undertaken on an arm's length basis and on normal commercial terms and not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.
- b. all related party transactions will be reported to the AC of the Company. Any member of the AC of the Company may as he deems fit, request for additional information pertaining

to the transaction including from independent sources or advisers.

- c. all recurrent related party transactions which are entered into pursuant to the shareholders' mandate for recurrent related party transactions will be recorded by the Company in a register or records maintained by the Company.
- d. all recurrent related party transactions entered into pursuant to the shareholders' mandate shall be reviewed by the British American Tobacco p.l.c Group Internal Audit to ensure that the relevant approvals have been obtained and the review procedures in respect of such transactions are adhered to.
- e. the Management updates the Board on a quarterly basis on all recurrent related party transactions and in the event there are any discrepancies or queries, the AC shall direct the British American Tobacco p.l.c Group Internal Audit to carry out investigation pertaining to the discrepancies or queries.

The Company proposed to seek its shareholders' approval on the proposed new and renewal of shareholders' mandate for the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with related parties ("Proposed New and Renewal of the Recurrent Related Party Transactions Mandate") at the Company's forthcoming 57th AGM. The Proposed New and Renewal of the Recurrent Related Party Transactions Mandate, details are disclosed in the Circular to Shareholders dated 21 March 2018 sent together with the abridged version of this Annual Report, if approved by the shareholders, would be valid until the conclusion of the Company's next AGM.

Independence of External Auditors

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

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

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

The AC is tasked with authority from the Board to review any matters concerning the appointment and re-appointment, audit fee, resignation or dismissal of the external auditors and review and evaluate factors relating to the independence of the external auditor and assist them in preserving its independence.

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

I. Communication with Stakeholders



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

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

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

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

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

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

The primary contact for investor relation matters is as follows:

Name: Ricardo Martin Guardo

Designation: Finance Director

Email: fdoffice_malaysia@bat.com

II. Conduct of General Meetings



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

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

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

at the AGM itself or thereafter where the shareholders will be contacted and provided with the answers. At every AGM, a helpdesk will also be set up as a contact point for shareholders' enquiries.

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

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

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

Poll Voting

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

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

COMPLIANCE STATEMENT

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

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

Other Compliance Information

1. Utilisation of Proceeds

There were no proceeds raised by British American Tobacco (Malaysia) Berhad (the Company) from any corporate proposal during the financial year ended 31 December 2017.

2. Audit and Non-Audit Fees

The amount of audit fees paid or payable to the external auditors, KPMG PLT for services rendered to British American Tobacco (Malaysia) Berhad and subsidiaries (the Group) and the Company for the financial year ended 31 December 2017 amounted to RM435,000 and RM278,000 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 2017 amounted to RM10,000 and RM10,000 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 2017 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 56th Annual General Meeting held on 18 April 2017, 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 27 March 2017). The RRPTs conducted during the financial year ended 31 December 2017 pursuant to the said mandate are disclosed in pages 190 to 193 in this Annual Report.

Audit Committee Report

The Audit Committee (AC) of British American Tobacco (Malaysia) Berhad (the Company) is pleased to present the AC Report for the financial year ended 31 December 2017.

Composition and Meetings

During the financial year ended 31 December 2017, 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	3/4
Datuk Zainun Aishah Binti Ahmad (Member)	Independent Non-Executive Director	4/4
Dato' Chan Choon Ngai (Member)	Independent Non-Executive Director	4/4

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

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

Terms of Reference

The Terms of Reference of the AC is available on the Corporate Governance section of the Company's website at www.batmalaysia.com.

Summary of Activities

The AC carried out the following activities during the financial year ended 31 December 2017:

1. Financial Reporting

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

2. Internal Audit

- Reviewed and approved the 2017 internal audit plan to ensure adequate scope and comprehensive coverage over the activities of the Group and adequate resources within the internal audit team to carry out audit works.
- Reviewed the internal audit reports presented by the internal auditors at the quarterly AC meetings to ensure that appropriate actions had been taken to implement the audit recommendations.
- Reviewed and enhanced the internal control processes and considered recommendations including responses from management, before proposing those control weaknesses be rectified and recommendations for improvements be implemented.

3. External Audit

- a. Reviewed the external auditors' report which summarised key findings arising from the audit of the financial statements for the year ended 31 December 2016, the review of the supplementary financial information on the breakdown of realised and unrealised retained earnings and the review of the Directors' Statement on Risk Management and Internal Control.
- b. Reviewed with the external auditors, their audit plan for the financial year ended 31 December 2017, outlining audit materiality, audit scope, methodology and timing of audit, key milestones, involvement of IT specialist, audit focus area and proposed fees for the audit services rendered by the external auditors for the financial year ended 31 December 2017.
- c. Reviewed the written assurance provided by external auditors in respect of their independence.
- d. Met with the external auditors twice without the presence of the Executive Directors and management during the year under review.

4. Risk Review

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

5. Related Party Transactions

- a. Reviewed and discussed reports on related party transactions (RPT), recurrent RPT (RRPT) and possible conflict of interest transactions to ensure that all RPT and RRPT were undertaken on arm's length basis and on normal commercial terms, consistent with the Company's usual business practices and policies, which are generally not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.
- b. Monitored the threshold of the RPT and RRPT to ensure compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.
- c. Reviewed and recommended to the Board for approval, the Circular to Shareholders in relation to the proposed renewal of shareholders' mandate for the Company and its subsidiaries to enter into RRPT of revenue or trading nature with related parties.

6. Annual Reporting

Reviewed and endorsed the Statement on Corporate Governance, AC Report, Standards of Business Conduct Statement, Statement on Risk Management and Internal Control and Corporate Social Responsibility Committee Report for Board's approval and inclusion in the Annual Report 2016.

7. Other Activities

- a. Deliberated on reports on whistleblowing and breaches of Standards of Business Conduct incidents.
- b. Deliberated on security and safety matters and loss reports.
- c. Deliberated on compliance sign-off for the Standards of Business Conduct, Internal Control and Records Management.
- d. Deliberated on environmental, health and safety review reports.
- e. Conducted AC self-evaluation assessment on the performance of the AC.
- f. Reviewed the proposal for utilisation of equipment sale proceeds.

Internal Audit Function

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

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

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

BAT p.l.c. Group Internal Audit undertakes risk-based audit reviews towards the planning and conduct of audits which were consistent with the Group's established and accepted framework in designing, implementing and monitoring of its control systems. As such, the following types of audit exist, namely Process Audits (including IT), Audits of Change, End Market Accountability & Operations

Audits and Other Audits. Process Audits have a scope of an end-to-end process across multiple BAT global entities. Audits of Change are focused on significant business change initiatives. The core scope of the end market accountability audits considers the Groups Top risks, whilst the Operations Audits continue to give comfort over the core of our business, the ability to produce high quality finished goods in line with the evolving needs of the business and the regulatory agenda. Other Audits are audits that are conducted arising from direct requests, either due to an incident, management request or from the AC.

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

The Group's Internal Audit provides independent assessment on the effectiveness and efficiency of internal controls utilising a global audit methodology and tool to support the Group's corporate governance framework and an efficient and effective global risk management framework to provide assurance over the Group's strategy delivery and change management initiatives. The annual audit planning cycle takes direct input from both the risk register, described above, and the AC. In turn, the AC formally approves the scope of work for the year and reviews the plan on a quarterly basis.

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

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

During the financial year 2017, the subject matter of audits and findings conducted by the Group's Internal Audit were as follows:

- a. BAT Malaysia Factory Closure & Volume Transfer Audit
- b. Enterprise Risk Management¹
- c. Integrated Business Performance Management¹
- d. Requisition to Pay¹
- e. Record to Report¹
- f. Order to Cash¹
- g. IT infrastructure¹
- h. Cyber Threat¹

The total cost incurred for the Group's Internal Audit for the financial year ended 31 December 2017 amounted to RM34,000.

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

Nomination Committee Report

The Nomination Committee (NC) was established 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 each individual director annually to ensure the Board has an appropriate balance of skills, knowledge, expertise, experience and core competencies from its members.

Composition and Meetings

The NC comprises of two members, all of whom are Non-Executive Directors and is chaired by an Independent Director. During the financial year ended 31 December 2017, the NC met once. The composition of the NC and the attendance record of its members are as follows:

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

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

Terms of Reference

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

Board Appointments

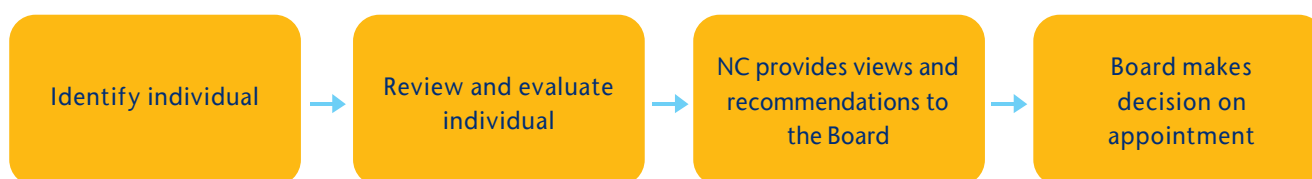
The Group is committed to maintaining a transparent process for the selection, nomination and appointment of suitable candidates to the Board.

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

The NC also takes into consideration the following:

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

The Board appointment process is illustrated below:



Re-appointment and Re-election of Directors

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

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

- a. Re-appointment pursuant to Article 107.1 of the Constitution of the Company:
 - i. Datuk Zainun Aishah Binti Ahmad
- b. Re-election pursuant to Articles 97(1) and (2) of the Constitution of the Company:
 - i. Datuk Oh Chong Peng
 - ii. Dato' Chan Choon Ngai

Annual Assessment

Under the Malaysian Code of Corporate Governance 2017, the Board should undertake a formal and objective annual evaluation to determine the effectiveness of the Board, its committees and each individual director.

The Board, with the assistance of the NC, undertakes an annual evaluation of its performance and the performance of each of its committees as a whole. For assessment year 2017, the process is internally facilitated and conducted through questionnaires circulated to the Board covering a variety of areas such as board skills matrix, board structure and included Director's self and peer review on fit and properness, contribution and performance, calibre and personality.

The questionnaires were provided to Directors to review their own performance, the effectiveness of the Board as a whole, the contribution of each individual Director, independency of Independent Non-Executive Director and the Board's mix and skillset.

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

The results of the evaluation show that the Board functions well and confirms the effectiveness of each Committee. Individual director contributes effectively to the right mix of the Board with balance of skills, knowledge, expertise and experience complimentary to each other.

Summary of Activities

During the financial year under review, the NC held one meeting and deliberated on the following matters:

- a. Recommended the re-election and re-appointment of Directors at the Fifty-sixth AGM to the Board for consideration.
- b. Reviewed the continuation of Datuk Oh Chong Peng's designation as Independent Director 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 2016.
- d. Reviewed the NC Report for inclusion into 2016 Annual Report.

Statement on Risk Management and Internal Control

Responsibility

The Board recognises the importance of sound risk management practices and internal controls to safeguard shareholders' investments and the Group's assets. The Board affirms its overall responsibility for the Group's system of risk management and internal control which includes the establishment of an appropriate control framework and environment as well as reviewing its adequacy and integrity. The Board as such is responsible for determining the nature and extent of the strategic risks that the Group is willing to take to achieve its objectives, whilst in parallel maintaining sound risk management and systems of internal control. By virtue of the controversial nature of the industry in which we operate, the Board does not consider its strategic risk appetite to be high, and it seeks to minimise risks at an operational level.

The Board tasks management to identify and assess the risks faced by the Group, and thereafter design, implement and monitor appropriate internal controls to control and mitigate those risks. The Group has in place a systematic application of processes (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.

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

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

Enterprise Risk Management

OBJECTIVES

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

The Group’s risk management is led by the Finance Director and supported by a Risk Management Team comprising 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.



Five Phase Enterprise Risk Management Process (as shown in Figure 1)

(1) Risk Identification

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



Figure 1

(2) Risk Evaluation

The identified business risks are then evaluated to determine their impact on the relevant business strategies/objectives and whether the risks are likely to occur (as shown in Figure 2):

- 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.

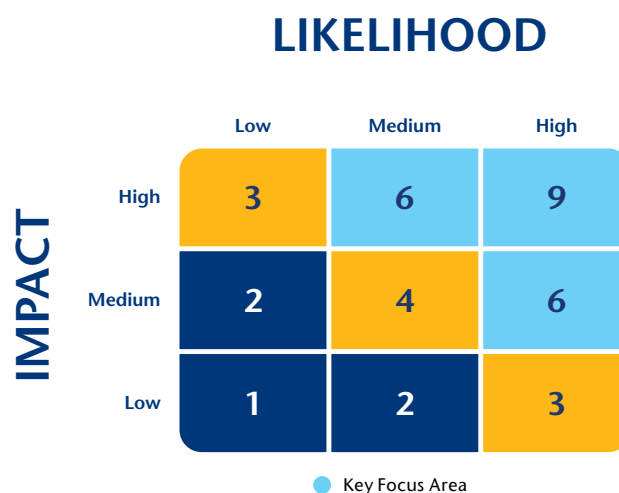


Figure 2 - Risk Heat Map

(3) Risk Mitigation

In completing the Risk Register, Risk Owners are responsible for identifying action plans to manage and mitigate the risks, together with a timeline for completion of the actions. The Risk Owners are typically senior managers of the Group.

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

Risk Management Measures	Sub-category	Description
Accept	Acceptance	Accept the risk as it is rated, with no further action and maintain the control procedures that are already in place.
Retain	Loss prevention	Implement pro-active risk mitigation (control measures and practices) to reduce likelihood of the risk crystallising.
	Loss reduction	Implement reactive risk mitigation (control measures and practices) to reduce the impact and consequences if a risk materializes.
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 actions/mitigation plans are communicated to the Audit Committee bi-annually.

(5) Risk Review

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

Business Continuity and Crisis Management

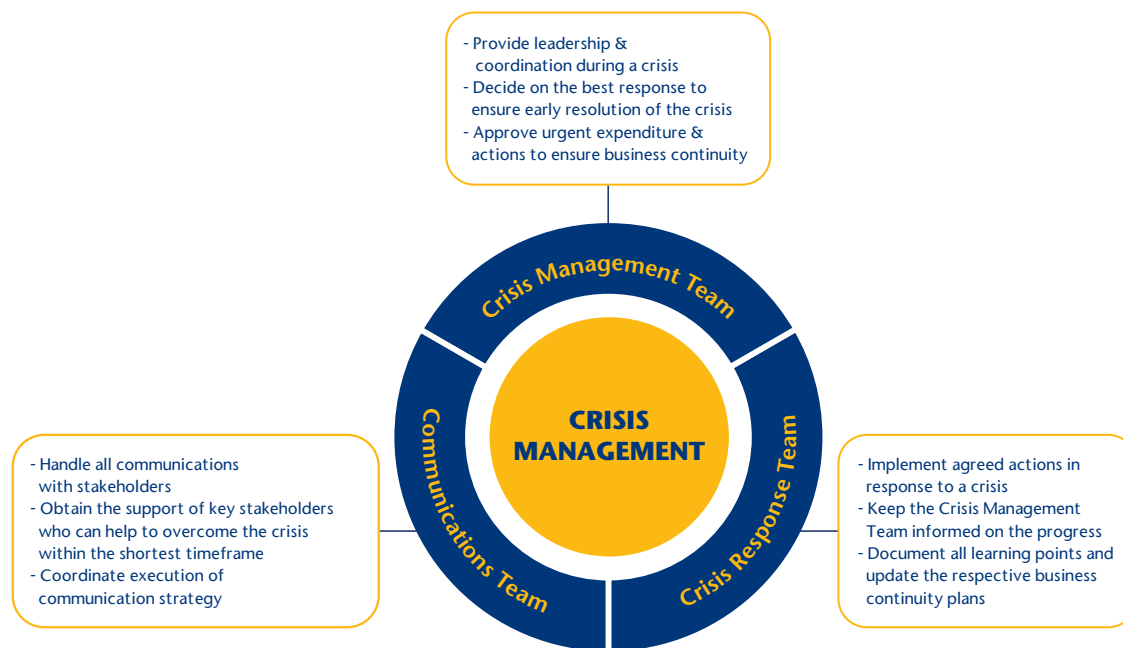


Figure 3

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

In 2017, the Group has fourteen Business Continuity Plans (BCPs) in place to manage the various potential disruptions which could impact the Group. Examples include the Site Recovery Plan, the Pandemic Plan, IT Recovery Plan, Building Evacuation Plan and Bomb Threat Plan.

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

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

Our approach involves immediate formation of a Crisis Management Team, assisted by a Crisis Response Team and Communications Team. The responsibilities of these teams are outlined as shown in Figure 3.

Key Risks to the Group

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

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 the business.

2017 Risk Management Activities

Review of The Group's Risks

The Risk Management Team met formally twice during the year, in January and July 2017, 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 2017. The brief 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 2017, there was no major crisis which required the activation of the Crisis Management and Crisis Response Teams.

Significant Risk Mitigation Activities

There were no significant Risk Mitigation activities required to be carried out in 2017.

BCPs Desktop Review and Simulations

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

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

System of Internal Control

Control Self-Assessment (CSA) Process

Central to the Group's system of internal control is its 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.

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 2017, the Group's Control Navigator was refreshed and updated.

Financial Reporting Controls

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

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

Information Technology (IT)

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

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

The next key step in the IT Security programme is detection where technical controls are put in place to detect anomalies. This happens across all IT assets to ensure we contain incidents before they occur. The final step in the process is responding to an attack breach. The Group responds to the breach by assessing the impact, isolating the incident, minimising impact and mitigating any resulting damage.

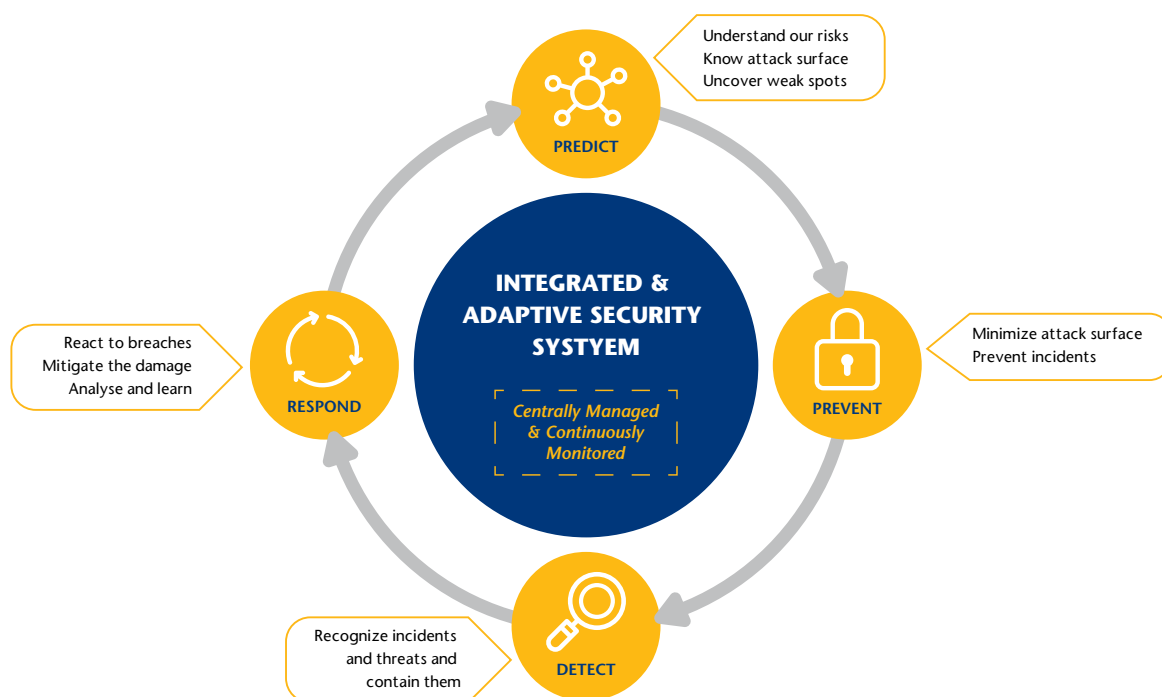


Figure 4

Internal Audit

The role of Internal Audit for the Group is fulfilled through the Global Audit function of British American Tobacco p.l.c. This approach ensures a high level of independence and gives access to more skilled and specialised resources, particularly in respect of Information Technology, than would otherwise be available within the Group. A permanent invitee from the Global Audit function attends the Audit Committee and is the liaison between the Audit Committee and Global Audit. The annual audit planning cycle takes direct input from both the risk register, described above, and the Audit Committee. In turn, the Audit Committee formally approves the scope of work for the year. Furthermore, the Audit Committee can request immediate assistance from Global Audit for any matter it considers appropriate.

British American Tobacco p.l.c Group Internal Audit undertakes risk-based Audit reviews structured in line with the operating model of the British American Tobacco p.l.c Group. As such, three types of audit exist, namely Process Audits, Project and Programmes Audits and Others. The scope of Process Audits is on processes across multiple British American Tobacco p.l.c entities. Project and Programmes Audits are focused on significant projects or programmes. Others are those Audit reviews that are as a consequence of a direct request, either due to an incident, Management request or Audit Committee concern.

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

External Audit

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

Other Key Elements of The System of Internal Control

Apart from the above, the other key elements of the Group's internal control and risk management system which have been reviewed and approved by the Board are described below:

a. Policies, Procedures and Limits of Authority

- Clearly defined delegation of responsibilities to committees of the Board and to management, including organisation structures and appropriate authority levels.
- Clearly documented internal policies, standards and procedures are in place and are regularly updated to reflect changing risks or to resolve operational deficiencies. All policies are approved by the Board and cases of non-compliance to policies and procedures which are in place are reported to the Board and Audit Committee by exception.

b. Immediately Reportable Incidents

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

c. Strategic Business Plan, Budget and Performance Review

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

d. Insurance and Physical Safeguard

- Adequate insurance and physical security of major assets are in place to ensure that the assets of the Group are sufficiently covered against any mishap that will result in material losses to the Group.

e. Written Declarations

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

Control Matters

No material control matters were reported in 2017.

Board Assessment

The Board is of the view that the Group's overall risk management and internal control system is operating adequately and effectively, and have received the same assurance from both the Managing Director and Finance Director of the Group. The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Group has been in place throughout 2017 and up to the date of approval of this statement. The Board is also of the view that the Group's system of internal control is robust and is able to detect any material losses, contingencies or uncertainties that would require disclosure in the Group's 2017 Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 13th February 2018.

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 2017, 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.



Chapter 5:

Growth

Growth Pillar

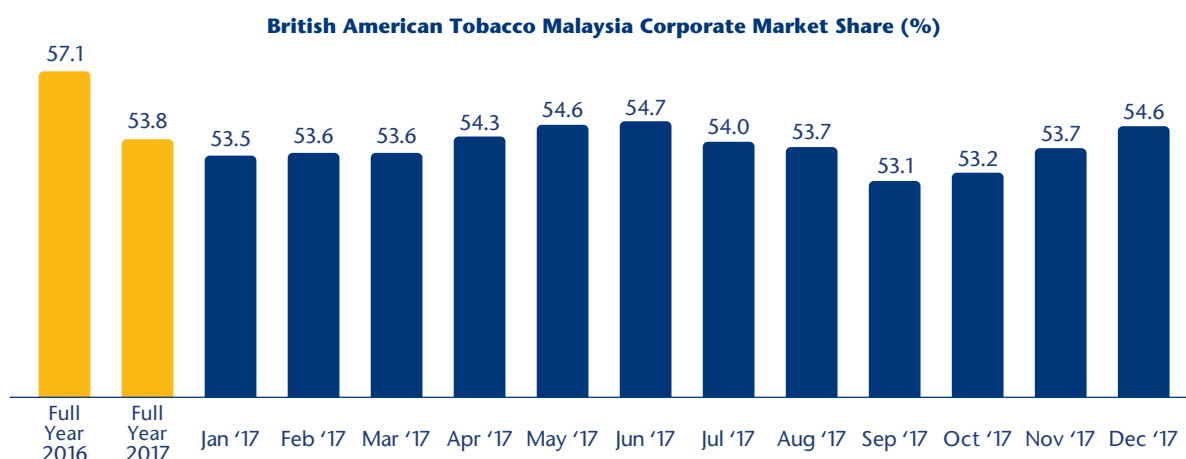
The economy has been under considerable pressure in recent years, largely due to factors such as the fall in oil prices and currency devaluation. Key macro-economic indicators suggest that the general consumer base was financially stretched.

	2011	2012	2013	2014	2015	2016	2017
Inflation (%)	3.2	1.7	2.1	3.1	2.1	1.8	4.1
Exchange Rate (versus USD)	3.1	3.1	3.2	3.3	3.9	4.1	4.3
Unemployment Rate (%)	3.1	3.0	3.1	2.9	3.2	3.5	3.4

Source: Euromonitor

This impacted the tobacco category in 2017, just like any other consumer goods category. In addition, the high excise increase in November 2015 continued to impact the legal cigarette industry with the majority of cigarette volumes going to the illegal cigarette trade (*58.3 percent illegal cigarette trade share in 2017*).

As a company that believes in positive action during challenging times, significant steps were taken to cater to the evolving needs of consumers in times of affordability pressure and to sustain British American Tobacco Malaysia's performance in light of the big challenge posed by high illegal cigarette trade incidence.

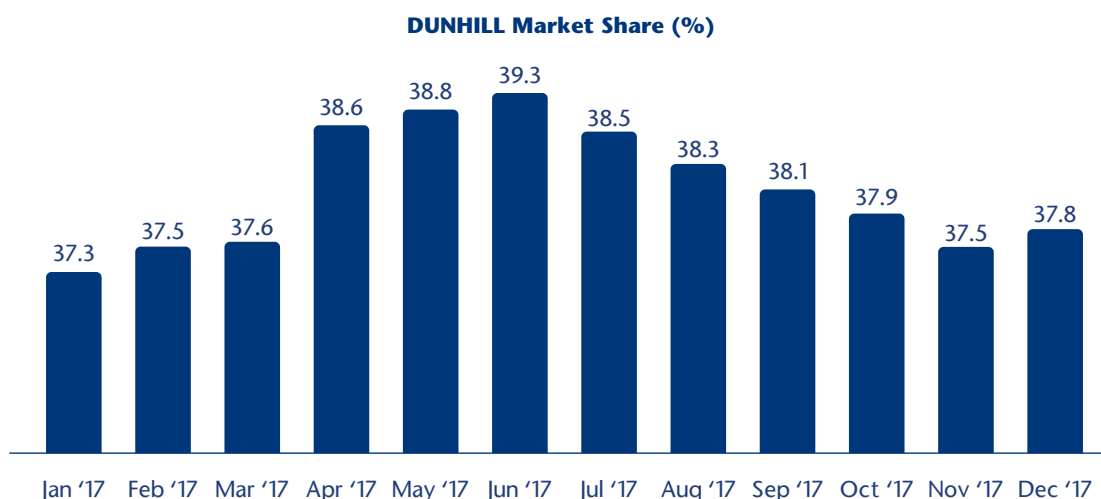


Source: Nielsen Retail Audit, Base: Total Legal Market

Premium Segment

DUNHILL

Resilient performance on the back of continuous activations



Source: Nielsen Retail Audit, Base: Total Legal Market

DUNHILL Special Edition Pack



DUNHILL Special Edition

DUNHILL Special Edition Pack which signifies DUNHILL's 30 years leadership in Malaysia, inspired by DUNHILL heritage and nostalgic values.

Delivering Consumer Moments



Limited Edition Pack (DUNHILL Red)

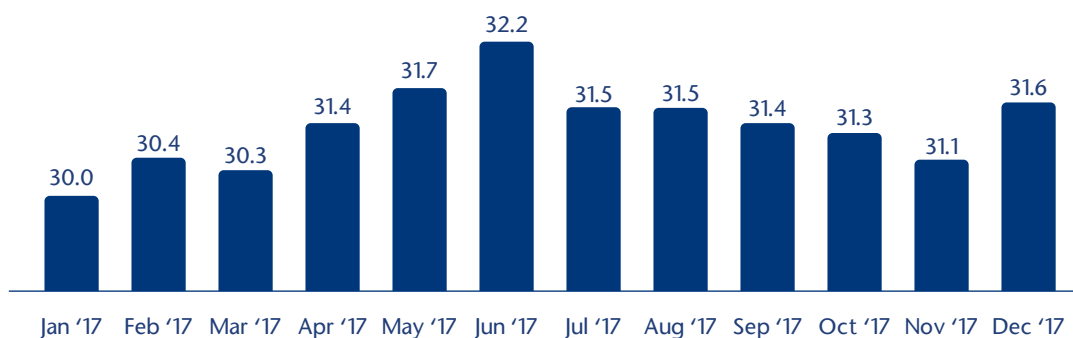
In June 2017, a Limited Edition Pack (DUNHILL Red) was launched, building on the momentum of DUNHILL Special Edition Pack which together strengthened DUNHILL's brand values. Each Limited Edition Pack was individually hand-packed for the consumers. These packs were also the last production run from the Company's Malaysian factory, ending an era with a bang.

DUNHILL : Offering Consumers the Freedom of Choice



DUNHILL's emphasis throughout the year was to provide consumers the freedom of choice through differentiated offerings and relevant merchandising. These activations had a strong positive impact on the performance of DUNHILL which showed resilience during a challenging period, leading to market share recovery over the course of the year.

DUNHILL Red Market Share (%)



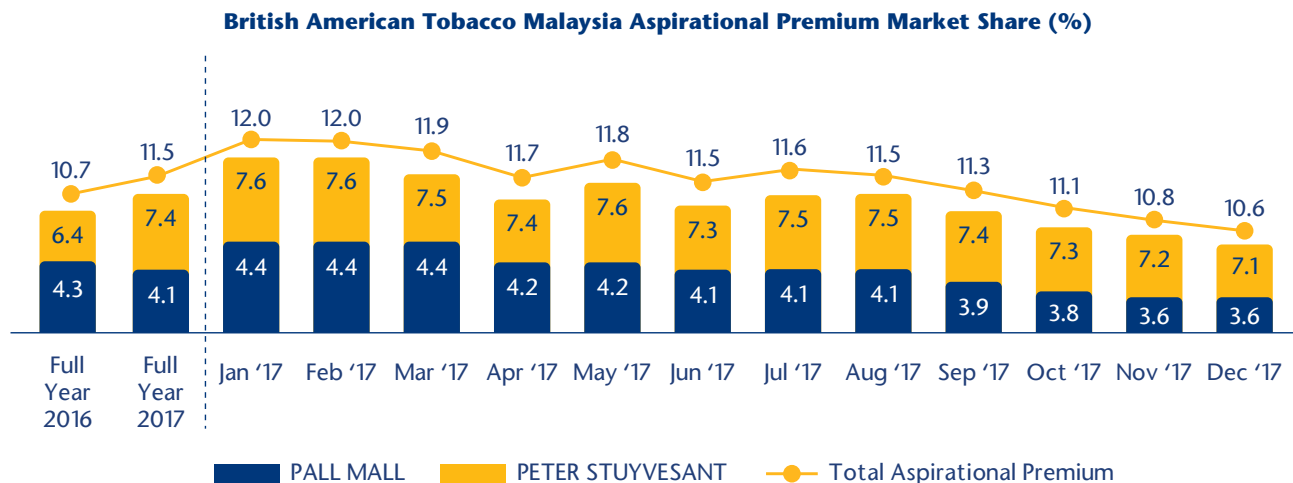
Source: Nielsen Retail Audit, Base: Total Legal Market

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

Aspirational Premium Segment

PETER STUYVESANT and PALL MALL

Reaching the summit of success



Source: Nielsen Retail Audit, Base: Total Legal Market

The growth momentum for PETER STUYVESANT from previous years continued into 2017, which together with PALL MALL achieved leadership position in the Aspirational Premium segment for the first time ever. While the Aspirational Premium leadership was achieved in February 2017, PETER STUYVESANT has continued to grow beyond that, thereby strengthening the Company's leadership in the segment.



PETER STUYVESANT Family - Red, Blue and Remix

All SKUs of PETER STUYVESANT performed strongly in 2017. While PETER STUYVESANT Red was the key growth driver, PETER STUYVESANT Blue also emerged as the only low tar SKU in the segment that registered growth year-on-year for two consecutive years. Furthermore, the brand's innovative offering PETER STUYVESANT Remix was the fastest growing SKU in the Aspirational Premium capsule segment during the year.

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

Celebrating Leadership through Limited Edition Packs



PETER STUYVESANT Limited Edition Packs

PETER STUYVESANT Limited Edition Packs were launched in December 2016 and continued into the new year. The launch received a positive response from consumers and concluded with the Company gaining Aspirational Premium segment leadership.

Value For Money (VFM) Segment



ROTHMANS Launch Packs

Setting New Benchmarks in VFM through the Launch of ROTHMANS

With consumers facing affordability concerns under a high price pressure and looking for value alternatives, the Company decisively entered the VFM space with the introduction of ROTHMANS Red and ROTHMANS Blue. The launch was a significant step to inject value by offering consumers a brand with international pedigree and strong mix at a VFM price.

The launch was met with immediate success as ROTHMANS gained 2.0 percent market share within two months of launch, signifying a great stride towards segment leadership (*Source: Nielsen Retail Audit, Base: Total Legal Market*).

Trade Marketing Activities in 2017

The Company had anticipated 2017 would continue to be yet another challenging year as the illegal cigarette trade continued to unfairly undermine the legal cigarette business amidst economic pressures. The Company went into preparedness mode to increase our competitiveness and defend our leadership in the market. As our people form the core of the organisation, it was also vital, in such challenging times, to intensify the *All In* spirit ensuring that every individual within the organisation remained strong and motivated.

BizPlus – Driving Competitiveness with Strong Customer Management

Despite an increasingly competitive and challenging economic environment, the Company remains committed in helping our retail partners grow their business via competitive trade programmes, such as BizPlus, designed to provide better clarity of our business proposition and its returns.

BizPlus was launched in November 2016 with the ambition to drive retail growth opportunities, and strengthen relationships with our top retail partners.

The first year results have been encouraging and we will continue to strive for better performance through continuous improvement of the programme, focusing on market competitiveness and retailer affiliation.

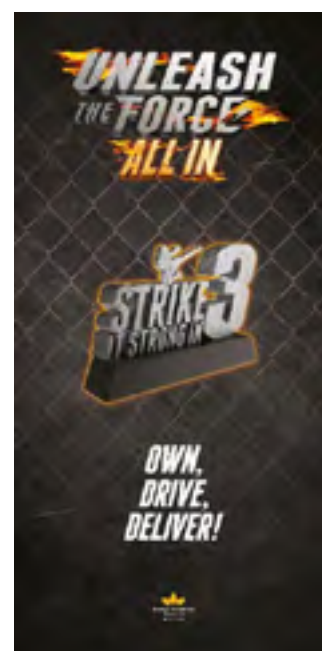
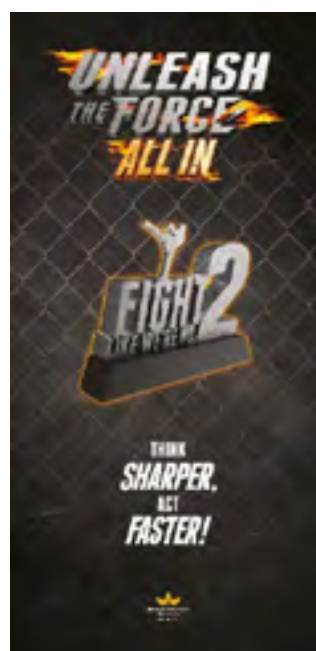
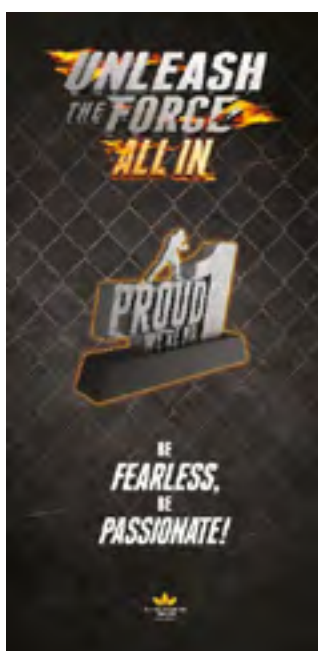


Winning Mindset – Unleash The Force All In

“Leadership is not a position or a title, it is an action and example”

Operating in an increasingly challenging environment requires an organisation to remain positive and strong to ensure that strategies and plans can be executed in its best form and manner. Building off the corporate theme of *Unleash the Force*, the focus for 2017 was all about driving accountability, leadership and teamwork with the *All In* spirit.

To amplify the *All In* spirit, leadership programs centered on empowering and encouraging every individual to strive for personal excellence were crafted for all facets of the organisation. Understanding that our people are the heart of our business, the Company will continue to drive all efforts behind ensuring that we are all leaders in our own way, delivering our utmost best to strengthen our position as No.1 in the market.





Chapter 6:

Productivity

Productivity Pillar

Key highlights of 2017:

SUPPLY CHAIN PERFORMANCE

Business Development	People Development
• Transfer of domestic production and production assets to overseas factories • Commencement of importation from source factories • Successful new brand launch of ROTHMANS • Future fit Information Technology	• Re-structuring exercise - support for future career change and development for 226 employees • Transition to the supply chain organisation structure

Business Development

Successful Transfer of British American Tobacco Malaysia's Domestic Production and Production Assets to Overseas Factories

Following the official announcement in March 2016 by British American Tobacco Malaysia to transform its business model and source its products from other state-of-the art British American Tobacco factories, the transfer of production to the global Group's factories in Indonesia, Singapore and Korea commenced in 2017.

Teams from British American Tobacco Malaysia's Production, Quality, Product Development and Marketing departments worked closely with teams from each of the factories to test and validate the products produced for importation. This was carried out in accordance with British American Tobacco Group's process and guidelines to ensure that the high levels of quality expected by our consumers were maintained.

The machinery from our Virginia Park factory were sold to the

respective Group factories to meet the additional capacity production from Malaysia. Following dismantling, shipment and re-installation, all machines underwent testing protocols to ensure quality performance and quality standards were met prior to production commencing.

The remaining production assets were either sold and redeployed to other Group factories which required them in line with British American Tobacco Group's policies to reuse and recycle machinery within it. Any production assets which were no longer required were scrapped in line with the Group's policy to ensure surplus machinery does not fall into the hands of any illegal cigarette operators.

Production at Virginia Park was completely transferred in June 2017 with the last day of production on 22 June 2017. The final machines were then despatched from the Virginia Park factory site in September 2017.

The Virginia Park factory was handed to its new owner on 3 November 2017.



22 June 2017 – Marking the final day of production at British American Tobacco Malaysia's Virginia Park factory.

Successful Commencement of Importation from Source Factories

With the transfer of production, new systems and processes were established to manage the importation of all the Company's Domestic Finished Goods.

The Operations team worked closely with the teams in the other factories and British American Tobacco's Regional Planning Hub in Singapore to establish efficient logistics flows and clear processes to ensure shipment lead times between the source factories were minimised to help maintain freshness of our products.

Furthermore, British American Tobacco Malaysia and the source factories worked closely with their respective National Customs organisations to ensure that all requirements were met to enable efficient exportation from the source country and customs clearance within Malaysia.

With the closure of British American Tobacco Malaysia's Virginia Park factory, a new site was required to store imported Finished Goods prior to distribution into our sales network. Following a competitive tender exercise, the contract for Storage and Distribution of Finished Goods was awarded to TASCO Berhad. With the award of this contract, British American Tobacco Malaysia consolidated the operations of three existing warehouses into a single site under TASCO Berhad to drive further synergies and efficiencies.

In 2018, work will continue with the supplying factories, the Regional Planning Hub and TASCO Berhad to identify further improvement opportunities to reduce overall lead times.



Members of the Leadership Teams from British American Tobacco Malaysia and TASCO Bhd celebrate the opening of the new Finished Goods Warehouse and Logistics operation.

Successful New Brand Launch for ROTHMANS

Whilst transferring and reorganising production, the Supply Chain team maintained its focus on developing and delivering new products to the market.

In quarter three, British American Tobacco introduced ROTHMANS for the Malaysian market. This was the first new brand launch of almost a decade and the first launch under the new supply chain model.

Executing a national launch with overseas production whilst ensuring consumers with high quality fresh products required a new level of cross functional co-ordination. Our Marketing, Supply Chain, source factory in Indonesia and our new logistics and warehousing partner TASCO Berhad worked hard to ensure the launch was an outstanding success with all targets for stock availability across the sales network being met in time.

The success of these projects demonstrated the strength of the new supply chain model in supporting British American Tobacco Malaysia's focus in providing high quality new products to the market.

People Development

Restructuring Exercise – Support for Future Career Change for 226 Employees

The impact on employees, especially those working in Operations was one of the great concerns of the Company as it embarked on its transformation towards a new and more sustainable business model. Our factory and our people have always been our great pride, it was to this purpose that utmost priority was given to ensure that their wellbeing was taken care of, with the fairness, pride and dignity they deserved.

An extensive career transition programme, *Journey with Pride*, was implemented to support the relevant Operations employees with the imminent changes to their careers following the unwinding of the factory facilities. The objective was to prepare and equip these employees with the capabilities and skillset to ensure their careers continued to flourish after British American Tobacco Malaysia.



Operations employees under the Journey with Pride programme.

To do this, the Company provided:

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

As part of the plans developed in 2016, the leaving dates of each individual employee were matched with the waves of production transfers to ensure leavers were given time to attend the aforementioned programmes.

For each group of leavers, a *Journey of Pride* celebration was arranged with the Leadership Team of British American Tobacco Malaysia in recognition of their loyal and excellent service to the Company. Each employee was presented with a token of appreciation during the celebrations.

A reunion dinner was held within the Production Hall of the Virginia Park factory on 15 July 2017 for all those leaving. They came together as a group along with members of the management from across the business to celebrate their time with the Company and to receive the appreciation for their contribution to the success of British American Tobacco Malaysia over the many years.



A group of production employees pose for a photograph at the final Reunion Dinner



The Production Hall was a fitting venue for the closure of the Journey of Pride

Successful Transition to the New Supply Chain

While 226 direct production and management employees were released as a result of the factory closure in Malaysia, a number of the factory employees have moved to new roles within British American Tobacco Malaysia, British American Tobacco Singapore and other Group locations including the United Kingdom where their skills are required and where they can continue to pursue a career within the British American Tobacco Group.

With the transition to the import based model, a local Supply Chain team was required to ensure that the quality supply of Finished Goods is never compromised and continues to flow effectively and efficiently from the source factories to the sales distribution network.

The new local Supply Chain team is made up of the brightest and highest potential management and employees. The team covers Logistics and Warehousing, Quality, Customs Engagement and New Product Introduction as well as providing EH&S and Indirect Procurement Support to the entire organisation.

The team works closely with the Marketing team, source factories, Planning Hub in Singapore and our Regional Product Centre to ensure current and new products are manufactured to British American Tobacco's Quality Standards and continue to arrive at our sales hubs on time and in full.



British American Tobacco Malaysia's Supply Chain team during a team-building session

Future Fit Information Technology

In 2017, the Company's Information Technology agenda continued to drive future fit capabilities and cost optimisation initiatives. Guided by the British American Tobacco Group's IT strategy, the Company continued to push its innovative information landscape in 2017 by hosting all of our IT applications in the cloud via our global partners Microsoft. This provides the Company with a modern and cost-effective platform, and together with our core SAP-based system, provides an extremely secure and robust IT landscape.

Sweating our IT Assets

In 2016, the Company embarked on the global deployment of the Enhanced Productivity in the Cloud (EPIC) programme, where the local IT team has delivered the cloud-based suite of Windows 10 front office products. This programme was well received and has enabled the Company to provide the most contemporary and secure end-user technology to our employees. 2017 sees the optimisation of this programme by the introduction of collaborative products such as MS Sharepoint, MS Teams, and Skype Broadcast to further enhance the overall Company's productivity and collaboration. These new capabilities empower technology-savvy end users of today through the principles of self-migration, self-training and self-support.

New IT Infrastructure for our New Corporate Headquarters

As part of our transformative journey this year, the relocation to our new corporate headquarters in Damansara City has also introduced the Company to some modern and practical innovations. The new office features secure printing facilities, wireless projections, high speed corporate and open internet and a new Telepresence unit. These infrastructures enable a high level of productivity as our transformation journey requires quick communication, and an agile way of working to deliver our business promises.

Information Security is Key to Ensure Sustainability of our Business

2017 has also seen information security grabbing the spotlight with coordinated global cyber attacks affecting several multinationals. The Company takes information security seriously and has embarked on awareness for all employees to identify phishing emails, social engineering attempts, and suspicious activities. In the backend, the local IT teams have continually monitored abnormal activities, and kept the IT estate securely updated to minimise the risk of the Company's exposure to cyberattacks. Information security will continue to be high on IT and security's agenda to protect our assets and enable us to operate efficiently in the future. The Company recognises that providing our people with the most contemporary, integrated and powerful end-user technology is part of making British American Tobacco Malaysia a better place to work, a top-notch brand and employer; and ultimately a more successful business.



Chapter 7:

Winning Organisation



Developing a Winning Organisation

Since our inception in Malaysia in 1912, British American Tobacco Malaysia has always believed that our people are our greatest asset. Our people's collective experience, expertise, values and positive attitude have enabled us to achieve strong and consistent business results that not only grow the Company, but help build a fair society as we contribute to the growth of the country, the people and the community where we operate in.

As a company that offers exciting opportunities for skills development and progressive career opportunities, we genuinely believe that the first step towards creating a winning organisation is to attract, develop and retain a diverse pool of talented employees. We strongly believe in and respect diversity and are strongly committed to provide our talent with the best support to grow and motivate them to face the dynamic operational and market environment in the tobacco industry, to duly recognise our talent for their leadership and contribution, to engage and energize them within a conducive working environment in developing a fulfilling and rewarding career. Above all, we believe in building a work culture where diversity is treasured, positive actions are required, freedom of choice is respected and fairness is expected.

Premised on the above principles, below are the key Winning Organisation highlights of 2017:

- **Recognition to 48 recipients for the Long Service Award.**
- **Recognition to 125 exceptional employees through our employee recognition awards.**
- **Recognition to two exceptional teams for consistent display of leadership behaviours and contribution to the business, and a demonstration of grit and resilience despite challenges in the business environment for the Leadership Team Awards.**
- **Ensured holistic development of our employees via on the job and off the job development initiatives including international, regional and local training.**
- **Exported nine of our key talents to other British American Tobacco end markets around the globe for accelerated career development.**
- **Delivered engaging and fun 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 loyal and steadfast in achieving significant milestones during their long tenures. For 2017, 48 received their Long Service Award during the Company's Annual Dinner on 11 November 2017. From the 48, 18 were awarded the Long Service Award for 10 years' service, 26 for 20 years' service, and four for 30 years' of service with the Company. We also acknowledged two outstanding individuals who will be retiring within the coming year.

Rewarding Outstanding Performance and the Right Leadership Behaviours

At British American Tobacco Malaysia, we strongly believe in the importance of recognising our employees for their display of outstanding performance and right leadership behaviours that will continue to propel our organisation forward. Hence, we continue to encourage a high-performance organisational culture that rewards and acknowledges the efforts of outstanding employees who have demonstrated strong business and people leadership traits, who went above and beyond the call of duty to deliver exceptional results.

For 2017, we have presented recognition awards to 125 employees for demonstrating strong business leadership and high levels of commitment towards delivering excellent work.

Other than individual awards, we continued the Leadership Team Awards for the second year running. These awards are designed to recognise and celebrate the most outstanding team achievements and efforts spearheaded by leadership behaviours that truly made a difference to the organisation. The awards not only recognise tangible business results, but also the demonstration of fighting spirit and relentless drive despite a challenging business and market environment. The Company is extremely proud that two well deserving teams were announced as winners of this prestigious award for 2017.



The winning teams, posing onstage with the Leadership Team Awards

Employee Engagement: Employees' Benefits and Wellbeing

To ensure that we provide real value and motivation for our people, we greatly emphasise on establishing a fair and robust employee wellbeing strategy. With that in mind, British American Tobacco Malaysia frequently reviews its reward practices to ensure that employees have access to market competitive benefits, that also help them to address their different individual needs.

Flexible Benefits

Recognising the importance of offering flexibility to our employees and in the spirit of promoting wellness, diversity and freedom of choice, we introduced the new Flexible Benefits (*FlexBen*) programme in 2017, that allows our employees to choose the benefits they want in accordance to their personal needs and lifestyles. Ranging from groceries, personal grooming, holidays, tech gadgets, spa packages and even alternative medicine, employees are given the liberty to spend their entitlements on what matters to them the most.

This is an initiative that puts British American Tobacco Malaysia's reward strategy a step ahead of the current employment market, in keeping with our overall objective to create a winning employee value proposition that is both exciting and compelling amongst our new generation of bright, young talent.



FlexBen briefings conducted nationwide to our Field Force

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 have time off and play hard together.

In 2017, a variety of engaging events and activities were conducted for our employees, that included:

- Recreational activities such as fishing, yoga classes and go-kart racing.
- Annual Dinner and Dance at KL Conference Hall, KLCC.
- Festive celebration lunches.
- International Women's Day celebration.
- Marketing Energizers in British American Tobacco Malaysia Headquarters.
- Company-wide Kick Off Meeting in Langkawi.

We focus on creating an open and inclusive organisational culture and ensuring employees have many avenues to share their thoughts with senior leadership - one such avenue is the newly introduced *Coffee with LT*, where groups of cross functional and cross level employees engage in open dialogue with members of the Leadership Team.

The Company also revamped its communication strategy, which included Regional Cycle Briefing engagement sessions with both the Extended Leadership and Leadership Team members and strategic digital communication tools to keep the entire Field Force connected and updated with latest market insights and performance.



Managing Director Erik Stoel (pictured extreme left) posing with employees for the go-kart racing competition



The Strategic Planning & Insights (SP&I) team dressed in white sporting gear for the Annual Dinner and Dance



British American Tobacco Malaysia employees enjoying their Hari Raya lunch



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

High Performance Leadership

Our high performance leadership culture is pivotal in 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.

New Ways of Working: Aurora

In British American Tobacco Malaysia, we constantly believe and advocate the ethos of continuous improvement as a way of life. As we transition towards a much sharper, integrated and consumer-centric organisation in British American Tobacco Malaysia, we adopted *Programme Aurora*, the global British American Tobacco blueprint to evolve Human Resources into a leading, integrated, and agile function which is better able to work with the business as a true partner and drive change forward to deliver a world-class Human Resources function.

As part of *Programme Aurora*, we received access to a brand new suite of technology, including a core system - *SuccessFactors* - which enables self-service access to information and services, as well as streamlined and consistent global processes that improve the way Human Resources works together as a function, enabling us to focus on the services provided to the employees, our customers.

The recently implemented Trinity Model allows for the end-market Business Partner, Centre of Excellence (CoE) representatives and Shared Services to harmoniously work together, in developing a collaborative Human Resources community of knowledge and best practices.

The role of Human Resources Shared Services in providing transactional support has been expanded via a newly established Global Business Services (GBS) organisation, which is also based in Kuala Lumpur, employing more than 1000 personnel, to provide advice and services to Human Resources customers across British American Tobacco globally. The reduction in transactional work has ultimately unlocked further potential for end market Business Partners to be better able to partner with the business in a strategic capacity on people issues to drive and enhance business performance.

Centres of Expertise in Talent & Reward will continue to develop innovative, market leading solutions on a global and regional scale.

Talent Brand

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

In 2017, we have continued to strengthen our talent brand with vigour, with a heightened social media presence and targeted engagement initiatives. Our efforts have begun to bear fruition, 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.

Top Employer Awards

This year, British American Tobacco Group received global accreditation as a Global Top Employer after successfully being individually certified as a Top Employer in 35 markets and five regions - Europe, Latin America, Asia Pacific, Africa and Middle East including Malaysia by the Top Employer Institute, an independent global certification company. This Top Employer certification recognises the accomplishments of organisations that are providing the highest standards in employee conditions and is based on the results of a Human Resources Best Practices Survey – a comprehensive analysis, conducted by the institute of organisations' Human Resources management and employee conditions in the following areas: Talent Strategy; Workforce Planning; On-Boarding; Learning & Development; Performance Management; Leadership Development; Career and Succession Management; Compensation and Benefits; and Culture. British American Tobacco Malaysia's first time success with the Top Employer certification was announced at a ceremony in Singapore on 11 December 2017, contending amongst many well-established multinational organisations. This certification is a testament to our continuous focus, dedication and commitment to develop a legacy of leaders.



Representatives across the British American Tobacco Group, all smiles at the Top Employers Institute Certification Dinner

Human Resources Excellence Awards 2017

Indeed, 2017 was an exceptional year for British American Tobacco Malaysia as we also clinched several awards at the recent Human Resources Excellence Awards ceremony on 4 October 2017. This ceremony brings together some of the biggest industry leaders to celebrate their contributions in the Human Resources profession, giving recognition to notable individuals, teams and companies for their outstanding achievements in people management and strategies. Adjudged and shortlisted by a panel of distinguished Human Resources directors across Asia, British American Tobacco Malaysia became the proud recipient of the following awards:

- **Excellence in Employee Engagement (Gold)**
- **Excellence in Employer Branding (Silver)**
- **Excellence in Leadership Development (Silver)**
- **Excellence in Innovative Use of HR Tech (Bronze)**



British American Tobacco Malaysia representatives at the Human Resources Excellence Awards Ceremony

LinkedIn Talent Brand Awareness

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. With that in mind, we consistently monitor and evaluate the strength of our talent brand using LinkedIn's Talent Brand Index (TBI), that evaluates the attractiveness of our company to potential employees through a measurement of content reach (number of people who follow British American Tobacco's LinkedIn website) and readership engagement (the

rate of which readers respond to your content, search and apply for job vacancies posted in the British American Tobacco LinkedIn website). At time of writing, our talent brand awareness remains stronger than ever in 2017, achieving a total score of 53 percent versus 49 percent achieved in 2016. We are proud to say that we have remained within the top five TBI achievers among British American Tobacco Top 20 markets. We are very encouraged by these favourable numbers and will continue improving our talent branding activities to achieve bigger milestones in the future.

GRADUAN Career Fair 2017

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. On 20 and 21 of May 2017, we participated in the GRADUAN Aspire Career Fair, equipped with 20 dedicated employees across multiple functions, who were committed to continuously advocate for British American Tobacco Malaysia as the Employer of Choice.

In the true spirit of our international business and our commitment to provide exciting career opportunities to bring talented Malaysians back home, we also participated in the GRADUAN-Masca Career Fair in Australia on 30 September and 3 October 2017, in Melbourne and Sydney respectively to proactively reach out, engage and communicate with the vast pool of potential talent in the overseas graduate market.



Showcasing British American Tobacco Malaysia as an Employer of Choice at the GRADUAN Aspire 2017



A British American Tobacco Malaysia representative engaging with potential candidates during the GRADUAN-Masca Career Fair in Australia

Learning & Organisational Development

Investing in our People through Continuous Talent Development



WHY 70:20:10

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

70% on the job

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

20% learning from the others

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

10% formal training

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



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 2017, we leveraged highly on the *Agile Learning Framework* (70:20:10) to ensure 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 they 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.

In 2017, British American Tobacco Malaysia continued to make strides in leveraging the rich pool of talent within the British American Tobacco Group – last year, we launched Inspire-Us, where we invited senior leaders from around the globe to share their experiences and leadership challenges that have contributed to their success today. Constituting the 20 percent of which we learn from others within the overall *Agile Learning Framework*, these sessions have provided important insights and perspectives on how to demonstrate good leadership behaviour despite challenging times, and to continuously establish grit and resilience despite setbacks throughout one's career. More

than 100 managers across all grades have provided positive feedback on these sessions, and we strive to further provide such learning opportunities.

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

In 2017, a number of training programmes aimed to continuously grow and develop our British American Tobacco Malaysia talent were conducted. An example was the SCQuARE workshop that aims to provide managers with adequate tools to analyse and synthesize complex data and information that enables them to present these ideas into compelling business propositions.



After an Inspire-Us session

Aside from that, we are also a key advocate for embracing and celebrating our commitment towards diversity and inclusion, particularly amongst women in senior positions within the Company. We organised a Women in Leadership workshop for 13 female senior leaders, spanning various functions and end markets. During the programme, they were introduced to methods of establishing impact and presence amongst senior stakeholders, developing a distinct personal brand and leadership style, as well as formulating robust action plans to continue growing, evolving and encouraging women leaders to propel themselves further in the corporate world. We are proud to say

that we have 28 percent of females in management positions, and 33 percent of female managers in senior leadership positions in British American Tobacco Malaysia – we are committed to continue deploying focused interventions to further grow this ratio in the spirit of being an equal opportunity employer.

Overall, we have maintained a razor-sharp focus in growing and nurturing the next generation of leaders through structured and rigorous company wide talent assessment and review processes, with a view to strengthening our talent pipeline, providing progressive career paths to our key talent and ensuring that our talent retention strategy is robust.



In 2017, the Company continued to invest resources to learning and development. Management and non-management employees spent 11,778 training hours participating in training and development courses offered as listed below:

Leadership Training	Professional Skills Training	Technical Training
- Leading Self - Leading Teams - NLP & Emotional Intelligence for Leaders - Organisational Design and The High Performing Organisation - Dealing with Issues and Expectations on Board Leadership and Effectiveness - Dealing with Issues and Expectations on Audit Committee, Risk Management and Stakeholders	- Professional Skills Training - Strategic HR Business Partnering Certificate - Advanced Strategic Corporate Communications - Internal Communications for Business Improvement - SSM National Conference – Companies Act 2016 - MFRS/FRS Update Seminar - Malaysian Code on Corporate Governance - MIA - Functional (Legal) - Managing PR Through the Media - Commercialising the Sales Convention - Innovating the Finance Function - HR Analytics - Employer's Tax Obligations Workshop (Fundamental) - Smartnership Negotiation Masterclass - Career Transition - Managing Team	- Defensive Driving - POSITIVE Programme - In-house Customised Microsoft Excel and Microsoft Word Training for Supply Chain - Conference & Exhibition on Occupational Safety and Health - Entrepreneur and Financial Management - International Health & Safety Certificate - Space Planning Class

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. We have also accelerated the number of short term assignments provided to junior and mid-management employees, helping them get international exposure at an early stage in their careers.

Hong Kong

Senior Counsel – BATUKE (HK) & ASPAC Regional

Vietnam

Head of Marketing

United Kingdom

Management Trainee, Portfolio Strategy

Regulatory Affairs Manager – Central LEX

Senior International Brand Manager – Pall Mall

Senior HR Business Partner, Global R&D

Japan

NGP Insights and Research Manager

Korea

NGP Brand Manager

Singapore

Assistant Marketing Planning Manager

Head of Trade – British American Tobacco Singapore

Global Graduate Programme – BAT Academy

In British American Tobacco Malaysia, we truly believe in growing and nurturing our future talent pool by ensuring they receive world-class training and resources, along with the best learning and development opportunities that we can offer. Our Global Graduate Programme seeks to build the next generation of commercially focused leaders through a robust experiential journey, better suited to respond to the needs of British American Tobacco and future generations. Redesigned to meet the evolving needs of millennials joining the workforce, the new programme's Global Graduates take their first management role after just one year. They launch straight into a real job from day one, gain international exposure and experience world-class development through the Grad Academy.

Three of our Global Graduates from British American Tobacco Malaysia had the opportunity to participate in the British American Tobacco Academy held in Horsley, England. Attended by 60 Graduates from around the world, this intensive 2-week training programme was specifically designed to stretch and groom our talent to assume leadership positions in the future. Graduates were given an opportunity to not only garner valuable business insights, but they were able to network, interact and learn from senior leaders such as the CEO of the British American Tobacco Group, Nicandro Durante.

From top to bottom:

HR Global Graduate Tay Siao Lin (pictured third from the left) winning the Business Simulation Course in the British American Tobacco Academy. The Global Graduate cohort pictured in the foyer at Globe House, British American Tobacco Headquarters. Marketing Global Graduate Ungku Iskandar pictured in front of the Horsley Towers



Testimonial:

Tay Siao Lin: It was such an enlightening experience – not only was I able to mingle and gain valuable leadership insights from the top BAT leaders, but I had also made a number of lifelong friends within the large Global Graduate cohort. Truly an experience that I will remember for a long, long time!

Your Voice 2017

Despite a challenging year in 2017 we have remained steadfast in ensuring that our employees' morale remains positive through a significant number of impactful employee engagement initiatives. We are highly cognizant of the importance of continuously growing our employees, ensuring that they are both engaged, energised and happy to work in British American Tobacco Malaysia. We firmly believe in offering them a great place to work for them to put their best foot forward, and to consistently receive the guidance, resources and support to develop further in their careers.

The positive results obtained from our bi-yearly employee engagement survey *Your Voice* is a testament that we remain strong in engaging and retaining our talent, particularly in the three pillars:

1. Leadership and Strategy
2. People Management
3. Talent Development

Employee Engagement: *Your Voice* Scores 2017



Leadership and Strategy

Improved by +17% vs 2014
Your Voice results (prev. 67%)



People Management

Improved by +8% vs 2014
Your Voice results (prev. 72%)



Talent Development

Improved by +13% vs 2014
Your Voice results (prev. 58%)



Chapter 8:

Sustainability

Sustainability Pillar

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

Sustainability Agenda

Commitment from Senior Management

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

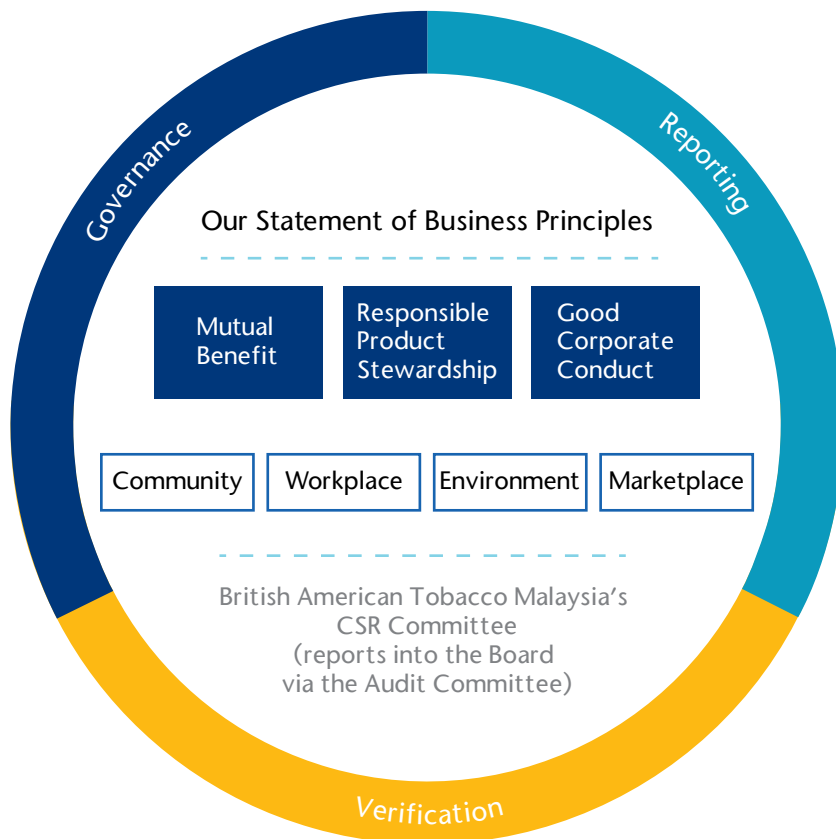
The focus areas of the CSR Committee are outlined below:



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. A dedicated team called the Foundation Executive Committee is also tasked to coordinate and implement sustainability initiatives.

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.



British American Tobacco Malaysia
Sustainability Framework

Key Sustainability for British American Tobacco Malaysia



Community

The Company is fully committed to conducting Corporate Social Investment activities that support the sustainability of our surrounding communities.

Education: Enabling Fair Access to Education Opportunities for Tomorrow's Leaders

- In 2017, the British American Tobacco Malaysia Foundation awarded close to RM370,000 in scholarships to 33 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.

The Company strongly believes that education holds the key to not only the realisation of potentials and the empowerment of individuals but towards nation building and the overall benefits of humanity. With the understanding that not everyone can have access to education, the Company through British American Tobacco Malaysia Foundation has set out to uplift these deserving Malaysian students with the opportunity to fair access to education through our scholarship programme.



Jon Jones, our Operations Director with trade association business partners and scholarship recipients



Jon Jones with a scholarship recipient and his parents

Underprivileged Community: Providing Fair Participation in the Digital World for All

- In 2017, British American Tobacco Malaysia donated 200 digital assets to be refurbished and distributed to deserving non-governmental organisations and communities aimed at educating and empowering underprivileged youth across Malaysia.

We live in a world where digitalisation and digital connectivity is increasingly important to all human activities and transactions, from learning and getting information to banking and purchasing products. The digital platform is an important democratisation stage where everyone, regardless of who they are, should have fair opportunity to participate, to voice out and speak out. However, most importantly, the digital platform is playing an increasing role in developing the nation's economy. According to statistics, Malaysia's digital economy contributed 16.3 percent to the country's gross domestic product (GDP) in 2016 and a thriving digital economy has the ability to contribute some 20 percent to the GDP by 2020.

In our effort to build a fair society where everyone can participate and benefit from the digital platform, British American Tobacco Malaysia has partnered with SOLS Tech, a non-profit organisation which collects, refurbishes and distributes donated computers and other electronic devices for free to underserved communities throughout Malaysia in an effort to narrow the digital divide, combat computer illiteracy, and provide a sustainable alternative to digital waste. In August 2017, we contributed 200 digital assets comprising of laptops, desktops, monitors, keyboards, routers, printers and other digital and technology items to SOLS Tech, which gave these devices and items a second lease of meaningful life to Pertubuhan Intervensi Awal (PIIA), a community-based NGO providing support services in education and training for special needs people and Pertubuhan Rumah Kebajikan Kanak-Kanak Home of Peace, a home caring for underprivileged girls.



British American Tobacco Malaysia donations making a difference



SOLS Tech team organising British American Tobacco Malaysia's donated digital assets



Donated digital assets safely delivered to Pertubuhan Perkhidmatan Intervensi Awal



Helping to close the digital divide at Rumah Kebajikan Kanak-Kanak Home of Peace

Environment: Promoting Positive Action in 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.
- In conjunction with World Environment Day 2017, a companywide photography contest was held to increase employees' environmental consciousness.

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

The Company believes that one of the ways to encourage our employees to be more environmentally friendly in their lives is by making them more conscious of their environment and the gift of nature around them. To celebrate World Environment Day 2017, the Company ran a photo contest for nature appreciation with family and friends, where employees could showcase their nature photography skills as well as celebrate and appreciate the environment in the process.



Winner of the photo contest enjoying his prize of an unforgettable experience of being part of a volunteer program at a turtle sanctuary in Kemaman with his family

Workplace

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



Great working environment



Strong career development opportunities



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



Robust talent development programmes

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

New Corporate Office

The Company is proud to step into our new modern corporate office in Damansara City on 1 September 2017. The open office concept was shaped based on the views and ideas of its employees, incorporating attention-grabbing design, the latest technology and social areas covering a café and places to relax as well as rooms with various capacities for business meetings. The Company believes that what employees think is a great place to work will maximise productivity and motivation and thus increase employees' performance and this is key to achieving a successful and sustainable business.

1912
First established



1999
Merger



2017
Beginning of a new legacy



2012
100th year celebration



1962
Official opening

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, 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, 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 – The Company's care givers leave provides employees with leave to care for a sick or elderly family member who may need support for a period of time or to provide emergency childcare or to support children through their preparation for 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 – 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. External medical support – The Company provides a list of panel clinics across all regions for employees to seek medical help, outside of office.
13. Group term life coverage – The Company provides financial contingency in the event of death of an employee, injury or disablement.
14. *FlexBen* – Recognising the importance of offering flexibility to our employees and in the spirit of promoting wellness, diversity and freedom of choice, we introduced the new Flexible Benefits (*FlexBen*) programme in 2017 that allows our employees to choose the benefits they want in accordance to their personal needs and lifestyles. Ranging from groceries, personal grooming, holidays, tech gadgets, spa packages and even alternative medicine, employees are given the liberty to spend their entitlement on what matters to them the most.

Enhancing Health and Safety at our Workplace

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

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

Outlined below are the key activities conducted:

1. Safety Day

The Company organised a Safety Day on 21 April 2017 where 130 participants comprising of our employees and contractors took part in updating their safety knowledge through participating in interactive games which were designed and managed by their Supply Chain colleagues.

2. Near Miss Reporting

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

3. Contractor's EHS Enforcement and Reinforcement Program

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 a monthly basis. The modules comprise of topics to cover situations to do with Fall from Height Hazards, Hot Work, Entrapment Hazards, Slip Trip and Fall Hazards, Chemical and Fumigation Safety, Vehicle Impact and Permit to Work.



Employees attending the Contractor's EHS Enforcement and Reinforcement Program

4. Defensive Driving Course

The safety of our employees goes beyond the premise of the Company. The Company's Field Force employees face daily risks while on the road as well as while loading our products from their vehicles to retail outlets. Apart from dealing with the inherent risks in driving, they also face risks from carrying high value legal cigarettes.

To equip the Field Force employees with the best safety measures, the Company continued to conduct the defensive driving course for all new joiners as well as refresher courses for experienced employees. They were trained on how to identify potential road hazards and how to handle their vehicles in the event of an emergency. They were also briefed on vehicle safety checks, the safe way to changing a tire, understanding first aid treatments and protection from attacks or assault. To date, six batches of these training sessions were conducted with an attendance of 112 employees.



Employees attending the Defensive Driving Course

5. Orientation and Induction Course

All new joiners to the Company are required to understand the Health and Safety protocol at the workplace as part of their Orientation and Induction course. The employees are equipped with the knowledge, guidelines and awareness of risk mitigation processes within the workplace premises be it at the office or out in the field. The topics that were covered were mostly situations relating to Slip Trip and Fall, Fire and Electrical Safety, Road Safety, Near Miss Reporting and Accident Reporting Procedures. In 2017, the Company held three sessions for approximately 40 new joiners.

6. Commitment towards Zero Lost Time Injury

In 2017, British American Tobacco Malaysia and its wholly owned marketing subsidiary, Commercial Marketers and Distributors Sdn Bhd achieved 444,305 man-hours without a Lost Time Injury since September 2011, whereas its wholly owned manufacturing subsidiary, Tobacco Importers and Manufacturers Sdn Berhad achieved 352,129 man-hours with one Lost Time Injury on 11 July 2017.

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

Environment

Our Environmental Policies

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

Global 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 our 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.
- Continually seek to identify proactive and cost-effective measures which it can take to safeguard the health and safety of its employees and non-company personnel on company premises and the physical environment.

Minimising our Environmental Impact for a Sustainable Future

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

	2016	2017	2016 vs 2017	Remarks
Total Energy (GJ)	108,621	69,495	-56%	A decrease of direct and indirect energy consumption of 56 percent was recorded in 2017. This was primarily due to very low air freight for export volume in-line with the factory winding down initiatives. (Last production in Malaysia was in June 2017)
Total water withdrawn (m3)	92,922	33,484	-178%	British American Tobacco Malaysia recorded 178 percent decrease in water usage in-line with the factory winding down initiatives. (Last production in Malaysia was in June 2017)

Marketplace

A Mammoth Black Market

The Company conducts its business with utmost integrity and compliance to the laws of the country. On the contrary, illegal cigarette operators do not play by the rules. It has grown to become very big at 58.3 percent in 2017.

The bitter truth is, illegal cigarettes are simply a huge societal problem. It undermines the health agenda of the country with respect to smoking, shareholders returns/value, jobs in all legal tobacco companies and tax revenues that could be invested in the development of the country.

Despite an increase of enforcement against the illegal cigarette trade by the Royal Malaysian Customs and some initiatives by other agencies in 2017, the illegal cigarette trade has not reduced, which signifies the magnitude of the challenge. It is only fair to point out that contrary to messages in the public domain, the solution cannot simply be expected to come from enforcement by the Royal Malaysian Customs. It seems abundantly clear that this societal problem can only be brought under control via an integrated national agenda of enforcement amongst all law enforcement agencies and the willingness to consider alternative solutions that can reduce the illegal cigarette trade, whilst allowing the legal tobacco companies to recover for sustainable growth.

We believe that beefing up enforcement to address the illegal cigarette trade is an essential step. However, the realisation is this alone will not move the illegal needle down drastically as the fundamental issue that drives such illegality is affordability pressure. We believe all relevant stakeholders involved must be open to real and practicable solutions to address such pressure to make a difference. British American Tobacco Malaysia on its part, will continue in its quest to contribute to finding solutions to address this scourge.

Delivering Commercial Benefits

With the factory closure in June 2017, the Company continued its collaboration with vendors and business partners to ensure a seamless transition from 'make' to 'import' business model. The initiative to appoint a new third party logistics company was given high attention due to the change to a new vendor as well as to the new operational flow in warehousing and transportation. The Company also focused on the new office relocation activities with the appointment of various vendors from project management company, relocation company to office facilities management company, all ensured in providing timely and effective services at an optimal spend. Simultaneously in vacating the Virginia Park office, it was ensured that asset disposals and vacant possession were carried out with optimal benefit and minimal financial impact to the Company.

Whilst managing the office relocation and factory closure, the Procurement team continued to ensure productivity savings in marketing spend and other areas of spend, exceeding the savings target. In addition to achieving the savings target, the team also achieved an improvement for vendors payment terms contributing to lower release of capital tied up and improved cash flow for the Company.

Regulatory Developments in 2017

We are committed to high standards of corporate conduct and responsibility as we believe that how we achieve something is as, if not more important than what we achieve.

British American Tobacco Malaysia fully supports regulation which is based on robust evidence enforceable, delivers on the intended policy aims and at the same time, allows the business to operate and be competitive in the marketplace. Regulations we believe must be directed and enforceable against not just the legal segment of the industry, but more urgently and critically at the illegal segment of the industry which is close to 60 percent. It is noticeably clear that illegal cigarettes have no respect for all laws, be it pricing, product or packaging laws and enforcement must be undertaken to enforce such laws for a level operating field.

The key amendments gazetted in the Control of Tobacco Products (Amendment) Regulation 2017 on 24 January 2017 were as follows:

1. Expansion of places where smoking is prohibited

Effective 24 January 2017, smoking is prohibited in any area of a public park, observation tower, camp site, canopy bridge and five meters from the entrance or exit of the canopy bridge in the national park or state park.

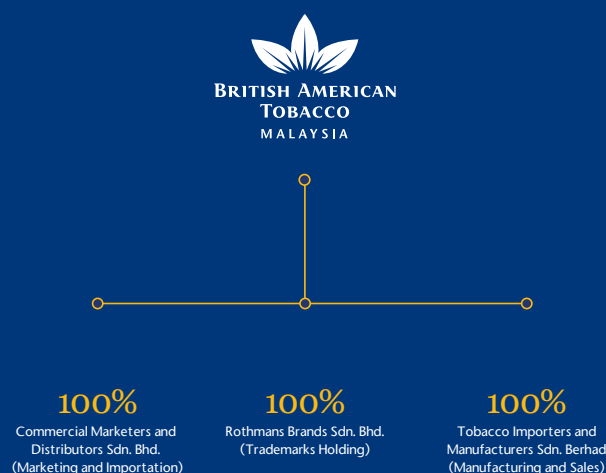
2. Removal of provisions relating to smoking area

Effective 24 January 2017, the requirement to allow the proprietor or occupier to designate a smoking area in any air-conditioned eating place, non-air-conditioned public transport terminal or open air stadium has been removed.

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

Disclosure Scope

Our sustainability disclosures cover British American Tobacco (Malaysia) Berhad and subsidiaries listed below:

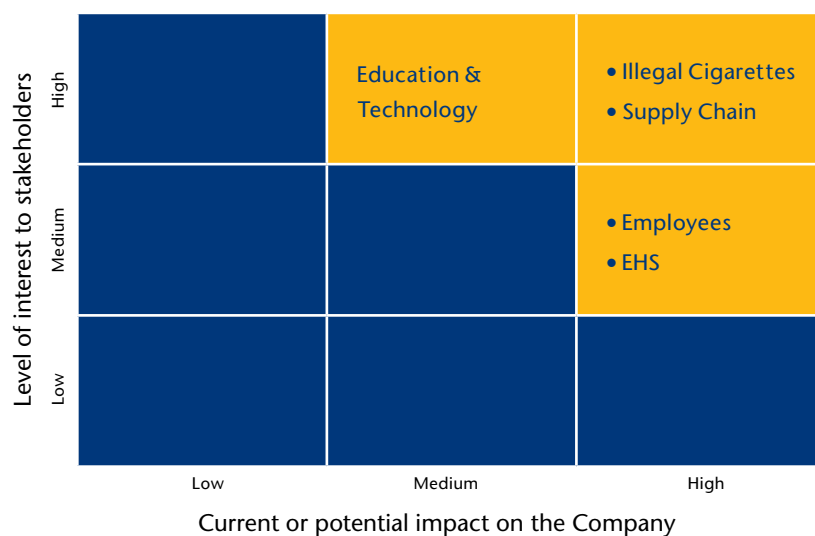


Aspects & Boundaries and Materiality

We identified nine aspects that are most material, or most important to the business by talking to our many different stakeholders, from shareholders and employees to consumers and suppliers. Issues relating to these aspects are addressed through our various engagements with our stakeholders.

Material Issues	Material Aspect	Boundary	Key Stakeholders
Illegal cigarettes	- Public Policy - Compliance	External	- Government - Trade associations - Media
Supply Chain	Supplier assessment	- External - Internal	- Suppliers - Trade partners - Employees
Employees	- Training and Education - Diversity and equal opportunity - Occupational Health and Safety	Internal	Employees
Environmental, Health and Safety	- Energy - Water	- Internal - External	- Employees - Suppliers - Vendors
Education & Technology	Local communities	- Internal - External	- Employees - Trade Associations - NGOs

Materiality Matrix



Stakeholders

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

Stakeholders	Engagement Platforms	Issues	How We Addressed
Regulators	• Public Consultations • Regular meetings	• Illegal cigarettes • Regulations	• Two-way dialogues and information sharing related to illegal cigarettes and its impact to Government, society and industry
Consumers	• Customer service channels (DUNHILL and PETER STUYVESANT Hotline) • Corporate email • Corporate website • Company Press Releases	• Product Information	• We have full time call centres that attend to consumer complaints and respond to consumer queries by providing necessary information to keep consumers updated
Employees	• <i>Your Voice</i> Engagement Survey • Multiple internal engagement channels (monthly townhall sessions, annual corporate session) • Leadership forums with extended and middle management • Interdepartmental corporate Away Days	• Career planning and development • Fair and transparent rewards • Active engagement process across the organisation by Management team.	• Results from bi-yearly employment engagement survey incorporated into talent strategy • We have also various platforms to engage all employees

Stakeholders	Engagement Platforms	Issues	How We Addressed
Investors and Analysts	- Annual General Meeting - Annual Report - Quarterly Analyst briefings - Corporate website - Company press releases	- Corporate strategy and financial performance - Corporate governance and compliance	We conducted briefings to analysts and investors on business performance and strategy
Media	- Press Conferences - Media interviews & events - Formal and informal briefings	- Corporate strategy - Financial performance - Products and services	We conducted regular media engagements to provide updates on business performance and strategy, products and services, and address issues of consumers' concerns
Business Partners, Community & NGOs	Engage, partner and support business partners, corporates and NGOs in addressing issues in the community	- Enabling fair access to education opportunities - Providing fair participation in the digital world for all - EHS best practices - Compliance	- British American Tobacco Malaysia Foundation awarded close to RM360,000 in scholarships to 33 aspiring future leaders - British American Tobacco Malaysia donated 200 digital assets to be refurbished and distributed to deserving non-governmental organisations and communities aimed at educating and empowering underprivileged youth across Malaysia - We conduct briefing and information sharing as well as training with business partners to ensure compliance with regulations and standards



Global Reporting Initiative (GRI) G4 Indicators 2017

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 comprehensive Global Reporting Initiative (GRI) G4 Indicators 'in accordance to Core' in our 2017 Annual Report. This is the ninth 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

GENERAL STANDARD DISCLOSURES		
GRI – G4 Code	Issue Area	Response for 2017
Strategy and Analysis		
G4-1	Statement from the most senior decision-maker of the organisation.	Refer to Joint Statement to Shareholders and Management Discussion and Analysis.
Organisational Profile		
G4-3	Name of the organisation.	British American Tobacco (Malaysia) Berhad.
G4-4	Primary brands, products, and services.	Refer to Management Discussion and Analysis.
G4-5	Location of the organisation's headquarters.	British American Tobacco (Malaysia) Berhad Level 19, Guoco Tower, Damansara City, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur.
G4-6	Countries of operation.	British American Tobacco (Malaysia) Berhad only operates in Malaysia.
G4-7	Nature of ownership and legal form.	Refer to Notes to The Financial Statements.
G4-8	Markets served.	Refer to Management Discussion and Analysis.
G4-9	Scale of the organisation.	Refer to Management Discussion and Analysis.
G4-10	Organisation's workforce.	Refer to Winning Organisation Pillar and GRI Specific Standard Disclosures G4-LA (1-16).
G4-11	Total employees covered by collective bargaining agreements.	There were no employees covered by collective bargaining agreements as at 31 December 2017.
G4-12	Organisation's supply chain.	Refer to Productivity Pillar.
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain.	Refer to Management Discussion and Analysis and Productivity Pillar.
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation.	Refer to Sustainability Pillar.
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	Refer to Sustainability Pillar.

G4-16	Memberships of associations.	- Confederation of Malaysian Tobacco Manufacturers - Malaysian International Chamber of Commerce and Industry - Federation of Malaysian Manufacturers
Identified material aspects and boundaries		
G4-17	Entities included in the organisation's consolidated financial statements.	Refer to Notes to Financial Statements.
G4-18	Process for defining report content and the Aspect Boundaries.	Refer to Aspects & Boundaries and Materiality.
G4-19	Material Aspects identified in the process for defining report content.	Refer to Aspects & Boundaries and Materiality.
G4-20	Aspect Boundary within the organisation.	Refer to Aspects & Boundaries and Materiality.
G4-21	Aspect Boundary outside the organisation.	Refer to Aspects & Boundaries and Materiality.
G4-22	Restatements of information provided in previous reports.	There is no restatement of information from previous report.
G4-23	Significant changes from previous reporting in the Scope and Aspect Boundaries.	Not applicable.
Stakeholder Engagement		
G4-24	List of stakeholder groups engaged by the organisation.	Refer to Stakeholders.
G4-25	Basis for identification and selection of stakeholders with whom to engage.	Refer to Stakeholders.
G4-26	Approach to stakeholder engagement.	Refer to Stakeholders.
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	Refer to Stakeholders.
Report Profile		
G4-28	Reporting period.	Unless otherwise stated, all data covers the calendar year from 1 January to 31 December.
G4-29	Date of most recent previous report.	Our latest annual report was published on 18 April 2017 for the period covering 1 January – 31 December 2016.
G4-30	Reporting cycle.	British American Tobacco (Malaysia) Berhad has an annual reporting cycle.
G4-31	Contact point.	Refer to Corporate Information.
G4-32	GRI Content Index.	Refer to Global Reporting Initiative (GRI) G4 Indicators 2017.
G4-33	External assurance.	No external assurance conducted.
Governance		
G4-34	Governance structure of the organisation.	Refer to Statement of Corporate Governance.
Ethics & Integrity		
G4-56	Organisation's values, principles, standards and norms of behavior.	Refer to Statement of Corporate Governance and Standards of Business Conduct Statement.

SPECIFIC STANDARD DISCLOSURES		
GRI – G4 Code	Issue Area	Response for 2017
G4-EC1	Direct economic value generated and distributed.	Direct economic value generated (Revenue) : RM3,002 million Economic value distributed:- Operating costs: RM638 million Employee wages and benefits: RM101 million Payment to providers of capital: RM711 million Payment to Government (taxes): RM1,757 million Community investment: RM2 million Economic value retained: (RM218 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 2017, 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 2017.
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operations.	For 2017, 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 2017, the percentage of senior management in British American Tobacco Malaysia at significant locations of operations that are hired from the local community represent 82 percent. Please refer below for the definition of the terms reported: • Senior management - refer to job Grades 36 and above. • Significant locations of operations – refer to the Marketing, Operations and Corporate Services functions. • Local community – refers to Malaysia.
G4-EC7	Development and impact of infrastructure investments and services supported.	Refer to Sustainability Pillar.

G4-EC8	Significant indirect economic impacts.	Listed below are some significant indirect economic impacts to British American Tobacco Malaysia in 2017: • The average Malaysian consumer continued to be financially stretched as inflation was on the rise during the year (inflation was at a high 4.1 percent in 2017). On top of it, the unprecedented cigarette excise increase of more than 40 percent in November 2015 continued to fuel illegal cigarette trade in the market with majority (58.3 percent) of cigarette shares going to illegal cigarette trade. • The Malaysian Ringgit currency devaluation continued in 2017 as well, hitting a near 19-year low of 4.5 versus US Dollars in January 2017. Although the Ringgit has shown considerable recovery since then, it remained much weaker than what it used to be two years back. Subsequently, imported product prices and spending patterns continued to be impacted during the year. • The consumer confidence remained low with an index score of 93 percentage points in quarter 3 2017 – a gap of 22 percentage points behind Asia Pacific average, indicating that consumer sentiment remained pessimistic, leading to cautious spending behaviour.
G4-EC9	Proportion of spending on local suppliers at significant locations of operation.	British American Tobacco p.l.c Group is a global business and has contracts with global suppliers, although the delivery and invoicing of goods and services often takes 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.	Total materials : 2,281.8 tonnes Non-renewable materials : 4.3 tonnes <i>(Parts, fuels, cleaning materials, chemicals and processing aids)</i> Direct materials: 2,277.5 tonnes <i>(Leaf, wrapping, packaging, filter and flavouring)</i> Normalised: 1.06 tonnes/million cigarette equivalent. British American Tobacco Malaysia recorded a 66.2 percent reduction in direct materials usage and 99.7 percent reduction in indirect materials usage in 2017. The decrease is mainly attributed to import of cut rags (instead of previously leaf) as well as NG/ Diesel also reduced significantly after the shutdown of boiler due to the cease of Primary Manufacturing in Dec 2016.
G4-EN2	Percentage of materials used that are recycled input materials.	Not applicable in year 2017 as the Reconstituted Tobacco Plant ceased operations since May 2015.
G4-EN3	Energy consumption within the organisation.	Total: 59,885 Gigajoules Non-renewable: 59,885 Gigajoules <i>(Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)</i> Renewable: 0 Gigajoules Normalised: 27.84 Gigajoules/million cigarette equivalent A lower direct energy usage of 56.0 percent was recorded in 2017 primarily due to significant lower production volume in-line with the factory's winding down initiatives (Last production in Malaysia was in June 2017).

G4-EN4	Energy consumption outside of the organisation.	Total: 9610 Gigajoules Non-renewable: Electricity 9610 Gigajoules Normalised: 4.47 Gigajoules/million cigarette equivalent A decrease of indirect energy consumption of 94.7 percent was recorded in 2017. This was primarily due to very low air freight for export volume in-line with the factory winding down initiatives (Last production in Malaysia was in June 2017).
G4-EN5	Energy intensity.	Energy intensity ratio in 2017: 32.3 Gigajoules/million cigarette equivalent produced. 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. Total energy used was inclusive of direct and indirect energy. As for the total production volume produced, it is inclusive of total cigarette.
G4-EN6	Reduction of energy consumption.	British American Tobacco Malaysia's initiatives: 1. British American Tobacco Malaysia's Headquarter was relocated to Guoco Tower (a certified green building) in September 2017. 2. Chillers were gradually shutdown during the winding down of the manufacturing facilities in the Virginia Park premise.
G4-EN7	Reductions in energy requirements of products and services.	A reduction of energy consumption has been recorded since the operations of the following plants ceased in line with the factory's winding down initiatives: Secondary Manufacturing was shutdown in end June 2017 while production volume had been transferred to overseas British American Tobacco Group factories. An estimated 11,072,487 kwh of electricity have been reduced.
G4-EN8	Total water withdrawal by source.	Total: 33484 cubic metres Normalised: 15.57 cubic metres/ million cigarette equivalent. British American Tobacco Malaysia recorded a 68.7 percent decrease in water usage in-line with the factory winding down initiatives (Last production in Malaysia was in June 2017).
G4-EN9	Water sources significantly affected by withdrawal of water.	British American Tobacco Malaysia facilities sourced water from its respective Government authorised state water supplier. The water withdrawal did not affect any of the six sites designated under the Ramsar List of Wetlands of International Importance* in Malaysia. *These wetlands are included under the Ramsar Convention, which is an international treaty for the conservation and sustainable utilisation of wetlands.
G4-EN10	Percentage and total volume of water recycled and reused.	British American Tobacco Malaysia did not reuse any recycled water in 2017.
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Information is 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 is 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 is 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).	Direct green-house gas emissions (CO ₂) from Scope 1 used by British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn Bhd (CMD): 1782.84 tonnes. Reporting is based on the Environmental Impact Report in quarter four 2017.
G4-EN16	Energy indirect green-house gas (GHG) emissions (Scope 2).	Direct green-house gas emissions (CO ₂) from Scope 2 used by British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn Bhd (CMD): 6311.49 tonnes. Reporting is based on the Environmental Impact Report in quarter four 2017.
G4-EN17	Other indirect green-house gas (GHG) emissions (Scope 3).	Direct green-house gas emissions (CO ₂) from Scope 3 used by British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn Bhd (CMD): 683 tonnes. Reporting is based on the Environmental Impact Report in quarter four 2017.
G4-EN18	Green-house gas (GHG) emissions intensity.	Emissions intensity ratio in 2017: 4.08 CO ₂ emissions/million cigarette equivalent produced. 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. As for the total production volume produced, it is inclusive of total cigarette.
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 7370 tonnes of CO ₂ 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	NO _x , SO _x , 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 public waterways (1,500 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.	2015 : Hazardous Waste – 11.0 tonnes : Non-Hazardous Waste – 3,107 tonnes 2016 : Hazardous Waste – 14.3 tonnes : Non-Hazardous Waste – 2,133 tonnes 2017 : Hazardous Waste – 19 tonnes : Non-Hazardous Waste – 603 tonnes 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). The one-off increase of hazardous waste was due to the closure of the Virginia Park manufacturing facilities.
G4-EN24	Total number and volume of significant spills.	British American Tobacco Malaysia did not record any significant spills in 2017.
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.	Total: 19 tonnes All hazardous wastes were sent to Government approved site (Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan) for disposal. British American Tobacco Malaysia noted a higher one-off 25 percent increase of hazardous waste in 2017 due to the closure of the Virginia Park factory.
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 treated the water used in factory operations at our Effluent Treatment Plant which follows stringent standards. As part of factory closure, the effluent treatment plant was shut down in Jan 2017 onwards.
G4-EN27	Extent of impact mitigation of environmental impacts of products and services.	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: 1. Introduction of the use of hybrid cars for company fleet began in June 2015. To date, there are four units of hybrid vehicles within the company fleet. 2. Energy Metering initiative for energy usage monitoring and improvement initiative. 3. Installation of motion sensor in all meeting rooms at British American Tobacco Malaysia's Headquarter to reduce and control electricity usage. 4. Replacement of high bay light bulb to LED bulb to meet the lighting lux level for central warehouse at Bangi to improve electricity usage. 5. Increased the air conditioner temperature from 23.0 to 26.0 degree Celsius at British American Tobacco Malaysia's Headquarter to reduce electricity usage.
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category.	Information is 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.	There were no fines and non-monetary sanctions for non-compliance with environmental laws and regulations for 2017.

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.	Total in 2017: RM10,000 Below is the breakdown for total environmental protection expenditures and investments: 1. Environment Day Celebration Event – RM5,000 2. World Safety Day Event – RM5,000 3. No other programme was initiated apart from these due to the closure of the Virginia Park manufacturing facilities.
G4-EN32	Percentage of new suppliers that were screened using environmental criteria.	100 percent of our new and existing direct materials suppliers are screened using environmental criteria as part of our supplier programmes. We use the Supply Chain Due Diligence process, where it includes assessing risks based on type of supplier, prioritising suppliers exposed to the highest risk, and monitoring and reviewing high-risk suppliers through self-assessment questionnaires, including environmental criteria or on-site audits and reviews that are delivered by appointed expert vendor, Intertek.
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 2017.
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 2017.
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region.	The Company recorded a higher number of employees who left employment in 2017 mainly due to the closure of the factory. As at 31 December 2017: The total number of employees who left employment in 2017 by age group: 1. less than 30 years old = 45 2. 30 – 50 years old = 154 3. above 50 years old = 48 The total number of employees who left employment in 2017 by gender: 1. Male = 209 2. Female = 38 The total number of employees who left employment in 2017 by region: 1. North = 7 2. South = 6 3. East Malaysia = 5 4. Central East = 8 5. Central West = 18 6. HQ = 203 The total number of employees who left employment in 2017 by ethnicity: 1. Malay : 122 2. Chinese: 84 3. Indian : 33 4. Others : 8

G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	The following benefits were provided to British American Tobacco Malaysia's full-time management and non-management employees: 1. Medical benefits 2. Annual, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, caregivers, enrichment and pilgrimage leave 3. Bonus 4. Group Term Life Insurance Scheme 5. Company vehicle and monthly cash allowance (depending on grade) 6. Corporate club membership (depending on grade) 7. Flexible Benefits
G4-LA3	Return to work and retention rates after parental leave, by gender.	As at 31 December 2017: Total number of employees that were entitled to parental leave, by gender; 1. Female: 107 2. Male : 390 Total number of employees that took parental leave, by gender: 1. Female: 10 2. Male : 27 Total number of employees who returned to work after parental leave ended, by gender. 1. Female: 10 2. Male : 27
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	As of 31 December 2017, there are no unionised employees in the Company.
G4-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.	100 percent of the total workforce was represented by a senior manager representing each function in our Corporate Environmental Health and Safety (EHS) Committee. Six representatives each (from management and non-management employees respectively) were members of the EHS Committee. This Committee is headed by a chairman (Head of Production) and also includes representatives from Occupational Health, Security and an appointed Secretary (EHS Manager).
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region and by gender.	In 2017, British American Tobacco Malaysia and its wholly owned marketing subsidiary, Commercial Marketers and Distributors Sdn Bhd achieved 444,305 man-hours without a Lost Time Injury since September 2011, whereas its wholly owned manufacturing subsidiary, Tobacco Importers and Manufacturers Sdn Bhd achieved 352,129 man-hours with 1 Lost Time Injury on 11 July 2017.
G4-LA7	Workers with high incidence or high risks of diseases related to their occupation.	There was no record of workers having high incidence or high risk of diseases relating to their occupation in British American Tobacco Malaysia.
G4-LA8	Health and safety topics covered in formal agreements with trade unions.	As of 31 December 2017, there are no unionised employees in the Company.

G4-LA9	Average hours of training per year per employee by gender, and by employee category.	International and Regional trainings were provided to 237 employees and 4378 hours were invested. Local trainings were provided to 371 employees and a total of 7400 hours were invested. The training programmes offered are listed as follows: 1. Local Training: 19.9 hours 2. International and Regional Training: 18.5 hours The hours calculated are based on the average hours per participant. Global Leadership Curriculum (GLC) courses: 18.5 hours 1. British American Tobacco Malaysia: 19.8 hours 2. Commercial Marketers and Distributors: 18 hours 3. Tobacco Importers and Manufacturers: 15.8 hours Non-GLC courses: 19.9 hours 1. British American Tobacco Malaysia: 15.36 hours 2. Commercial Marketers and Distributors Sdn Bhd: 8.3 hours 3. Tobacco Importers and Manufacturers Sdn Berhad: 24.8 hours 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.
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	There are two types of GLC programs implemented to upgrade employee skills which are Junior to Middle Development Programmes, and Senior Development Programmes. Some examples of these programmes are as below: 1. Leadership Training (i) Leading Self (ii) Leading Teams (iii) Coaching (iv) Women in Leadership (v) The BAT Academy 2. Skills Training (i) SCQuARE (ii) POSITIVE Refresh (iii) My Peak Performance (iv) Microsoft Excel (v) Train the Facilitator 3. Human Resources (i) Human Resources Development Programme British American Tobacco Malaysia also offers online training courses which are available on the Company's intranet where employees can access at their convenience to further bridge the gaps of three leadership capabilities which were identified as key focus areas in 2017: 1. Thinks Strategically and Prioritises 2. Leads Change and Innovates 3. Develops Leaders and Teams

G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employment category.	100 percent of employees, both management and non-management employees, received a formal performance appraisal and review during the reporting period. Demographic as at December 2017: Management 1. Male : 74.25 percent (369) 2. Female: 21.13 percent (105) Non-management 1. Male : 4.22 percent (21) 2. Female: 0.40 percent (2)
G4-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.	The percentage of British American Tobacco Malaysia's Board of Directors by gender: 1. Male : 70 percent (5 out of 7 Directors) 2. Female: 30 percent (2 out of 7 Directors) The percentage of British American Tobacco Malaysia's Board of Directors by age groups: 1. Under 30 years old: 0 percent 2. 30-50 years old : 30 percent (2 out of 7 Directors) 3. Over 50 years old : 70 percent (5 out of 7 Directors) The percentage of employees in British American Tobacco Malaysia by gender: 1. Male : 78 percent (390 out of 497 employees) 2. Female: 22 percent (107 out of 497 employees) The percentage of employees in British American Tobacco Malaysia by age groups: 1. Under 30 years old: 18 percent (88 out of 497 employees) 2. 30-50 years old: 62 percent (308 out of 497 employees) 3. Over 50 years old: 20 percent (101 out of 497 employees)
G4-LA13	Ratio of basic salary and remuneration or women to men by employee category by significant locations of operation.	Male and female employees of the same grade shared the same salary scale, but their starting salary might differ based on talent, experience and skills set. Male and female Management Trainees were paid equal basic salaries.
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria.	We use the Supply Chain Due Diligence process, where it includes assessing risks based on type of supplier, prioritising suppliers exposed to the highest risk, and monitoring and reviewing high-risk suppliers through self-assessment questionnaires, including on-site audits and reviews that are delivered by appointed expert vendor, Intertek. Our suppliers are required to sign on the Supplier Code of Conduct which include adhering to our policy to labour practices.
G4-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 2017.
G4-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).

G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that have underwent human rights screening.	British American Tobacco Malaysia's significant investments were with its suppliers. Our philosophy on supplier partnership was not just about procurement but how we could increase value in the supply chain. We use the Supply Chain Due Diligence executed by our appointed expert vendor, Intertek., in selecting the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provision of education and training, regulatory compliances, business ethics and environment, health and safety responsibility. Our suppliers are also required to sign on the Supplier Code of Conduct which include adhering to our policy on human rights.
G4-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.	Trainings on human rights policies and procedures were provided to 10 employees and 136 hours were invested. Below are some examples of trainings that were attended: 1. Malaysian Financial Reporting Standards Update Seminar 2. Conference & Exhibition on Occupational Safety & Health 2017 3. International Health & Safety Certification 4. Employer's Tax Obligations Workshop (Fundamental)
G4-HR3	Total number of incidents of discrimination and corrective actions taken.	There were no incidents of discrimination at British American Tobacco Malaysia in 2017. 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.
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.	There were no significant risks in exercising freedom of association or collective bargaining in British American Tobacco Malaysia in 2017.

G4-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.	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: 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.
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	British American Tobacco Malaysia's significant investments were with its suppliers. Our philosophy on supplier partnership was not just about procurement but how we could increase value in the supply chain. We use the Supply Chain Due Diligence process to select the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provision of education and training, regulatory compliances, business ethics and environment, health and safety responsibility. Our suppliers are also required to sign on the Supplier Code of Conduct which include adhering to our policy on human rights.
G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations.	The Human Rights and Our Operations section of the Standards of Business Conduct ensures that British American Tobacco Malaysia conducts the operations in a way that respects the human rights of its employees, the people that British American Tobacco Malaysia works with and the communities in which British American Tobacco Malaysia operates in.

G4-HR8	Total number of incidents of violations involving rights of indigenous people and actions taken.	There were no incidents of violations involving rights of indigenous people at British American Tobacco Malaysia in 2017. 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: 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.
G4-HR9	Total number and percentage of operations that have been subject to human right reviews or impacts assessments.	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. 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.
G4-HR10	Percentage of new suppliers that were screened using human rights criteria.	100 percent of our new and existing strategic suppliers are reviewed through our major supplier programme, the Supply Chain Due Diligence process. This tool helps us assess whether our suppliers are meeting our human rights criteria and over time help achieve measurable improvements. If we identify human rights breaches in relation to a supplier, but there is no clear commitment to corrective action, persistent inaction, or a lack of improvement, then our Standards of Business Conduct make it clear that our work with that supplier should cease.
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken.	There were no significant negative human rights impacts in the supply chain recorded in British American Tobacco Malaysia for 2017.
G4-HR12	Number of grievance about human rights impacts filed, addressed and resolved through formal grievance mechanism.	In 2017, there were no grievances about human rights impacts filed in British American Tobacco Malaysia. 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.

G4-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 2017.
G4-SO2	Operations with significant actual and potential negative impacts on local communities.	There were no significant negative impacts on local communities recorded in British American Tobacco Malaysia for 2017.
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	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. 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.
G4-SO4	Communication and training on anti-corruption policies and procedures.	All employees have access to and are made aware of the Standards of Business Conduct via its intranet and employee onboarding training, which includes detailed information on anti-corruption and bribery. All employees are also required to sign off on an annual Declaration of Compliance to the Standards of Business Conduct. A further reinforcement message to all employees on Standards of Business Conduct compliance was issued in November 2017.
G4-SO5	Confirmed incidents of corruptions and actions taken.	There were no incidences of corruption reported at British American Tobacco Malaysia in 2017.
G4-SO6	Total value of political contributions by country and recipient/ beneficiary.	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. 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.
G4-SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	British American Tobacco Malaysia has not been involved in any legal action for anti-competitive behavior, anti-trust, and monopoly practices. 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.
G4-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 2017 for non-compliance with laws and regulations.

G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society.	Information is 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-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken.	Information is not reported due to a lack of data systems needed to generate the required information.																					
G4-SO11	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms.	In 2017, there were no grievances about impacts on society filed at British American Tobacco Malaysia. 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.																					
G4-PR1	Percentage of significant products and service categories for which health and safety impacts are assessed for improvement.	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 to health. 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.																					
G4-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.																					
G4-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></th><th colspan="2">2017</th></tr> <tr> <th></th><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> * Not applicable 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. 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. 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). For more information on our IMP, please see www.bat.com/imp		2017			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
	2017																						
	yes	no																					
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Safe use of the product or service	✓																						
Disposal of the product and environmental/social impacts		✓																					
Other (explain)	N A*	N A																					
G4-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 2017, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required health warnings and further textual warnings and/or labelling requirements on every cigarette packet.																					

G4-PR5	Results of surveys measuring customer satisfaction.	Information is 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-PR6	Sale of ban or disputed products.	British American Tobacco Malaysia does not sell products that are the subject of stakeholder questions or public debate apart from combustible tobacco products.
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.	There were no incidents of non-compliance with regulations concerning marketing communications in 2017.
G4-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.
G4-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.



Chapter 9:

Financial Statements

Directors' Responsibility Statement

The Directors are required by the Companies Act 2016 (the Act) to prepare the financial statements for each financial year which have been made out in accordance with the provisions of the Act and the applicable approved accounting standards set out by Malaysian Accounting Standards Board. This is 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 financial 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 judgments and estimates have been made.

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

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

Directors' Report

for the year ended 31 December 2017

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 2017.

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.

During the financial year, the Group has ceased the manufacturing operations of its subsidiary, Tobacco Importers and Manufacturers Sdn. Berhad located at Virginia Park, Jalan University, 46200, Petaling Jaya.

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

Results

	Group RM'000	Company RM'000
Profit for the year attributable to owners of the Company	492,635	624,128

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:

- fourth interim ordinary dividend of 77.0 sen per ordinary share and a special dividend of 46.0 sen per ordinary share totalling RM219,858,000 and RM131,344,000, respectively in respect of the financial year ended 31 December 2016 on 23 March 2017.
- first interim ordinary dividend of 40.0 sen per ordinary share totalling RM114,212,000 in respect of the financial year ended 31 December 2017 on 25 May 2017.
- second interim ordinary dividend of 43.0 sen per ordinary share totalling RM122,778,000 in respect of the financial year ended 31 December 2017 on 23 August 2017.
- third interim ordinary dividend of 43.0 sen per ordinary share totalling RM122,778,000 in respect of the financial year ended 31 December 2017 on 23 November 2017.

The Directors declared a fourth interim ordinary dividend of 43.0 sen per ordinary share at the Board of Directors' meeting on 13 February 2018 amounting to RM122,778,000 in respect of the financial year ended 31 December 2017 which will be paid on 22 March 2018 to shareholders registered in the Company's Register of Members at the close of business on 13 March 2018. These financial statements do not reflect the fourth interim ordinary dividend which will be accounted for in the financial year ending 31 December 2018.

The Board of Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2017.

Directors of the Company

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

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

Datuk Oh Chong Peng

Dato' Chan Choon Ngai

Datuk Zainun Aishah Binti Ahmad

Hendrik Stoel

Datuk Lee Oi Kuan (f)

Ricardo Martin Guardo

Directors' Interests in Shares

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

	Number of ordinary shares			
	At 1.1.2017	Bought	Sold	At 31.12.2017

Company

Shareholdings in the name of the Director:

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

	Number of ordinary shares in British American Tobacco p.l.c			
	At 1.1.2017	Bought	Sold	At 31.12.2017

Ultimate Holding Company

- British American Tobacco p.l.c

Shareholdings in the name of the Director:

Hendrik Stoel	4,512	2,364	(403)	6,473
Datuk Lee Oi Kuan (f)	16,578	4,315	(1,091)	19,802
Ricardo Martin Guardo	-	745	-	745

	Number of ordinary shares of 25p each in British American Tobacco p.l.c			
	At 1.1.2017	Awarded	Vested	At 31.12.2017

Ultimate Holding Company

- British American Tobacco p.l.c

Deferred Share Bonus Scheme & International
Share Reward Scheme

Shareholdings in the name of the Director:

Hendrik Stoel	5,386	1,284	(2,222)	4,448
Datuk Lee Oi Kuan (f)	3,814	733	(1,693)	2,854
Ricardo Martin Guardo	2,187	924	(780)	2,331

	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.2017	Granted	Exercised	Lapsed	At 31.12.2017

Ultimate Holding Company

- British American Tobacco p.l.c

Long-Term Incentive Plan

Shareholdings in the name of the Director:

Hendrik Stoel					
LTIP – Nil (22 March 2023)	368	-	-	-	368
LTIP – Nil (28 March 2024)	5,616	-	-	(3,033)	2,583
LTIP – Nil (27 March 2025)	5,154	-	-	-	5,154
LTIP – Nil (12 May 2026)	5,266	-	-	-	5,266
LTIP – Nil (27 March 2027)	-	4,988	-	-	4,988
Datuk Lee Oi Kuan (f)					
LTIP – Nil (28 March 2024)	4,720	-	(2,171)	(2,549)	-
LTIP – Nil (27 March 2025)	4,877	-	-	-	4,877
LTIP – Nil (12 May 2026)	3,597	-	-	-	3,597
LTIP – Nil (27 March 2027)	-	3,670	-	-	3,670
Ricardo Martin Guardo					
LTIP – Nil (27 March 2025)	1,600	-	-	-	1,600
LTIP – Nil (12 May 2026)	1,424	-	-	-	1,424
LTIP – Nil (27 March 2027)	-	3,301	-	-	3,301

Directors' Interests in Shares (continued)

Some of the shares and options in the ultimate holding company held by Directors arose as a result of the Directors' participation in the employee share schemes offered by British American Tobacco p.l.c (British American Tobacco p.l.c indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent equity interest in the Company and is the Company's ultimate holding company). Further details on the employee share schemes offered by British American Tobacco p.l.c are provided in Note 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 2016, other than as may arise from equity-settled share-based compensation plans offered by British American Tobacco p.l.c (British American Tobacco p.l.c is the ultimate holding company) as disclosed in Note 24 to the financial statements.

Issue of Shares and Debentures

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

Options Granted over Unissued Shares

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

Indemnity and Insurance Costs

During the financial year, Directors and Officers of the Group are covered under the Directors' and Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Group subject to the terms of the policy. The total indemnity coverage and premiums paid in respect of the Directors' and Officers' Liability Insurance for the Directors and Officers of the Group were RM4,268,000 and RM20,251 respectively.

There were no indemnity and insurance costs effected for auditors 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.

Other Statutory Information (continued)

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2017 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.

Auditors

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

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

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



Hendrik Stoel
Managing Director



Ricardo Martin Guardo
Finance Director

Petaling Jaya

Date: 13 February 2018

Income Statements

for the year ended 31 December

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue	3	3,002,259	3,756,392	632,584	695,170
Cost of sales		(1,971,684)	(2,486,775)	-	-
Gross profit		1,030,575	1,269,617	632,584	695,170
Other operating income		9,513	2,234	575	3,094
Distribution and marketing costs		(287,129)	(279,328)	-	-
Administrative (expenses)/income		(87,674)	(111,038)	16,127	(12,486)
Other operating expenses		(5,448)	(8,716)	(68)	(39)
Restructuring (expenses)/income	30	(9,245)	46,187	(4,555)	(4,134)
Profit from operations	4	650,592	918,956	644,663	681,605
Finance costs		(11,367)	(10,499)	(13,367)	(13,482)
Profit before tax		639,225	908,457	631,296	668,123
Tax expense	7	(146,590)	(187,168)	(7,168)	(142)
Profit for the year		492,635	721,289	624,128	667,981

The notes on pages 154 to 194 are an integral part of these financial statements.

Statements of Other Comprehensive Income

for the year ended 31 December

Note	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit for the year	492,635	721,289	624,128	667,981
Other comprehensive (expense)/ income, net of tax:				
Items that may be subsequently reclassified to profit or loss				
- changes in fair value of cash flow hedges	22 (17,038)	14,174	-	-
- deferred tax on fair value changes on cash flow hedges	14 4,091	(3,397)	-	-
Total other comprehensive (expense)/income for the financial year, net of tax	(12,947)	10,777	-	-
Total comprehensive income for the financial year	479,688	732,066	624,128	667,981
Profit attributable to:				
Owners of the Company	492,635	721,289	624,128	667,981
Total comprehensive income for the financial year attributable to:				
Owners of the Company	479,688	732,066	624,128	667,981
Basic earnings per ordinary share (sen)	8	172.5	218.6	233.9

The notes on pages 154 to 194 are an integral part of these financial statements.

Balance Sheets

as at 31 December

		Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Note					
Assets					
Property, plant and equipment	10	34,836	27,609	15,058	3,121
Computer software	11	1,524	1,700	3	81
Goodwill	12	411,618	411,618	-	-
Subsidiaries	13	-	-	973,395	973,395
Deferred tax assets	14	37,666	27,193	8,317	15,308
Total non-current assets		485,644	468,120	996,773	991,905
Assets held for sale	15	399	96,599	399	-
Inventories	16	236,636	214,947	-	-
Tax recoverable		6,595	23,991	2,263	367
Trade and other receivables	17	303,727	342,216	17,167	21,391
Derivative financial instruments	22	-	16,728	-	-
Cash and bank balances		11,554	33,131	4,134	5,552
Total current assets		558,911	727,612	23,963	27,310
Total assets		1,044,555	1,195,732	1,020,736	1,019,215
Equity					
Share capital	18	142,765	142,765	142,765	142,765
Cash flow hedge reserve		(1,812)	11,135	-	-
Retained earnings		241,170	459,505	339,118	425,960
Total equity		382,123	613,405	481,883	568,725
Liabilities					
Deferred tax liabilities	14	-	2,599	-	-
Total non-current liabilities		-	2,599	-	-
Trade and other payables	19	276,757	404,697	538,853	450,490
Deferred income	20	-	413	-	-
Borrowings	21	378,000	130,000	-	-
Derivative financial instruments	22	2,408	2,018	-	-
Current tax liabilities		5,267	42,275	-	-
Bank overdraft		-	325	-	-
Total current liabilities		662,432	579,728	538,853	450,490
Total liabilities		662,432	582,327	538,853	450,490
Total equity and liabilities		1,044,555	1,195,732	1,020,736	1,019,215

The notes on pages 154 to 194 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December

Group	Note	Non-distributable			Distributable	Total RM'000
		Share capital RM'000	Cash flow hedge reserve RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
At 1 January 2017		142,765	11,135	-	459,505	613,405
Profit for the year		-	-	-	492,635	492,635
Other comprehensive (expense)/ income:						
- changes in fair value of cash flow hedges	22	-	(17,038)	-	-	(17,038)
- deferred tax on fair value changes on cash flow hedges	14	-	4,091	-	-	4,091
Total comprehensive (expense)/ income		-	(12,947)	-	492,635	479,688
Transactions with owners:						
Expense arising from equity-settled share-based payment transactions	24	-	-	5,382	-	5,382
Recharge of share-based payments	24	-	-	(5,382)	-	(5,382)
Dividends for financial year ended 31 December 2016						
- fourth interim	9	-	-	-	(219,858)	(219,858)
- special dividend	9	-	-	-	(131,344)	(131,344)
Dividends for financial year ended 31 December 2017						
- first interim	9	-	-	-	(114,212)	(114,212)
- second interim	9	-	-	-	(122,778)	(122,778)
- third interim	9	-	-	-	(122,778)	(122,778)
Total transactions with owners of the Company		-	-	-	(710,970)	(710,970)
At 31 December 2017		142,765	(1,812)	-	241,170	382,123

Consolidated Statement of Changes in Equity

for the year ended 31 December (continued)

Group	Note	Non-distributable			Distributable	Total RM'000
		Share capital RM'000	Cash flow hedge reserve RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
At 1 January 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	22	-	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 payments	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 154 to 194 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December

Company	Note	Non-distributable		Distributable	Total RM'000
		Share capital RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
At 1 January 2017		142,765	-	425,960	568,725
Profit for the year		-	-	624,128	624,128
Total comprehensive income		-	-	624,128	624,128
Transactions with owners:					
Expense arising from equity-settled share-based payment transactions	24	-	3,555	-	3,555
Recharge of share-based payments	24	-	(3,555)	-	(3,555)
Dividends for financial year ended 31 December 2016					
- fourth interim	9	-	-	(219,858)	(219,858)
- special dividend	9	-	-	(131,344)	(131,344)
Dividends for financial year ended 31 December 2017					
- first interim	9	-	-	(114,212)	(114,212)
- second interim	9	-	-	(122,778)	(122,778)
- third interim	9	-	-	(122,778)	(122,778)
Total transactions with owners of the Company		-	-	(710,970)	(710,970)
At 31 December 2017		142,765	-	339,118	481,883

Statement of Changes in Equity

for the year ended 31 December (continued)

Company	Note	Non-distributable		Distributable	Total RM'000
		Share capital RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
At 1 January 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 payments	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 154 to 194 are an integral part of these financial statements.

Statements of Cash Flows

for the year ended 31 December

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Operating activities					
Cash receipts from customers and fellow subsidiaries		3,167,321	3,857,223	81,037	142,799
Cash paid to suppliers, employees and fellow subsidiaries		(2,666,030)	(3,005,920)	(74,796)	(82,847)
Dividends received from subsidiaries		-	-	627,223	688,990
Cash from operations	23	501,291	851,303	633,464	748,942
Income tax paid		(128,941)	(244,821)	(2,073)	(142)
Net cash flow from operating activities		372,350	606,482	631,391	748,800
Investing activities					
Property, plant and equipment					
- additions	10	(23,855)	(14,416)	(17,775)	(831)
- disposals		9,899	1,417	4,031	-
Assets held for sale					
- additions	15	-	(8,131)	-	-
- disposals		93,214	268,658	-	-
Computer software					
- additions	11	-	(1,426)	-	-
Interest income received		1,477	2,194	549	942
Net cash flow from/(used in) investing activities		80,735	248,296	(13,195)	111

The notes on pages 154 to 194 are an integral part of these financial statements.

Statements of Cash Flows

for the year ended 31 December (continued)

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Financing activities					
Dividends paid to shareholders	9	(710,970)	(665,284)	(710,970)	(665,284)
Interest expense paid		(11,367)	(10,499)	(13,367)	(13,482)
Drawdown from/(Repayment of) revolving credit		248,000	(175,000)	-	-
Drawdown from/(Repayment to) subsidiary for cash pooling		-	-	104,723	(75,435)
Net cash flow used in financing activities		(474,337)	(850,783)	(619,614)	(754,201)
Net (decrease)/increase in cash and cash equivalents		(21,252)	3,995	(1,418)	(5,290)
Cash and cash equivalents at 1 January		32,806	28,811	5,552	10,842
Cash and cash equivalents at 31 December		11,554	32,806	4,134	5,552

Cash and Cash Equivalents

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash and bank balances	11,554	33,131	4,134	5,552
Bank overdraft	-	(325)	-	-
Cash and cash equivalents at 31 December	11,554	32,806	4,134	5,552

Notes to the Financial Statements

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

Registered Office and Principal Place of Business

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

The consolidated financial statements as at and for the financial year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the Group and individually referred to as 'Group 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 13 February 2018.

1. Basis of Preparation

a. Statement of Compliance

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

The following are accounting standards, 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 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 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- 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*

1. 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*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations* (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements* (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 112, *Income Taxes* (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 123, *Borrowing Costs* (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

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

- MFRS 17, *Insurance Contracts*

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

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

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

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

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

i. 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*.

Currently, the Group recognises revenue from contracts with customers on the basis of fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Upon adoption of MFRS 15, the Group will recognise the revenue from contracts with customers that requires customer-related costs that have previously been treated as distribution and marketing costs to be allocated as a deduction of revenue.

1. Basis of Preparation (continued)

a. Statement of Compliance (continued)

i. MFRS 15, *Revenue from Contracts with Customers* (continued)

The potential impact on the financial statements for the year ended 31 December 2017 on initial application of MFRS 15 are as follows:

Group	Statement of profit or loss and other comprehensive income for the year ended 31 December 2017	
	As currently stated RM'000	Expected restatement RM'000
Revenue	3,002,259	2,916,166
Distribution and marketing costs	(287,129)	(201,036)
Profit for the year	492,635	492,635
Earnings per share (sen)		
- basic	172.5	172.5

ii. 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*.

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

The Group and the Company 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.

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 17 – impairment of prepaid excise duties

2. Significant Accounting Policies

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

a. Basis of Consolidation

i. Subsidiaries

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.

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'.

2. Significant Accounting Policies (continued)

b. Foreign Currency (continued)

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.

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)).

Financial Liabilities

The Group and the Company classify 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.

2. Significant Accounting Policies (continued)

c. Financial Instruments (continued)

ii. Financial Instrument Categories and Subsequent Measurement (continued)

Financial Liabilities (continued)

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.

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.

2. Significant Accounting Policies (continued)

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.

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 property, plant 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. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative years are as follows:

Leasehold land	15 to 45 years
Buildings	35 to 40 years
Machinery and equipment	10 to 14 years
Furniture and fittings (including computer equipment and peripherals)	Various periods not exceeding 10 years
Motor vehicles	5 years

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

2. Significant Accounting Policies (continued)

e. Leased Assets

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.

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 and the Company 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.

f. Intangible Assets

i. Goodwill

Goodwill arising on business combinations is measured at cost less any accumulated impairment losses.

ii. Other Intangible Assets

Intangible assets, other than goodwill, that are acquired by the Group and the Company, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

iii. Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

iv. Amortisation

Goodwill and other intangible assets with indefinite useful lives are not amortised but 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
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Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

2. Significant Accounting Policies (continued)

g. Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is calculated using weighted average method and comprises raw materials, direct labour, other direct costs and related production overheads and gains or losses on qualifying cash flow hedges for purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

h. 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. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

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.

ii. Other Assets

The carrying amounts of other assets (except for inventories and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets with indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

2. Significant Accounting Policies (continued)

i. Impairment (continued)

ii. Other Assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (group of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to 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.

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. State Plans

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 the Company's ultimate holding company).

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

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

2. Significant Accounting Policies (continued)

k. Employee Benefits (continued)

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 the end of the reporting period are discounted to present value.

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 in proportion to the stage of completion at the end of the reporting period.

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.

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.

2. Significant Accounting Policies (continued)

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 they relate to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

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.

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 share-based payment, lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2. Significant Accounting Policies (continued)

s. Fair Value Measurement (continued)

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 (2016: no transfer in either directions).

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 the 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 in the income statement over the contractual period on a straight-line basis. Deferred income are classified as current liabilities if they are earned within one year or less.

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Sale of semi-finished goods, cigarettes, pipe tobaccos and cigars	3,002,259	3,756,392	-	-
Dividend income from unquoted subsidiaries	-	-	627,223	688,990
Management fee received from subsidiaries	-	-	4,196	4,517
Fee for usage of property, plant and equipment received from subsidiaries	-	-	1,165	1,663
	3,002,259	3,756,392	632,584	695,170

4. Profit from Operations

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit from operations is arrived at after charging:					
Auditors' remuneration:					
- statutory audit		435	424	278	268
- non-audit fees		10	20	10	20
Raw materials and consumables used		231,404	373,549	-	-
Excise duties		1,600,614	1,883,815	-	-
Provision for impairment of prepaid excise duties		20,525	-	-	-
Property, plant and equipment:					
- depreciation	10	5,578	12,649	1,405	925
- loss on disposal		69	-	-	-
- write off		683	7	3	7
Computer software:					
- amortisation	11	176	216	78	117
Asset held for sale:					
- write off	15	3,478	-	-	-
Rental of land, buildings and equipments		5,134	7,064	1,336	-
Inventories written-down		4,519	9,440	-	-
Net foreign exchange loss		-	-	57	-
Staff costs	6	101,241	110,600	21,967	24,467
and after crediting:					
Gain on disposal:					
- assets held for sale		93	-	-	-
- property, plant and equipment		-	39	-	-
Unutilised credits written off		120	-	-	-
Allowance for doubtful debts written back		114	167	-	-
Net foreign exchange gain		3,952	3,694	-	2,039
Interest income on cash pooling		-	-	-	2,232
Interest income on deposits		1,477	2,194	549	942

* The amounts charged/credited in relation to restructuring of business operations during the year is not disclosed above and is disclosed in Note 30.

5. Directors' Remuneration

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Fees	645	745	645	745
Other emoluments	7,953	13,898	7,953	13,898
	8,598	14,643	8,598	14,643

The estimated monetary value of benefits in kind provided to Directors of the Group and of the Company during the financial year amounted to RM621,000 (2016: RM1,028,000) and RM621,000 (2016: RM1,028,000) respectively.

Included within other emoluments are share-based payments amounting to RM374,000 (2016: RM1,608,000) 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 2017, 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 1.1.2017	Awarded	Vested	Other movements*	At 31.12.2017
Executive Directors					
Deferred Share Bonus Scheme	11,174	2,874	(4,622)	-	9,426
International Share Reward Scheme	213	67	(73)	-	207
	11,387	2,941	(4,695)	-	9,633

* 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 are as follows, representing costs incurred by the Group and the Company during the tenure of the Directors' service with the Group and the Company.

Grant price	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.2017	Granted	Exercised	Other movements*	At 31.12.2017
£32.58	10,336	-	(2,171)	(5,582)	2,583
£35.05	368	-	-	-	368
£36.25	11,631	-	-	-	11,631
£42.34	10,287	-	-	-	10,287
£52.11	-	11,959	-	-	11,959
	32,622	11,959	(2,171)	(5,582)	36,828

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

6. Staff Costs

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Wages, salaries and bonuses	81,798	84,576	18,039	18,542
Defined contribution plan	9,764	11,896	944	1,739
Voluntary redundancy package	3,559	5,367	67	285
Other staff related expenses	6,120	8,761	2,917	3,901
	101,241	110,600	21,967	24,467

The Group voluntarily provides additional 4.0 percent Employees Provident Fund (EPF) contributions over the statutory requirement for a significant number of existing employees who participate in a defined contribution scheme offered by the Group.

Included in staff costs is an amount for other emoluments as part of Directors' remuneration disclosed in Note 5 to the financial statements.

Voluntary redundancy package is a result of factory rightsizing as well as redundancies in the ordinary course of the business.

Staff costs recharged by the Company to the subsidiaries amounted to RM18,354,000 for the year ended 31 December 2017 (2016: RM20,732,000).

7. Tax Expense

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current tax expense				
- current year	157,871	220,983	177	204
- overprovision in prior year	(2,300)	(2,823)	-	-
	155,571	218,160	177	204
Deferred tax (credit)/expense				
- reversal and origination of temporary differences	(8,981)	(30,992)	6,991	(62)
	146,590	187,168	7,168	142

	Group		Company	
	2017 %	2016 %	2017 %	2016 %
Reconciliation of tax expense				
Statutory tax rate	24	24	24	24
Expenses not deductible for tax purposes	1	1	1	2
Income not subject to tax	(2)	(5)	(24)	(26)
Real property gain tax	-	1	-	-
Average effective tax rate	23	21	1	-

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	
	2017	2016	2017	2016
Profit for the year (RM'000)	492,635	721,289	624,128	667,981
Number of ordinary shares each in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per ordinary share (sen)	172.5	252.6	218.6	233.9

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

9. Dividends

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

	Sen per share RM	Total amount RM'000
2017		
Fourth interim	77.0	219,858
Special Dividend	46.0	131,344
First interim	40.0	114,212
Second interim	43.0	122,778
Third interim	43.0	122,778
Total amount	249.0	710,970
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

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 43.0 sen per ordinary share at the Board of Directors' meeting on 13 February 2018 amounting to RM122,778,000 in respect of the financial year ended 31 December 2017 which will be paid on 22 March 2018 to shareholders registered in the Company's Register of Members at the close of business on 13 March 2018. These financial statements do not reflect the fourth interim ordinary dividend which will be accounted for in the financial year ending 31 December 2018.

The Board of Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2017.

10. Property, Plant and Equipment

Group	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Machinery and equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost								
At 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/ 1 January 2017	105	434	1,790	777	62,603	36,195	3,577	105,481
Additions	-	-	-	275	18,950	2,911	1,719	23,855
Disposals	-	-	-	(4,022)	(4,031)	(5,203)	-	(13,256)
Write off	-	-	(533)	(1,334)	(45,255)	-	-	(47,122)
Reclassifications	-	-	-	4,687	-	-	(4,687)	-
Reclassifications to assets held for sale	-	(212)	(559)	-	-	-	-	(771)
At 31 December 2017	105	222	698	383	32,267	33,903	609	68,187
Accumulated depreciation and impairment								
At 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/ 1 January 2017	-	123	1,490	777	60,098	15,384	-	77,872
Charge for the year	-	5	28	8	1,950	3,587	-	5,578
Disposals	-	-	-	-	-	(3,288)	-	(3,288)
Write off	-	-	(533)	(669)	(45,237)	-	-	(46,439)
Reclassifications to assets held for sale	-	(55)	(317)	-	-	-	-	(372)
At 31 December 2017	-	73	668	116	16,811	15,683	-	33,351
Net book value								
At 1 January 2016	105	15,444	44,772	196,317	4,587	20,911	9,758	291,894
At 31 December 2016/ 1 January 2017	105	311	300	-	2,505	20,811	3,577	27,609
At 31 December 2017	105	149	30	267	15,456	18,220	609	34,836

10. Property, Plant and Equipment (continued)

Company	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Machinery and equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
Cost							
At 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/ 1 January 2017	105	434	1,790	777	14,907	2,204	20,217
Additions	-	-	-	-	17,775	-	17,775
Write off	-	-	(533)	(669)	(6,541)	-	(7,743)
Disposals	-	-	-	-	(4,031)	-	(4,031)
Reclassifications to assets held for sale	-	(212)	(559)	-	-	-	(771)
At 31 December 2017	105	222	698	108	22,110	2,204	25,447
Accumulated depreciation and impairment							
At 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/ 1 January 2017	-	123	1,490	777	13,936	770	17,096
Charge for the year	-	5	29	-	1,085	286	1,405
Write off	-	-	(533)	(669)	(6,538)	-	(7,740)
Reclassifications to assets held for sale	-	(55)	(317)	-	-	-	(372)
At 31 December 2017	-	73	669	108	8,483	1,056	10,389
Net book value							
At 1 January 2016	105	316	687	158	1,766	1,720	4,752
At 31 December 2016/ 1 January 2017	105	311	300	-	971	1,434	3,121
At 31 December 2017	105	149	29	-	13,627	1,148	15,058

11. Computer Software

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cost				
At 1 January	37,031	35,605	30,187	30,187
Additions	-	1,426	-	-
At 31 December	37,031	37,031	30,187	30,187
Accumulated amortisation				
At 1 January	35,331	35,115	30,106	29,989
Charge for the year	176	216	78	117
At 31 December	35,507	35,331	30,184	30,106
Net book value				
At 31 December	1,524	1,700	3	81

12. Goodwill

	Group	
	2017 RM'000	2016 RM'000
Carrying amount at 31 December	411,618	411,618

Goodwill arose from the acquisition of the business of Malaysian Tobacco Company Berhad, which represents the cash-generating units, and represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the net assets of the subsidiary companies acquired on 2 November 1999, the date of acquisition.

The carrying amount of goodwill is reviewed for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating 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 (2016: five years) based on historical growth rate, taking into account industry developments and at the pre-tax discount rate of 12.4 percent (2016: 12.9 percent). Based on the assessment, the recoverable amount exceeded the carrying amount of the goodwill. Accordingly, no impairment charges were recognised in 2017 (2016: nil). Any reasonable change in the key assumptions used will not result in any significant change to the recoverable amount.

13. Subsidiaries

	Company	
	2017 RM'000	2016 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. The Company has ceased its manufacturing operations on 30 June 2017
Non-operating	Principal activities
Tobacco Blenders and Manufacturers Sdn. Bhd.	The Company was dissolved on 24 December 2017
The Leaf Tobacco Development Corporation Of Malaya Sdn. Berhad	The Company was dissolved on 24 December 2017

Incorporated in Negara Brunei Darussalam

Commercial Marketers and Distributors Sdn.Bhd.* Dormant

* Not audited by KPMG PLT.

14. Deferred Tax

		Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Note					
Deferred tax assets					
At 1 January		27,193	30,536	15,308	15,246
Credited/(Charged) to income statements	14(i)	6,382	(379)	(6,991)	62
Credited/(Charged) to statements of comprehensive income	14(ii)	4,091	(2,964)	-	-
At 31 December		37,666	27,193	8,317	15,308
Represented by:					
Property, plant and equipment		3,412	1,592	-	57
Tax losses		3,455	6,744	3,577	6,744
Provisions		32,819	36,302	5,367	8,551
Cash flow hedge		579	15,092	-	-
Deferred tax assets (before offsetting)		40,265	59,730	8,944	15,352
Offsetting		(2,599)	(32,537)	(627)	(44)
Deferred tax assets (after offsetting)		37,666	27,193	8,317	15,308

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deferred tax liabilities					
At 1 January		2,599	33,537	-	-
Credited to income statements	14(i)	(2,599)	(31,371)	-	-
Charged to statements of comprehensive income	14(ii)	-	433	-	-
At 31 December		-	2,599	-	-
Represented by:					
Property, plant and equipment		2,599	16,532	627	44
Cash flow hedge		-	18,604	-	-
Deferred tax liabilities (before offsetting)		2,599	35,136	627	44
Offsetting		(2,599)	(32,537)	(627)	(44)
Deferred tax liabilities (after offsetting)		-	2,599	-	-

14. Deferred Tax (continued)

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deferred tax assets				
Deferred tax assets to be recovered after more than 12 months	1,393	15,353	2,951	8,552
Deferred tax assets to be recovered within 12 months	36,273	11,840	5,366	6,756
At 31 December	37,666	27,193	8,317	15,308
Deferred tax liabilities				
Deferred tax liabilities to be recovered after more than 12 months	-	(2,133)	-	-
Deferred tax liabilities to be recovered within 12 months	-	(466)	-	-
At 31 December	-	(2,599)	-	-
Deferred tax assets, net	37,666	24,594	8,317	15,308

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(i) Credited/(Charged) to income statements:				
- Credited/(Charged) in respect of deferred tax assets	6,382	(379)	(6,991)	62
- Credited in respect of deferred tax liabilities	2,599	31,371	-	-
Net credit/(charge) to income statements	8,981	30,992	(6,991)	62
(ii) Credited/(Charged) to statements of comprehensive income:				
- Credited/(Charged) in respect of deferred tax assets	4,091	(2,964)	-	-
- Charged in respect of deferred tax liabilities	-	(433)	-	-
Net credit/(charge) to statements of comprehensive income	4,091	(3,397)	-	-

15. Assets Held for Sale

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At 1 January	96,599	-	-	-
Transfer from property, plant and equipment	399	228,687	399	-
Additions	-	8,131	-	-
Disposals	(93,121)	(140,219)	-	-
Write off	(3,478)	-	-	-
At 31 December	399	96,599	399	-

The movements to assets held for sale were mainly related to the restructuring of business operations as disclosed in Note 30 and the sale has been duly completed in December 2017. The transfer from property, plant and equipment to assets held for sale for the year ended 31 December 2017 relates to disposal of property to be completed in 2018.

16. Inventories

	Group	
	2017 RM'000	2016 RM'000
Raw materials	-	70,685
Work-in-progress	-	1,594
Finished goods	236,636	142,668
	236,636	214,947
Recognised in profit or loss:		
Inventories recognised as cost of sales	1,875,298	2,320,952
Write-down to net realisable value	4,519	9,440

17. Trade and Other Receivables

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade receivables	17.1	132,710	132,326	-	-
Allowance for doubtful debts	17.1	(46)	(160)	-	-
Trade receivables, net		132,664	132,166	-	-
Amounts due from fellow subsidiaries*	17.2	24,946	37,514	581	377
Amounts due from subsidiaries		-	-	12,323	19,107
Other receivables, deposits and prepayments	17.3	146,117	172,536	4,263	1,907
		171,063	210,050	17,167	21,391
Total receivables		303,727	342,216	17,167	21,391

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

17. Trade and Other Receivables (continued)

17.1 Trade Receivables

Credit terms of trade receivables range from 1 to 60 days (2016: 1 to 60 days).

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

	Group	
	2017 RM'000	2016 RM'000
Not past due	124,745	128,574
Past due 0 - 60 days	7,496	3,752
Over 61 days	469	-
	132,710	132,326

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

	Group	
	2017 RM'000	2016 RM'000
At 1 January	160	80
Provision for receivables impairment	46	98
Receivables write (off)/back during the year	(5)	18
Unused amounts reversed	(155)	(36)
At 31 December	46	160

17.2 Amounts Due from Fellow Subsidiaries

The Group's amounts due from fellow subsidiaries arose mainly from disposals of assets held for sale and residual export sales which have a credit term of 30 to 60 days (2016: 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:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Not past due	23,583	27,045	581	305
Past due 0 - 30 days	-	3	-	72
Past due 31 - 120 days	407	3,601	-	-
Past due more than 120 days	956	6,865	-	-
	24,946	37,514	581	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. Trade and Other Receivables (continued)

17.3 Other Receivables, Deposits and Prepayments

Included in other receivables, deposits and prepayments are prepaid excise duties of RM142,712,000 (2016: RM69,371,000) mainly due to the full importation model after the cessation of the manufacturing operations of its subsidiary. During the year, the Group made a provision for impairment of prepaid excise duties amounting to RM20,525,000 that is pending refund from Royal Malaysian Customs (RMC). The pending excise duties refund from RMC was related to unutilised tax stamps and tax stamps wastages encountered during the manufacturing process. The provision for impairment was made because decision on the refund of prepaid excise duties has yet to be made by the RMC. Currently, the Group is actively engaging RMC to obtain the refund.

18. Share Capital

	Group and Company			
	Number of shares 2017	Amount 2017	Number of shares 2016	Amount 2016
	'000	RM'000	'000	RM'000
Ordinary shares issued and fully paid	285,530	142,765	285,530	142,765

19. Trade and Other Payables

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade payables	19.1	35,853	25,118	-	-
Trade accruals		65,599	92,922	-	-
Amounts due to subsidiaries		-	-	512,217	407,620
Amounts due to fellow subsidiaries*	19.2	41,186	59,542	1,668	3,030
Other payables		134,119	227,115	24,968	39,840
		276,757	404,697	538,853	450,490
Other payables comprised the following:					
Accruals for employee expenses		20,129	24,156	4,470	5,360
Accruals for administrative expenses		88,281	135,431	18,499	32,481
Provision for employee expenses		9,115	10,780	277	70
Provision for restructuring expenses		14,805	54,912	-	94
Other non-operating creditors		1,789	1,836	1,722	1,835
		134,119	227,115	24,968	39,840

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

19.1 Trade Payables

Credit terms of trade payables and suppliers of property, plant and equipment granted to the Group vary from cash term to 120 days (2016: cash term 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 (2016: 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.

21. Borrowings

Group	2017 RM'000	2016 RM'000
Current		
Revolving credit – unsecured	378,000	130,000

The Group's borrowings relate to revolving credits maturing between one week to three months. The Group's borrowings are denominated in Ringgit Malaysia and the fair value of borrowings is disclosed in Note 26.

22. Derivative Financial Instruments

Group	2017		2016	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Forward foreign exchange contract				
- cash flow hedges	-	2,408	16,728	2,018

The fair values of derivative financial instruments are determined based on the quoted market price of similar derivatives, as they are not traded on an active market.

During the year, a gain of RM2,153,000 (2016: RM1,413,000) arising from cash flow hedges was recognised in the income statement.

The Group's cash flow hedges are principally net exposure in the respective foreign currencies of future payment for finished goods and services, generally over the next six months. The timing of expected cash flows in respect of derivatives designated as cash flow hedges is expected to be comparable to the timing of when the hedged item will affect the income statement, which are expected to occur at various dates during the next six months (2016: 12 months).

Gains and losses recognised in other comprehensive income on forward foreign exchange contracts are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. During the year, a loss of RM17,038,000 (2016: gain of RM14,174,000) was recognised in the other comprehensive income and a loss of RM873,000 (2016: gain of RM1,363,000) was reclassified from equity to the income statement.

22. Derivative Financial Instruments (continued)

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

Hedging Instruments Group	Currency	RM'000 equivalent	Average contracted rate
2017			
Currency to be received over the next 6 months			
USD20,300,000 (net)	US Dollar	84,856	1 USD = RM4.1801
GBP750,000 (net)	Pound Sterling	4,193	1 GBP = RM5.5907
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

23. Cash from Operations

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit for the year	492,635	721,289	624,128	667,981
Adjustments for:				
Interest income	(1,477)	(2,194)	(549)	(942)
Property, plant and equipment:				
- depreciation	5,578	12,649	1,405	925
- impairment	-	35,980	-	1,530
- write off	683	7	3	7
- loss/(gain) on disposal	69	(39)	-	-
Computer software:				
- amortisation	176	216	78	117
Assets held for sale:				
- gain on disposal	(93)	(159,461)	-	-
- write off	3,478	-	-	-
Unutilised credits written off	(120)	-	-	-
Allowance for doubtful debts written back	(114)	(167)	-	-
Inventories written-down	4,519	9,440	-	-
Provision for obsolete materials	-	14,550	-	-
Interest expense	11,367	10,499	13,367	13,482
Tax expense	146,590	187,168	7,168	142
Changes in working capital:				
- inventories	(26,208)	19,466	-	-
- trade and other receivables	(7,481)	(92,389)	4,224	54,939
- trade and other payables	(128,311)	94,289	(16,360)	10,761
	501,291	851,303	633,464	748,942

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), 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	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
LTIP	24.1	3,278	3,264	2,359	2,439
DSBS	24.2	2,043	2,595	1,157	1,458
Other schemes	24.3	61	39	39	39
Total recognised in the income statement		5,382	5,898	3,555	3,936

24. Share-based Payments (continued)

Share-based Payment Expense (continued)

24.1 Long-Term Incentive Plan

Details of the movements for the equity-settled LTIP scheme during the years ended 31 December 2017 and 31 December 2016, were as follows:

Group	Equity-settled Number of options in thousand	
	2017	2016
Outstanding at start of financial year	39	61
Granted during the period	23	23
Exercised during the period	(4)	(13)
Forfeited during the period	(6)	(32)
Outstanding at end of financial year	52	39
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 £51.83 (2016: £48.02) for equity-settled options.

The outstanding shares for the year ended 31 December 2017 had a weighted average contractual life of 8.22 years (2016: 7.86 years) for the equity-settled scheme.

Company	Equity-settled Number of options in thousand	
	2017	2016
Outstanding at start of financial year	23	44
Granted during the period	18	17
Exercised during the period	(2)	(11)
Forfeited during the period	(3)	(27)
Outstanding at end of financial year	36	23
Exercisable at end of financial year	-	-

The weighted average British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was £52.94 (2016: £48.19) for equity-settled options.

The outstanding shares for the year ended 31 December 2017 had a weighted average contractual life of 8.40 years (2016: 8.31 years) for the equity-settled scheme.

24. Share-based Payments (continued)

Share-based Payment Expense (continued)

24.2 Deferred Share Bonus Scheme

Details of the movements for the equity-settled DSBS scheme during the years ended 31 December 2017 and 31 December 2016, were as follows:

Group	Equity-settled Number of options in thousand	
	2017	2016
Outstanding at start of financial year	22	26
Granted during the period	8	13
Exercised during the period	-	(16)
Forfeited during the period	(7)	(1)
Outstanding at end of financial year	23	22
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 £47.35 (2016: £44.62) for equity-settled options.

The outstanding shares for the year ended 31 December 2017 had a weighted average contractual life of 0.02 years (2016: 1.42 years) for the equity-settled scheme.

Company	Equity-settled Number of options in thousand	
	2017	2016
Outstanding at start of financial year	8	13
Granted during the period	5	7
Exercised during the period	-	(11)
Forfeited during the period	(3)	(1)
Outstanding at end of financial year	10	8
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 nil (2016: £46.98) for equity-settled options.

The outstanding shares for the year ended 31 December 2017 had a weighted average contractual life of 1.33 years (2016: 1.75 years) for the equity-settled scheme.

24. Share-based Payments (continued)

Share-based Payment Expense (continued)

24.3 Other Schemes

Share Reward Scheme and International Share Reward Scheme

Group

The number of outstanding shares at the end of the year for the ISRS were 588 (2016: 808).

Company

The number of outstanding shares at the end of the year for the ISRS were 506 (2016: 399).

Valuation Assumptions

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

Group and Company	2017		2016	
	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	18.0	18.0	18.0	17.0
Average expected term to exercise (years)	3.5	3.0	3.5	3.0
Risk-free rate (%)	0.3	0.3	0.6	0.6
Expected dividend yield (%)	3.2	3.2	3.6	3.7
Share price at date of grant (£)	52.11	52.11	42.34	40.08
Fair value at grant date (£)	41.01	47.27	26.53	35.82

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

Group and Company	2017 %	2016 %
Average share price volatility FMCG comparator group	19	19
Average correlation FMCG comparator group	31	35

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

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

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 RM2,954,994,000 (2016: RM3,500,025,000) and the total revenue from fellow subsidiaries from other countries is RM47,265,000 (2016: RM256,367,000). The Group does not have any non-current assets that are located in countries other than Malaysia.

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

The following are customers with revenue equal or more than 10 percent of the Group's total revenue:

	2017 RM'000	2016 RM'000
- Customer A	603,791	689,128
- Customer B	341,884	387,916
- Customer C	337,356	383,233

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 53 percent (2016: 57 percent) of the Group's trade receivables are derived from its sales to five (2016: four) 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.

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. Financial Instruments (continued)

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 of the Company's liabilities based on contractual undiscounted repayment obligations.

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Maturity of borrowings				
- within 1 year	378,000	130,000	-	-
Trade and other payables				
- within 1 year	276,757	404,697	538,833	450,490
Derivative financial instruments				
- within 1 year	2,408	2,018	-	-

26.3 Currency Risk

The Group is subject to currency exchange risk as a result of its purchases of finished goods and services in foreign currencies. The Group's primary currency exchange risk exposures are to the US dollar (USD), British Pound (GBP) and Euro (EUR). The currency profile of the assets and liabilities of the Group are disclosed in the respective notes to the financial statements.

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

The Group enters into forward foreign exchange contracts to hedge 50 percent to 95 percent of its exposure on foreign currency payables and on cash flows to be used in anticipated transactions denominated in foreign currencies for the subsequent six months. The Group's hedging period of six months is in line with the hedging period that was allowed under the Foreign Exchange Control guidelines enforced by Bank Negara Malaysia.

26. Financial Instruments (continued)

26.3 Currency Risk (continued)

Exposure to Foreign Currency Risk

The Group's and the Company's exposures 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 were:

	2017 Denominated in			2016 Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000	USD RM'000	GBP RM'000	EUR RM'000
Group						
Trade receivables	90	-	481	-	-	-
Trade payables	(53)	(2)	(15)	(2,863)	-	(2,056)
Cash and bank balances	1,647	2,529	366	20,259	1,590	(325)
Amounts due from fellow subsidiaries	20,151	3,404	-	33,517	1,710	-
Amounts due to fellow subsidiaries	(18,290)	(5,120)	-	(23,897)	(3,215)	(53)
Net exposure in the balance sheet	3,545	811	832	27,016	85	(2,434)
Company						
Cash and bank balances	165	1,421	-	449	407	9,044
Amounts due from fellow subsidiaries	-	581	-	-	-	-
Amounts due to fellow subsidiaries	(173)	(1,438)	-	(91)	(496)	-
Net exposure in the balance sheet	(8)	564	-	358	(89)	9,044

Currency Risk Sensitivity Analysis

A 10 percent (2016: 10 percent) strengthening of RM against the following currencies at the end of the financial year would have (decreased)/increased profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular ratio, remain constant and ignores any impact of forecasted sales and purchases.

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
USD	(355)	(2,702)	-	(36)
GBP	(81)	(9)	(56)	9
EUR	(83)	243	-	(904)

A 10 percent (2016: 10 percent) weakening of RM against the above currencies at the end of the financial year would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

26. Financial Instruments (continued)

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.

The Group measures the fair values of its borrowings based on observable yield curves. The fair value of the Group's financial assets and financial liabilities approximate to their carrying value.

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Property, plant and equipment Contracted but not provided for	19	19	-	19

29. Related Parties

Identity of Related Parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group. The Directors' remuneration paid is disclosed in Note 5.

The Group has related party relationship with its holding company, subsidiaries and key management personnel.

Significant Related Party Transactions

The Group's and the Company's transactions are with member corporations of British American Tobacco p.l.c (British American Tobacco p.l.c indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent equity interest in the Company and is the Company's ultimate holding company).

The significant related party transactions of the Group and of the Company are shown below. The balances related to the transactions below are shown in Note 17 and Note 19.

	Group	
	2017 RM'000	2016 RM'000
(i) Sale of goods		
Sale of cigarettes and tobacco products to:		
- British-American Tobacco Company (Hong Kong) Limited	-	18,721
- British-American Tobacco (Singapore) Private Limited	15,830	10,877
- British-American Tobacco Marketing (Singapore) Private Limited	-	9,784
- British American Tobacco Sales & Marketing Singapore Pte. Ltd.	139	3,615
- B.A.T. China Limited	-	7,104
- British American Tobacco International Limited	-	37,579
- British American Tobacco Korea Manufacturing Limited	9,129	15,079
- British American Tobacco Taiwan	-	15,620
- British American Tobacco (Australia) Limited	-	22,195
- British American Tobacco (PNG) Limited	362	21,902
- Solomon Islands Tobacco Company Limited	995	6,240
- British American Tobacco (Samoa) Limited	141	3,598
- Central Manufacturing Company Ltd.	154	2,270
- PT Bentoel Prima	17,238	11,536
- Ceylon Tobacco Company Limited	-	747
- Rothmans Far East B.V. Korea Branch Office	-	253
- British American Tobacco UK and Export	1	45,551
- PT Bentoel Internasional Investama, Tbk.	3,184	163
- BAT Global Travel Retail Limited	-	23,319
- Pakistan Tobacco Company Limited	-	214
- British American Tobacco Western Europe Commercial Trading Limited	92	-
	47,265	256,367

29. Related Parties (continued)

Significant Related Party Transactions (continued)

	Group	
	2017 RM'000	2016 RM'000
(ii) Purchase of goods		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
- British-American Tobacco (Singapore) Private Limited	3,554	24,343
- British American Tobacco (GLP) Limited	-	107,398
- PT Export Leaf Indonesia	16,755	44,551
- CTBAT International Co. Limited	-	62
- PT Bentoel Internasional Investama, Tbk.	139,853	1,036
- British American Tobacco Korea Manufacturing Limited	273	2,104
- British American Tobacco Western Europe Commercial Trading	2,522	5,401
	162,957	184,895
(iii) Procurement of services		
Procurement of information technology services from:		
- British American Shared Services (GSD) Limited	24,717	24,778
(iv) Technical and advisory (includes share-based payment charges)		
Payment for technical and advisory support services to:		
- British American Tobacco Investments Ltd.	27,091	21,101
- British American Tobacco Aspac Service Centre Sdn. Bhd.	14,727	9,545
- British American Tobacco (Holdings) Limited	5,292	6,148
- British-American Tobacco (Singapore) Private Limited	-	8,887
	47,110	45,681
(v) Royalties		
Royalties paid/payable to:		
- British American Tobacco (Holdings) Limited*	84,094	102,254
- Dunhill Tobacco of London Limited*	941	1,985
- Benson & Hedges (Overseas) Limited*	2,221	2,855
- The American-Cigarette Company (Overseas) Limited*	11,939	15,937
- Turmac Tobacco Company B.V.*	68	147
- B.A.T. China Limited**	82	34
	99,345	123,212
(vi) Sale and purchase of equipment		
(Sale)/Purchase of equipment (to)/from:		
- British American Tobacco Korea Manufacturing Limited	(5,145)	(5,998)
- British-American Tobacco (Singapore) Private Limited	(40,669)	-
- Pakistan Tobacco Company Limited	(14,203)	-
- British American Tobacco International Limited	-	8,181
- British American Tobacco Bangladesh Company Limited	(5,300)	(9,370)
- PT Bentoel Prima	(52,351)	(35,291)
- British American Tobacco (PNG) Limited	(17)	(130)

29. Related Parties (continued)

Significant Related Party Transactions (continued)

	Group	
	2017 RM'000	2016 RM'000
(vi) Sale and purchase of equipment (continued)		
(Sale)/Purchase of equipment (to)/from (continued):		
- PT Bentoel Internasional Investama, Tbk.	(183)	-
- PT Tresno	(7,398)	-
- Central Manufacturing Company Ltd	(15)	-
- British American Tobacco Mexico SA de CV	(18,320)	-
- British American Tobacco Marketing (Singapore) Private Limited	160	-
- Souza Cruz LTDA	(594)	-
- British American Tobacco Switzerland SA	(21)	-
- British American Tobacco Chile Operaciones SA	(136)	-
- Tabacalera Hondureña, SA	(45)	-
- British American Tobacco Pécsi Dohánygyár Kft.	(58)	-
- British American Tobacco Kenya plc	(54)	-
- Ceylon Tobacco Company Limited	(4)	-
- British American Tobacco Nigeria Limited	(2)	-
- British American Tobacco Polska S.A.	(305)	-
- British American Tobacco Romania Investment S.R.L.	(104)	-
- British American Tobacco Vranje a.d	(16)	-
- CJSC British American Tobacco - SPb	(172)	-
- British American Tobacco Tutun Mamulleri Sanayi ve Ticaret A.S.	(77)	-
- The West Indian Tobacco Company Limited	(90)	-
- B.A.T.-Prilucky Tobacco Company	(107)	-
- British American Tobacco-Vinataba (JV) Limited	(3)	-
- VINA-BAT Joint Venture Company Limited	(19)	-
	(145,248)	(42,608)
(vii) Provision of technical and advisory support services to:		
- British American Tobacco Sales & Marketing Singapore Pte. Ltd.	1,570	1,503
(viii) Rental of space from:		
- Jutaria Gemilang Sdn. Bhd.	-	51

* 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.

29. Related Parties (continued)

Significant Related Party Transactions (continued)

	Company	
	2017 RM'000	2016 RM'000
(i) Management fee		
Management fee received from:		
- Commercial Marketers and Distributors Sdn. Bhd.	3,645	3,715
- Tobacco Importers and Manufacturers Sdn. Berhad	551	802
	4,196	4,517
(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.	862	1,097
- Tobacco Importers and Manufacturers Sdn. Berhad	303	566
	1,165	1,663
(iii) Procurement of services*		
Procurement of information technology services from:		
- British American Shared Services (GSD) Limited	8,584	3,483
(iv) Technical and advisory (includes share-based payment charges)*		
Payment of fees for technical and advisory support services to:		
- British American Tobacco Investments Ltd.	1,490	2,147
- British American Tobacco Aspac Service Centre Sdn. Bhd.	7,509	8,286
- British American Tobacco (Holdings) Limited	3,498	4,103
	12,497	14,536
(v) Provision of technical and advisory support services to:		
- British American Tobacco Sales & Marketing Singapore Pte. Ltd.	1,570	1,503
(vi) Interest income		
Interest income on cash pooling:		
- Tobacco Importers and Manufacturers Sdn. Berhad	-	2,232
(vii) Interest expense		
Interest expense on cash pooling:		
- Commercial Marketers and Distributors Sdn. Bhd.	5,329	15,714
- Tobacco Importers and Manufacturers Sdn. Berhad	8,038	-
	13,367	15,714

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

30. Restructuring of Business Operations

As of 30 June 2017, the Group has ceased the production of domestic volumes and contract manufacturing for exports by its wholly-owned subsidiary, Tobacco Importers and Manufacturers Sdn. Berhad (TIM).

In relation to the cessation of TIM's manufacturing operations, the Group has further recorded a restructuring expenses of RM9.2 million as of year to date 31 December 2017.

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 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	9,245	8,987	4,555	2,604
Restructuring expense/(income)	9,245	(46,187)	4,555	4,134

31. Operating Lease

Leases as a Lessee

The Group and the Company had entered into an operating lease for premises with non-cancellable operating lease rentals payable as follows:

	Group and Company	
	2017 RM'000	2016 RM'000
Less than one year	3,506	-
Between one and five years	5,510	-
	9,016	-

32. Subsequent Event

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 pursued this matter through a judicial review filed on 12 August 2014 in the Kuala Lumpur High Court. On 12 August 2016, the High Court ruled in favor of the Group and awarded costs of RM7,000 to the Group. On 6 September 2016, Royal Malaysian Customs filed a notice of appeal against the decision of the High Court.

On 17 January 2018, the appeal was eventually withdrawn by Royal Malaysian Customs and struck out by the Court of Appeal with no order to cost.

Statement by Directors pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 145 to 194 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2017 and of their financial performance and cash flows for the financial year then ended.

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



Hendrik Stoel
Managing Director



Ricardo Martin Guardo
Finance Director

Petaling Jaya

Date: 13 February 2018

Statutory Declaration pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Ricardo Martin Guardo**, the Director primarily responsible for the financial management of British American Tobacco (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 145 to 194 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Ricardo Martin Guardo, passport: AAE091891, at Petaling Jaya in the state of Selangor on 13 February 2018.



Ricardo Martin Guardo

Finance Director

Before me:



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 2017 of the Group and of the Company, and the income statements and statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 145 to 194.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of this report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill assessment

Refer to Note 2(f)(i) to the financial statements (accounting policy) and Note 12 to the financial statements (financial disclosures).

The key audit matter

The carrying amount of the Group's goodwill as at 31 December 2017 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 for the Group because:

- the carrying amount is material; and
- there is significant judgement involved in the forecasting and discounting of future cash flows, which is the basis of the Group's assessment of the recoverability of the goodwill.

How the matter was addressed in our audit

Our audit procedures included, amongst others:

- Evaluated the Group's cash flow forecasts and the process by which they were developed;
- Compared these forecasts to Board and Management approved business plans and also compared previous forecasts to actual results to assess the performance of the business and the reliability of management's forecasting process;

How the matter was addressed in our audit (continued)

- Tested the assumptions and methodologies used. To do this, we:
 - involved our internal valuation specialists to evaluate and compare the discount rate to similar companies in the market.
 - compared the key assumptions to externally derived data as well as our own assessments of the key inputs such as projected volumes and margins.
 - assessed the sensitivity of the outcome of the impairment assessment to changes in key assumptions.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

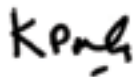
From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 13 to the financial statements.

Other Matters

This report is made solely to the members of the Company, as a body in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants



Adrian Lee Lye Wang
Approval Number: 02679/11/2019 J
Chartered Accountant

Petaling Jaya

Date: 13 February 2018

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Chapter 10:

Other Information

Analysis of Shareholdings as at 28 February 2018

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	786	9.92	10,199	0.00
100 - 1,000	4,451	56.16	1,930,245	0.68
1,001 - 10,000	2,030	25.61	7,145,412	2.50
10,001 - 100,000	470	5.93	14,010,924	4.91
100,001 - 14,276,499 *	188	2.37	119,668,220	41.91
14,276,500 and above **	1	0.01	142,765,000	50.00
Total	7,926	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	5,835	73.62	10,489,419	3.67
2. Body Corporate				
a. Banks/Finance Companies	8	0.10	4,968,596	1.74
b. Investments Trusts/Foundations/Charities	4	0.05	52,508	0.02
c. Industrial and Commercial Companies	130	1.64	144,279,852	50.53
3. Government Agencies/Institutions	2	0.03	17,548	0.01
4. Nominees	1,945	24.54	125,721,076	44.03
5. Others	2	0.02	1,001	0.00
Total	7,926	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.	Lazard Asset Management LLC	-	-	15,240,593	5.34

Directors' Direct and Indirect Interests in the Company and its Related Corporations

(As per Register of Directors' Shareholdings)

Interest in the Company

No.	Name	Number of issued shares			
		Direct Interest		Indirect Interest	
		No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1.	Datuk Oh Chong Peng	1,000	0.00*	-	-
2.	Dato' Chan Choon Ngai	1,000	0.00*	-	-
3.	Datuk Lee Oi Kuan	100	0.00*	-	-

Interest in the Ultimate Holding Company - British American Tobacco p.l.c		Number of ordinary shares of 25p each in British American Tobacco p.l.c			
		Direct Interest		Indirect Interest	
		No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1.	Hendrik Stoel	6,473	0.00*	-	-
2.	Datuk Lee Oi Kuan	19,802	0.00*	-	-
3.	Ricardo Martin Guardo	745	0.00*	-	-

Note:

* Less than 0.01%

Interest in the Ultimate Holding Company - British American Tobacco p.l.c	Number of ordinary shares of 25p each in British American Tobacco p.l.c	
	Direct Interest	
	No. of Shares Held	

Deferred Share Bonus Scheme & International Share Reward Scheme

1.	Hendrik Stoel	4,448
2.	Datuk Lee Oi Kuan	2,854
3.	Ricardo Martin Guardo	2,331

Interest in the Ultimate Holding Company - British American Tobacco p.l.c	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c	
	Direct Interest	
	No. of Options Held	

Long Term Incentive Plan

1.	Hendrik Stoel	18,359
2.	Datuk Lee Oi Kuan	12,144
3.	Ricardo Martin Guardo	6,325

Save as disclosed above, none of the Directors of the Company has any interest direct or indirect in the Company and its related corporations.

List of Top Thirty Largest Shareholders

(without aggregating the securities from different securities accounts belonging to the same Registered Holder)

No.	Name	No. of Shares Held	% of Issued Shares
1.	British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.00
2.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	12,087,902	4.23
3.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund 4545 for Lazard Emerging Markets Portfolio	8,363,100	2.93
4.	Valuecap Sdn Bhd	4,713,100	1.65
5.	Cartaban Nominees (Asing) Sdn Bhd Exempt AN for State Street Bank & Trust Company (West CLT OD67)	4,552,015	1.59
6.	Cartaban Nominees (Asing) Sdn Bhd GIC Private Limited for Government of Singapore (C)	3,444,900	1.21
7.	HSBC Nominees (Asing) Sdn Bhd BBH and Co Boston for Matthews Asian Growth and Income Fund	3,368,700	1.18
8.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for The Bank of New York Mellon (Mellon ACCT)	3,309,702	1.16
9.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (PAR 1)	3,238,400	1.13
10.	HSBC Nominees (Asing) Sdn Bhd BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund	2,628,787	0.92
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 JPMCB NA for Foreign and Colonial Investment Trust PLC	2,081,600	0.73
13.	DB (Malaysia) Nominee (Asing) Sdn Bhd The Bank of New York Mellon for Virtus Vontobel Emerging Markets Opportunities Fund	1,987,370	0.70
14.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Invesco Perpetual Asian Growth Fund	1,960,600	0.69
15.	DB (Malaysia) Nominee (Asing) Sdn Bhd State Street London Fund LYF6 for BMO LGM Global Emerging Markets Growth and Income Fund	1,944,700	0.68
16.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Vanguard Total International Stock Index Fund	1,883,800	0.66
17.	HSBC Nominees (Asing) Sdn Bhd HSBC BK PLC for Wolverhampton Metropolitan Borough Council Main Fund (FANDC)	1,819,300	0.64
18.	Cartaban Nominees (Tempatan) Sdn Bhd PAMB for Prulink Equity Fund	1,779,400	0.62
19.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB PRIN)	1,746,200	0.61
20.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for T. ROWE Price International Funds, Inc. - T. ROWE Price New Asia Fund	1,292,500	0.45
21.	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
22.	HSBC Nominees (Asing) Sdn Bhd TNTC for Somerset Small Mid Cap EM All Country Fund LLC	1,118,300	0.39
23.	Cartaban Nominees (Asing) Sdn Bhd RBC Investor Services Bank S.A. for Vontobel Fund - Emerging Markets Equity	1,111,140	0.39
24.	HSBC Nominees (Asing) Sdn Bhd TNTC for Asia Landmark Master Fund Ltd	1,109,200	0.39
25.	HSBC Nominees (Asing) Sdn Bhd SG Nantes for the W&W South East Asian Equity Fund	1,107,400	0.39

List of Top Thirty Largest Shareholders (continued)

(without aggregating the securities from different securities accounts belonging to the same Registered Holder)

No.	Name	No. of Shares Held	% of Issued Shares
26.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Lazard Emerging Markets Equity Fund	1,019,393	0.36
27.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Lazard Emerging Markets Fund	1,005,600	0.35
28.	HSBC Nominees (Asing) Sdn Bhd JPMBL SA for JPMorgan Funds	1,000,300	0.35
29.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund IBE5 for Lazard/Investors Bank Collective Trust	940,400	0.33
30.	Yap Ah Fatt	916,200	0.32
Total		217,953,509	76.33

Particulars of Properties

The properties held by the Group and Company at **31 December 2017** are as follows:

Location	Date of purchase/ Last Revaluation	Usage	Approx. age of building (years)	Land/ Built-up area (square metres)	Net Book Value RM'000
Freehold					
No. 36A, Jalan Lengkok Canning, Ipoh Garden, Ipoh, Perak	30.11.1989	shop and office	29	143.07	62
No. A79, Jalan Telok Sisek, Kuantan, Pahang	28.4.1994	shop and office	26	110.59	190
Leasehold					
No. 2, Jalan Foochow, Kuching, Sarawak (999 years lease expiring 31.12.2923)	3.10.1991	shop and office	28	156.10	125
Lot 1, Block A Hong Tong Centre, Miles 4, Penampang, Kota Kinabalu, Sabah (99 years lease expiring 31.12.2080)	30.9.1999	shop and office	24	136.56	337
No. 8, Jalan Melaka Raya 13, Taman Melaka Raya, Melaka (99 years lease expiring 7.7.2093)	30.3.1996	shop and office	23	143.00	244

Corporate Directory

Principal Offices

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No. 4372-M)

Head Office

Level 19, Guoco Tower

Damansara City

No. 6 Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur, Malaysia

Tel: +60 (3) 2720 8188

Fax: +60 (3) 2720 8106

TOBACCO IMPORTERS AND MANUFACTURERS SDN. BERHAD.

(Company No. 4414-U)

Level 19, Guoco Tower

Damansara City

No. 6 Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur, Malaysia

Tel: +60 (3) 2720 8188

Fax: +60 (3) 2720 8106

COMMERCIAL MARKETERS AND DISTRIBUTORS SDN. BHD.

(Company No. 42316-T)

Level 19, Guoco Tower

Damansara City

No. 6 Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur, Malaysia

Tel: +60 (3) 2720 8188

Fax: +60 (3) 2720 8106

Branch Offices

Penang

No. 50 Weld Quay

10300 Penang

Tel: +60 (4) 261 8840

Fax: +60 (4) 261 8799

Ipoh

No. 120 Jalan Silibin

30000 Ipoh, Perak

Tel: +60 (5) 528 7680 / 528 7689

Fax: +60 (5) 528 7684

Kuala Lumpur

Unit no. BB1-1, Jalan Shamelin Niaga 2

Shamelin Heights Business Park

Taman Shamelin Perkasa

56100 Kuala Lumpur

Tel: +60 (3) 9200 8370

Fax: +60 (3) 9200 8371

Selangor

No 3, Jalan Industri PBP3

Taman Perindustrian Pusat Bandar

Puchong

47100 Puchong

Selangor

Tel: +60 (3) 5891 9888

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 Darul Makmur

Tel: +60 (9) 573 7831 / 573 8373

Fax: +60 (9) 573 3484

Kota Bharu

Lot PT 1453 & 1454, 1st Floor

Kawasan Perindustrian Pengkalan Chepa 2

Seksyen 39 Kemumin,

16100 Kota Bharu, Kelantan

Tel: +60 (9) 773 8831 / 773 8873

Fax: +60 (9) 773 8968

Kota Kinabalu

Lot L180-101/000

Block A, HSK Industrial Centre,

Jalan Bundusan, Mile 5,

Off Jalan Penampang,

89500 Kota Kinabalu, Sabah

Tel: +60 (88) 722 628 / 722 629

Fax: +60 (88) 722 630

Kuching

Lot 1329 Jalan Mersawa

Pending Industrial Estate

93450 Kuching Sarawak

Tel: +60 (82) 481 884 / 481 886

Fax: +60 (82) 335 490

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Seventh 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 Thursday, 19 April 2018 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 2017 and the Reports of the Directors and Auditors thereon.
Please refer to Explanatory Note 9 (Note A)
2. To re-appoint Datuk Zainun Aishah Binti Ahmad as a Director pursuant to Article 107.1 of the Constitution of the Company. **Resolution 1**
3. To re-elect the following Directors who retire pursuant to Articles 97(1) and (2) of the Constitution of the Company:
 - (i) Datuk Oh Chong Peng **Resolution 2**
 - (ii) Dato' Chan Choon Ngai **Resolution 3**
4. 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 20 April 2018 until the next Annual General Meeting of the Company. **Resolution 4**
Please refer to Explanatory Note 9
5. To re-appoint KPMG PLT as Auditors of the Company for the financial year ending 31 December 2018 and to authorise the Directors to fix their remuneration. **Resolution 5**

As Special Business

To consider and if thought fit, to pass the following Ordinary Resolutions:

6. **Continue designation as an Independent Director** **Resolution 6**
 "THAT subject to the passing of Resolution 2, Datuk Oh Chong Peng continues to be an Independent Non-Executive Director of the Company."
Please refer to Explanatory Note 10
7. **Proposed Renewal of Shareholders' Mandate for the Company and Its Subsidiaries to enter into Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties (Proposed Renewal of the Recurrent RPT Mandate)** **Resolution 7**
 "THAT, the Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 21 March 2018) granted by the shareholders of the Company authorising the Company and/or its subsidiaries (British American Tobacco Malaysia Group) to enter into recurrent related party transactions of a revenue or trading nature (Recurrent RPTs) with Related Parties (as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad) as set out in Paragraph 2.2 and Appendix II of the Circular to Shareholders dated 21 March 2018 which are necessary for the British American Tobacco Malaysia Group's day to day operations, be and is hereby renewed and approved, provided that:
 - (i) the transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders to the Company; and
 - (ii) disclosure of the aggregate value of the transactions conducted during a financial year will be made in the annual report for the said financial year,
 AND THAT the authority conferred by such renewed mandate shall continue to be in force until:
 - (i) the conclusion of the next Annual General Meeting (AGM) of the Company following the AGM at which the Proposed Renewal of the Recurrent RPT Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM the mandate is again renewed;

(ii) the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 340(2) of the Companies Act 2016 (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act 2016); or

(iii) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the Proposed Renewal of the Recurrent RPT Mandate.

AND FURTHER THAT, as the estimated values of the Recurrent RPTs given in Appendix II of the Circular to Shareholders dated 21 March 2018 are provisional in nature, the Directors of the Company or any of them be and are hereby authorized to agree to the actual amount or amounts thereof, provided that such amount or amounts comply with the review procedures set out in Paragraph 2.3 of the Circular to Shareholders dated 21 March 2018."

Please refer to Explanatory Note 10

8. Proposed Shareholders' Mandate for the Company and Its Subsidiaries to enter into new Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties (Proposed New Recurrent RPT Mandate)

Resolution 8

"THAT, the Proposed New Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 21 March 2018) authorising the Company and/or its subsidiaries (British American Tobacco Malaysia Group) to enter into new 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 21 March 2018 which are necessary for the British American Tobacco Malaysia Group's day to day operations, be and is hereby approved, provided that:

(i) the transaction is in the ordinary course of business and are on normal commercial terms which are not more favourable to the Related 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 transaction conducted during a financial year will be made in the annual report for the said financial year,

AND THAT the authority conferred by this mandate shall continue to be in force until:

(i) the conclusion of the next Annual General Meeting (AGM) of the Company following the AGM at which the Proposed New Recurrent RPT Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM the mandate is again renewed;

(ii) the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 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 New Recurrent RPT Mandate.

AND FURTHER THAT, as the estimated values of the Recurrent RPTs given in Appendix II of the Circular to Shareholders dated 21 March 2018 are provisional in nature, the Directors of the Company or any of them be and are hereby authorized to agree to the actual amount or amounts thereof, provided that such amount or amounts comply with the review procedures set out in Paragraph 2.3 of the Circular to Shareholders dated 21 March 2018."

Please refer to Explanatory Note 10

9. To transact any other business of which due notice shall have been given.

By Order of the Board

DATUK LEE OI KUAN

LS0009536

Secretary

Kuala Lumpur

21 March 2018

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 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 not less than twenty-four (24) hours before the time appointed for the taking of poll or no later than 18 April 2018 at 12.00 p.m.
6. Only members whose names appear in the Record of Depositors as at 10 April 2018 (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 2017 under Agenda 1 are meant for discussion only in accordance with the provision of Section 340(1)(a) of the Companies Act 2016, and it does not require a formal approval of the shareholders. Hence, this agenda will not be put forward for voting.

Resolution 4 – payment of Directors' fees and benefits to the Non-Executive Directors

The Company is seeking shareholders' approval for the payment of Non-Executive Directors' fees and benefits up to RM1,000,000 with effect from 20 April 2018 until the conclusion of the next Annual General Meeting of the Company in 2019 pursuant to Section 230(1) of the Companies Act 2016.

10. Explanatory Notes on Special Business

Resolution 6 – Continue designation as an Independent Director

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 to continue to act as an Independent Non-Executive Director of the Company.

Resolutions 7 & 8 – Recurrent Related Party Transactions Mandate

These proposed resolutions, 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 and New Recurrent RPT Mandate is set out in the Circular to Shareholders dated 21 March 2018, which is despatched together with the Company's 2017 Abridged Annual Report.

Administrative Details for British American Tobacco (Malaysia) Berhad Fifty-Seventh Annual General Meeting

Date : Thursday, 19 April 2018

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 1, 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 (collectively referred as Identification) at the registration counter for verification purposes. Kindly ensure you collect your NRIC/Passport upon completion. No person will be allowed to register on behalf of another person even with the original Identification of that other person. You will be given the following upon registration:
 - a. Wristband;
 - b. Polling slip;
 - c. One Meal Voucher and
 - 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 slips in the ballot box when the polling starts.
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 2018** (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.

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 2017 must be completed and signed, sent and delivered to the Company's Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for the taking of poll or no later than 18 April 2018 at 12.00 p.m.

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:
- attendance of the appointer at the AGM and exercising his/her voting rights at the AGM personally will automatically revoke the proxy;
 - notice of revocation of the Form of Proxy or the authority served by 18 April 2018 at 12.00 p.m.;
 - appointing new proxy by depositing a new Form of Proxy in favour of another person by 18 April 2018 at 12.00 p.m.; or
 - 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 not less than twenty-four (24) hours before the time appointed for the taking of poll or no later than 18 April 2018 at 12.00 p.m.

Annual Report 2017

15. The Annual Report 2017 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.

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).

Enquiry

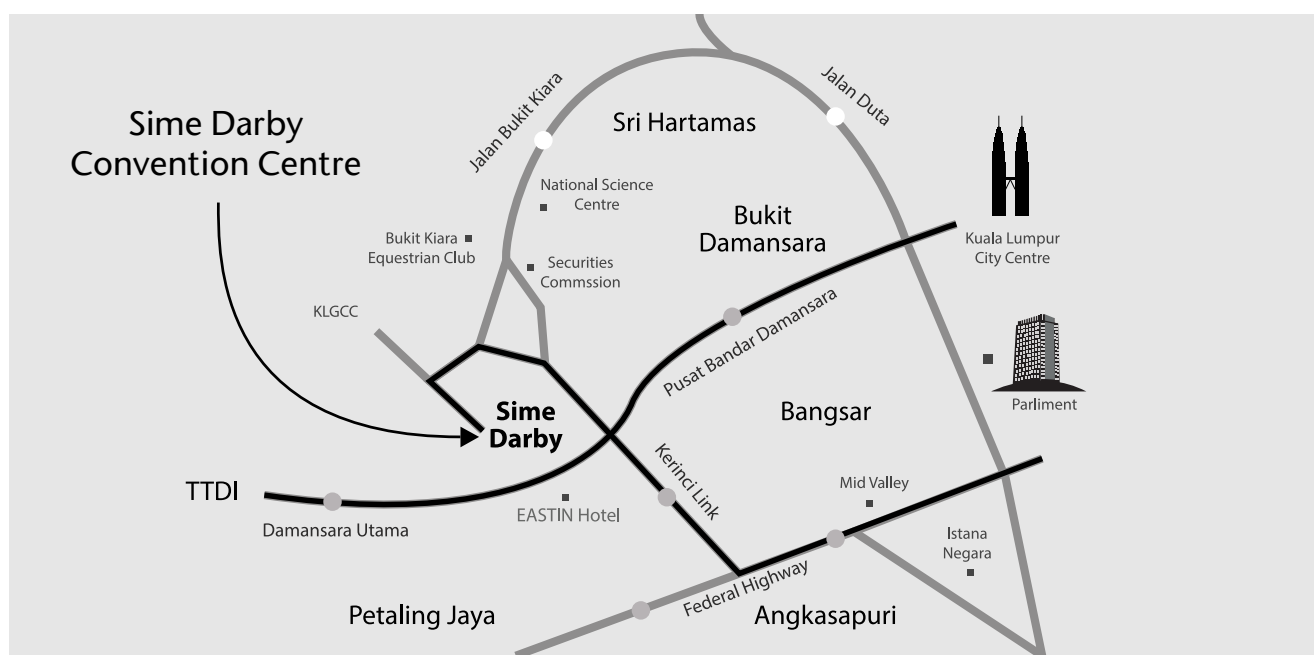
18. If you have general queries prior to the meeting, please contact the British American Tobacco Malaysia's Legal and Secretarial Department at +60(3) 2720 8188 or the following person during office hours:

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



Proxy Form

British American Tobacco (Malaysia) Berhad

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



**BRITISH AMERICAN
TOBACCO
MALAYSIA**

CDS Account No.

I/We _____ (NRIC/Passport/Co. No.: _____)
(Name as per NRIC/Passport/Certificate of Incorporation in Capital Letters)

of _____
(Full Address)

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint _____
(Name as per NRIC/Passport in Capital Letters)

(NRIC/Passport No.: _____) of _____

and/or failing him/her _____ (NRIC/Passport No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fifty-Seventh 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 Thursday, 19 April 2018 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-appointment of Datuk Zainun Aishah Binti Ahmad as a Director pursuant to Article 107.1 of the Constitution of the Company.		
Resolution 2	Re-election of Datuk Oh Chong Peng who retires pursuant to Articles 97 (1) and (2) of the Constitution of the Company.		
Resolution 3	Re-election of Dato' Chan Choon Ngai who retires pursuant to Articles 97 (1) and (2) of the Constitution of the Company.		
Resolution 4	Approval of payment of Directors' fees and benefits to the Non-Executive Directors with effect from 20 April 2018 until next Annual General Meeting of the Company.		
Resolution 5	Re-appointment of KPMG PLT as Auditors of the Company for the financial year ending 31 December 2018 and to authorise the Directors to fix their remuneration.		
Resolution 6	Datuk Oh Chong Peng continues to be an Independent Non-Executive Director of the Company.		
Resolution 7	Proposed Renewal of Shareholders' Mandate for the Company and its Subsidiaries to enter into Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties.		
Resolution 8	Proposed Shareholders' Mandate for the Company and its Subsidiaries to enter into New Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties.		

Dated this _____ day of _____ 2018.

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 authorized nominee may appoint in respect of each Omnibus Account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
3. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his 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 not less than twenty-four (24) hours before the time appointed for the taking of poll or no later than 18 April 2018 at 12.00 p.m.
6. Only members whose names appear in the Record of Depositors as at 10 April 2018 (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.

Please fold here to seal

affix
postage
stamp

The Share Registrar

British American Tobacco (Malaysia) Berhad (4372-M)

c/o Tricor Investor and Issuing House Services Sdn Bhd (11324-H)

Unit 32-01, Level 32, Tower A,

Vertical Business Suite, Avenue 3, Bangsar South,

No. 8, Jalan Kerinchi 59200 Kuala Lumpur, Malaysia.

Please fold here to seal



**BRITISH AMERICAN
TOBACCO
MALAYSIA**

British American Tobacco (Malaysia) Berhad (4372-M)

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No. 6 Jalan Damanlela, Bukit Damansara
50490 Kuala Lumpur
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Fax: +60 (3) 2720 8106

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