

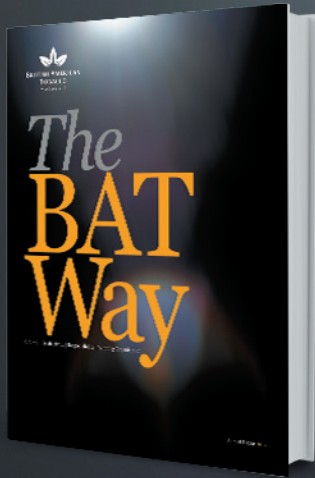


BRITISH AMERICAN  
TOBACCO  
MALAYSIA

# *The* **BAT** *Way*

Growth | Productivity | Responsibility | Winning Organisation

# The BAT Way



In 2012, British American Tobacco Malaysia celebrated 100 years of history in the country. With over a century of history behind us, we embark on the next chapter of our journey, guided by a new vision – known as The BAT Way. Faced with an increasingly challenging operating environment, the BAT Way forges the path for future sustainable growth.

The BAT Way places consumers at the core of the business and capitalises on opportunities for future growth. Underpinning this strategy is our commitment towards delivering long-term value to our shareholders, our people, and wider group of stakeholders.

## Productivity



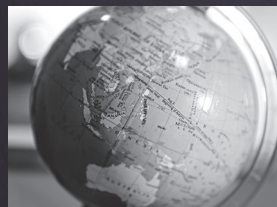
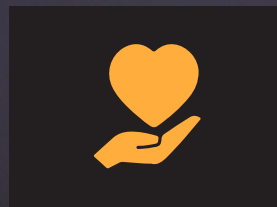
## Growth



## Leadership



## Responsibility



## Winning Organisation



# 54<sup>th</sup>

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

### Will be held at:

Ballroom 1, 1<sup>st</sup> Floor, Sime Darby Convention Centre,  
1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on  
Monday, 27 April 2015 at 11.00a.m.

### AGM Helpdesk:

David Chiam Joy Yeow

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E-mail: david\_chiam@bat.com

## Our Vision

A year ago, we adopted a new vision and enhanced our strategy to better reflect the evolving needs of consumers. Our vision places the consumer at the core of everything we do, and success depends on addressing their evolving concerns, needs and behaviours. This is a vision we share with British American Tobacco p.l.c Group and has been embedded across our business to help create long-term value for our shareholders and a wider group of stakeholders.

Our new vision and strategy will enable the business to deliver growth today, while ensuring that we generate funds to invest in our future. Our strategy is designed to deliver our vision and as a result, build shareholder value. It is based on growth, funded by productivity and delivered by a winning organisation that acts responsibly at all times. It is our belief that this new strategy will enable us to respond even more rapidly to the opportunities and challenges we believe are important to a 21<sup>st</sup> century tobacco company which is committed to investing in its future.

We are steadfast in our commitment to continue being a responsible tobacco company with a sustainable business and outstanding people.



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# Overview of British American Tobacco Malaysia



## Top 25

market  
capitalisation in  
Bursa Malaysia



## 61.2%

market share



## 100

years of history in  
Malaysia

## 315.9 sen

net earnings per  
share

Around

## 1000

employees across  
the country



## Results at a Glance

Revenue	RM 4,796 million
Profit before tax	RM 1,219 million
Net profit	RM 902 million
Shareholders' fund	RM 524 million
Net returns on shareholders' fund	172%
Net dividend per share	309 sen

# Chairman's Letter



Tan Sri Mohamad Salim bin Fateh Din

Dear Shareholders,

As I look back at another excellent year for British American Tobacco Malaysia, I recall the phrase, "Success is simple. Do what is right, in the right way, and at the right time." Success is a matter of understanding where your priorities lie, and focusing on a strategy that delivers towards these priorities.

As we advance into a new century of operations in Malaysia, we face an increasingly challenging business environment and evolving societal expectations. The new vision for British American Tobacco globally takes these challenges into account and sets the direction for future sustainable growth.

Our strategy ensures that the business delivers growth not just today, but ensures we generate the funds to invest in our future as well. We continued to capitalise on opportunities for future growth, remain committed towards delivering long-term value to our shareholders, our people, and our wider group of stakeholders.

As an industry leader, we are committed to being the best. British American Tobacco Malaysia maintains a culture of continuous improvement and enhancement, as we benchmark our business processes against international best practices. It is of utmost importance to run a business that is supported by exemplary standards in corporate governance and risk management practices, and the highest degree of accountability.

We set the foundation for a sustainable future by delivering on our commitments to the people that matter most to us, and investing in tomorrow. This is The BAT Way.

## Performance review

The Group is proud to report another successful year with Net Profit increasing 9.5 percent to RM902 million. The Group saw a decline of 3.7 percent in domestic and duty free sales volume in the face of falling legal consumption in 2014 versus 2013. Contract manufacturing volumes for export also saw a decline of 14.8 percent in 2014, resulting from a partial reallocation of volumes and a generally weaker demand. In spite of this overall domestic and export volume decline, the Group demonstrated a solid performance by delivering total revenue growth of 6.2 percent.

Profit before Tax grew 10.3 percent, a commendable achievement in light of some of the challenges and headwinds experienced in 2013.

BAT Malaysia closed the year with 61.2 percent share of market, witnessing a decline of 0.7 percentage point versus same period last year, as a result of down trading and weaker performance from PALL MALL, amongst other brands. DUNHILL remains the number one brand in the country with 47.0 percent share of market on a full year basis, despite a decline of 0.6 percentage point.

Within the Aspirational Premium segment, British American Tobacco Malaysia recorded good growth momentum, with the excellent performance from PETER STUYVESANT. With the introduction of the *Resealable Reloc Seal* in July 2013 and further brand initiatives, PETER STUYVESANT continued to record growth, gaining 1.1 percentage points versus 2013. PALL MALL on the other hand, has been on a declining trend since last year. However, the recent initiative of introducing the *Resealable Reloc Seal* has managed to stabilise the brand.

In summary, key brands such as DUNHILL, PETER STUYVESANT and PALL MALL have shown a resilient performance considering the challenging environment in 2014, with only a 0.2 percentage point loss in corporate market share year-on-year versus same period last year.

It is to the great credit of our management team and people that the business continues to deliver such strong results in the face of adverse business conditions.

## Dividends

The Board of Directors has recommended a fourth interim dividend of 78 sen per share, making the total net dividend payout for the financial year to be 309 sen per share. This represents an increase of 9.6 percent over 2013. The Group is committed to sustaining a high payout ratio in line with the expectations of shareholders.

**"Success is simple.  
Do what is right, in  
the right way, and  
at the right time."**



**+9.6**  
percent

increase in total  
dividend payout  
compared to preceding  
financial year.

**+6.2**  
percent

growth in revenue  
compared to preceding  
financial year



## Outlook for 2015

Illegal cigarette trade in Malaysia currently stands at 33.7 percent, meaning that more than one in three cigarettes in the country are illegal. This remains the single most important challenge in 2015 for the legal tobacco industry and continues to jeopardise the tax revenue collection of the Government. Relentless enforcement efforts on the illegal cigarette trade, especially those by the Royal Malaysian Customs in 2014, have resulted in a landmark decline of 2.0 percent in illegal cigarette incidence compared to 2013; the biggest in history.

The implementation of the Goods and Services Tax in April 2015 has been a hot topic of discussion, and coupled with further subsidy cuts, will pose many challenges for businesses, as well as consumers' disposable income.

Our strategies and priorities on the local business will remain the same in 2015, which is to invest where it matters to strengthen our portfolio and driving further cost efficiencies to deliver shareholder value. On the overseas business front, our key focus is to drive continuous improvement in our manufacturing process and remain competitive in the region.

We will continue to trust our resilience built on a hundred years in Malaysia, sustained by a strong consumer relevant portfolio, as well as the continuous support of our employees, business partners, and relevant stakeholders to deliver results within our shareholders' expectations.

## Leadership

I extend my deepest appreciation to all our Board members and members of the senior management team for their invaluable contribution in 2014. I am pleased to report that we maintain a strong record on gender diversity amongst the Board of Directors and senior management team, with 25 percent women representation at the top management team level, and 33 percent women representation at the Board of Directors level, higher than the national average.

My deepest appreciation goes to Dato' Ahmad Johari bin Tun Abdul Razak, who stood down as Independent Non-Executive Director in March 2014, after having served over five years on the Board, and Mr. Andreas Michael Thompson, who stepped down from his role of Non-independent Executive Director on the Board, and Finance Director on the senior management team in June 2014. I am pleased to welcome Mr. Pablo Sconfianza, who replaced Andreas' role on the Board and senior management team.

In May 2014, Mr. Murali Thanabalan, Human Resources Director, decided to leave the Company to pursue other interests. It is my pleasure to welcome Ms. Fiona Geddes as the Human Resources Director of the Company.

On behalf of the Board and Group, I extend my deepest thanks to Dato' Ahmad Johari, Andreas, and Murali for their invaluable contribution to the Company, and wish them the very best for the future.

## Appreciation

On behalf of the Board of Directors, I wish to thank our senior management team and employees for their commitment and dedication. I am confident that with their energy and tenacity, we will continue to deliver greater value to our shareholders and stakeholders.

Finally, I would like to convey my sincere thanks and appreciation to all our shareholders, customers, distributors, investors, business partners and stakeholders, for their confidence and their continued support to the Company.

I wish also to thank my fellow Board members for their guidance and support, and look forward to another successful year in 2015.

**Tan Sri Mohamad Salim bin Fateh Din  
Chairman**

# Management Discussion and Analysis

Stefano Clini



Dear Shareholders,

The aim of the Management Discussion and Analysis (MD&A) is to provide shareholders with a better understanding of the business, operations, and financial position of the Company.

Our MD&A includes an overview of the Group's 2014 performance, an overview of the business and operations, as well as a financial review of 2014 and our expectations for the business in 2015.

## 2014 PERFORMANCE OVERVIEW

The year 2014 was a challenging one for the tobacco industry. The main challenge which the industry faces continues to be the looming specter of the illegal cigarette trade. A recent study reveals that illegal cigarette incidence in Malaysia is still at a high 33.7 percent <sup>[1]</sup>, which means that one in three cigarettes in the country is illegal.

Another challenge that the Group faced in 2014 was a lackluster macro environment and consumer propensity to spend. Despite a healthy growth in the Malaysian Gross Domestic Product, consumer confidence was on a decline, registering a dip in the consumer confidence index in the first half of 2014 <sup>[2]</sup>. The Group's Premium portfolio was also impacted in 2014 due to consumer down trading following the steep excise tax levied on cigarettes in October 2013.

Despite these adverse challenges, the Group turned out a resilient performance, recording Net Profit growth of 9.5 percent in 2014 compared to 2013.

The Group recorded a slight decline in market share in 2014 (-0.7 percentage points versus 2013), to close the year at 61.2 percent corporate market share. The decline resulted from consumer down trading impacting DUNHILL, and a weaker performance from PALL MALL, and tail end brands. The Premium portfolio was further pressured following the excise-led price increase in November 2014, which saw cigarette prices raised RM1.50 a pack across the portfolio.

Nonetheless, DUNHILL continues to be the number one brand in the country at 47 percent corporate market share. The Group also recorded good growth momentum in the Aspirational Premium segment, driven by PETER STUYVESANT's excellent performance.

In summary, the initiatives to focus on key brands such as DUNHILL, PETER STUYVESANT, and PALL MALL delivered positive results, resulting in only a marginal -0.2 percentage point corporate share loss year-on-year versus the same period last year, in spite of the challenging business environment.





In light of the persistent problem of the illegal cigarette trade plaguing the nation, the Group is extremely encouraged by the efforts of law enforcement agencies, especially the Royal Malaysian Customs, which embarked on a game-changing strategy in 2014 to step up on enforcement in the market and push for harsher penalties such as jail sentences on those caught selling illegal cigarettes. It is heartening to see law enforcement agencies working cohesively to increase enforcement on illegal cigarettes at the retail and consumer level.

The enforcement efforts in 2014 have undoubtedly made significant headway in tackling this pervasive issue. The recent Illicit Cigarette Study <sup>[1]</sup> indicated an unprecedented 2.0 percentage point drop in illegal cigarette incidence compared to 2013. We are confident that with further intensified enforcement, coupled with stronger deterrent penalties, and widespread public awareness, the infestation of illegal cigarettes can be further diminished.

Overall, the Group displayed remarkable resilience and delivered yet another strong performance in 2014, resulting in another year of good returns for shareholders.

<sup>[1]</sup> Illicit Cigarette Study 2014, commissioned by the Confederation of Malaysian Tobacco Manufacturers

<sup>[2]</sup> Consumer Confidence Index survey by Nielsen Research Company

## BUSINESS & OPERATIONS

### PRODUCTS AND SERVICES

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

Our portfolio of leading brands includes, DUNHILL, PALL MALL, PETER STUYVESANT, BENSON & HEDGES and KENT, amongst others. Presently, we employ approximately 1,000 employees who are involved from manufacturing to the distribution of our products.

In addition to sales to the Malaysian domestic and duty free markets, British American Tobacco Malaysia undertakes contract manufacturing for British American Tobacco p.l.c companies, predominantly in the Asia Pacific region. The contract manufacturing is both for cigarettes and semi-finished goods i.e. processed tobacco ready for inclusion in cigarettes and filter rods.

Approximately 61 percent of our primary manufacturing (leaf processing) and 45 percent of our secondary manufacturing (cigarette making) were used in 2014 for contract manufacturing.

# Management Discussion and Analysis

## OPERATING FACILITIES

The Group is headquartered in Section 19, Petaling Jaya, Selangor, on the same site as our manufacturing facility. Site manufacturing capacity is typically defined by the maximum capacity for the Primary Manufacturing Department which, in our case, is a three shift maximum of 32 billion stick equivalent.

The Group has 10 regional sales offices across Malaysia. In addition, part of our Petaling Jaya site is rented out and 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 area.

Malaysia is also the hub for the British American Tobacco p.l.c Group in Information Technology (IT) and Finance. The British American Tobacco Group Service Delivery (Kuala Lumpur) Sdn. Bhd., which is one of three global IT shared services centres for the British American Tobacco p.l.c Group worldwide, is based in Technology Park Malaysia, Bukit Jalil.

Also based in Technology Park Malaysia is British American Tobacco Aspac Service Centre Sdn. Bhd., which is the finance resource centre for the British American Tobacco p.l.c Group in Asia Pacific.

## Our Operations In Malaysia



Suppliers



Cigarette  
Manufacturing



Cigarette  
Distribution



In 2014, the Group's share price recorded its highest share price of RM74.40 per share in December 2014.

## DISTRIBUTION

Our comprehensive distribution network spans the length and breadth of the country, ensuring that our brands are available everywhere in Malaysia. Until 2011, British American Tobacco Malaysia operated a mixed distribution model with a combination of in-house direct distribution covering key urban centres, and third party distributors distributing beyond the aforementioned centres.

In 2011, British American Tobacco Malaysia moved solely to third party distributors for Peninsular Malaysia, completing this migration in 2012. Similarly, the Company completed consolidation of its distribution through a third party in East Malaysia in 2013.

### British American Tobacco Malaysia Cigarette Distribution Nationwide and Retailers



Peninsular Malaysia distribution points



Total Retailers-approximately 75,000



East Malaysia distribution points



# Management Discussion and Analysis

## CORPORATE STRUCTURE

The two principal operating companies of the Group are Tobacco Importers and Manufacturers Sdn. Berhad (for manufacturing), and Commercial Marketers and Distributors Sdn. Bhd. (marketing, sales and importation).

Other wholly owned operating companies include Rothmans Brands Sdn. Bhd. as a trademarks holding company. Other wholly owned dormant companies include The Leaf Tobacco Development Corporation of Malaya Sdn. Berhad, Commercial Marketers and Distributors Sdn. Bhd. (incorporated in Negara Brunei Darussalam) and Commercial Importers and Distributors Sdn. Bhd.



## OBJECTIVES & STRATEGIES

We share British American Tobacco p.l.c Group's vision to focus on opportunities for growth, whilst delivering on our commitments to our shareholders and stakeholders. Contributing to this vision, we are proud to be the leading tobacco company in Malaysia, both in volume and value.

### Growth

Our strategy to deliver our vision begins with growth and our aim to increase our market share, with a focus on our Global Drive Brands and our other international brands.

### Productivity

We target continuous improvements in our cost base that will release funds to invest in our brands, helping us to grow our business and deliver higher returns for shareholders.

### Winning Organisation

By being a winning organisation, we can ensure that we attract, develop and retain the best people we need to execute and deliver on our strategy.

### Responsibility

Our commitment to sustainability underpins our strategy and our business. Creating shared value is a priority for us and we do this by upholding the highest standards of integrity and accountability throughout our operations. We also seek to reduce the health risks posed by tobacco products.

Today, British American Tobacco Malaysia is the clear market leader of the legal Malaysian tobacco industry with approximately 61 percent market share, and ranks amongst the top 25 companies on Bursa Malaysia Securities Berhad in terms of market capitalisation. We aim to maintain our leadership in the industry through increasing our share of the tobacco business and better satisfying consumer demands compared to our competitors. In meeting these goals, we ensure that we market responsibly, and in a manner sensitive to our environment. For us, leadership goes beyond just market share; it has to be about qualitative leadership in our eyes, and in the eyes of our stakeholders.



## REVIEW OF NON-FINANCIAL PERFORMANCE INDICATORS

Corporate Share of Market in Malaysia



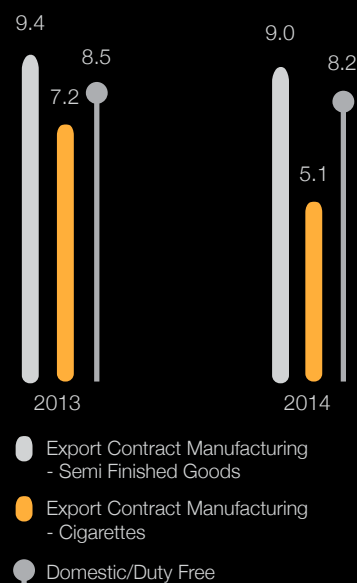
DUNHILL continues to be the number one brand in the market (47.0 percent corporate market share in 2014) albeit a decline of -0.6ppt versus the same period last year. The decline was driven by the core Red franchise due to consumer down trading, which was partially offset by a steady performance by non-Red SKU variants. In efforts to win in strategic segments, DUNHILL launched DUNHILL *Taste* in July 2014, which has since garnered a December exit share of 0.5 percent corporate market share.

Within the Aspirational Premium segment, the Group recorded good growth momentum, especially with an excellent performance from PETER STUYVESANT. With the introduction of the *Resealable Reloc Seal* in July 2013 and further brand initiatives, PETER STUYVESANT recorded continual growth and closed 2014 with a corporate market share of 4.3 percent in December.

On a full year basis, PETER STUYVESANT has gained +1.1 percentage points versus 2013, with 4.5 percent corporate market share. PALL MALL on the other hand, has been on a declining trend since last year. However, the recent initiative of introducing *Resealable Reloc Seal* has managed to stabilise the brand. PALL MALL closed the year at 4.4 percent corporate market share.

In summary, despite the challenging environment in 2014, our focused efforts on key brands i.e. DUNHILL, PETER STUYVESANT and PALL MALL were commendable, resulting in corporate share loss of only -0.2 percentage point year-on-year versus the same period last year. The bigger part of the corporate share loss (-0.5ppt loss year-on-year, versus same period last year) came from tail end brands in the portfolio.

Sales Volume (billion sticks)



# Review of Financial Results



Pablo Daniel Sconfianza  
Finance Director

PROFIT FROM  
OPERATIONS

**+9.6%**

**1,234 million**

(2013: 1,126 million)

REVENUE

**+6.2%**

**4,796 million**

(2013: 4,517 million)

NET PROFIT

**+9.5%**

**902 million**

(2013: 823 million)

OPERATING PROFIT  
MARGIN

**+0.8pp**

**25.7%**

(2013: 24.9%)

EARNINGS PER SHARE

**+27.5 sen**

**315.9 sen**

(2013: 288.4 sen)

EBITDA

**+7.9%**

**1,277 million**

(2013: 1,183 million)

RETURN ON EQUITY

**+10pp**

**172%**

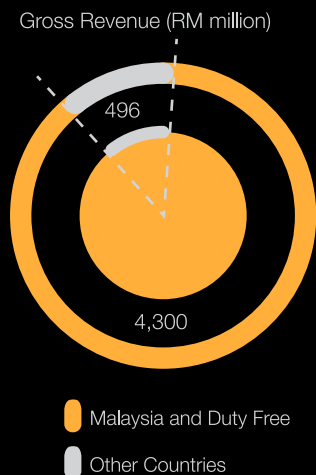
(2013: 162%)

MARKET  
CAPITALISATION

**+1.5%**

**18.6 billion**

(2013: 18.3 billion)

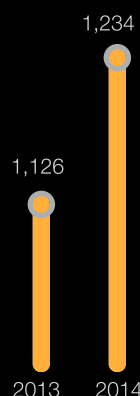


Operating Expenses (RM million)



**+20.9%**

Profit From Operations (RM million)



**+9.6%**

## REVENUE

Revenue grew 6.2 percent versus same period of last year. This performance was mainly driven by the cumulative pricing impact of the June 2013 price increase, and the excise-led prices increases in September 2013 and November 2014 within the Malaysian domestic market, partially offset by the volume decline from both the domestic market and the contract manufacturing business.

Revenue in the domestic market grew 8.7 percent compared to 2013, while contract manufacturing revenue declined by 11.6 percent. Eliminating the effect of excise and sales tax from revenue (i.e. net revenue excluding excise/sales tax), net revenue increased by 5.5 percent versus 2013.

## COST OF SALES

Cost of sales grew 3.0 percent in comparison to 2013 primarily as a result of the increase in excise in September 2013 and November 2014, and to a lesser extent as a consequence of the impact of inflation on raw materials cost.

This increase was partially mitigated by overall volume decline and additional productivity savings undertaken by the Group.

## OPERATING EXPENSES

In order to support a strong revenue growth, operating expenses grew by 20.9 percent during the year versus 2013, reflecting the increase in Distribution and Marketing costs (RM70 million). This was generated mainly by higher investment behind Brand activation programmes and Trade retail contracts.

In addition to the above, expenses were negatively impacted by the inflation on overall cost structure and the one off cost in December 2014 related to the discontinuation of cigarette rations to employees (RM8 million).

## PROFIT FROM OPERATIONS

The Group recorded an increase of Profit from Operations of 9.6 percent (RM108 million) versus previous year on the back of strong domestic revenue growth despite overall declining volumes and higher operating expenses.

This profit delivery has led to an increase of 0.8 percentage points increase in Operating Profit Margin from 24.9 percent to 25.7 percent.

## TAXATION

The average effective tax rate of the Group for the financial year ended 31 December 2014 was 26.0 percent, broadly in line with the previous year.

## DIVIDENDS

The Group continued its strong commitment to pay dividends at a level above 90 percent of earnings. In 2014 the Group again declared and paid four quarterly interim dividends with no final dividend. Total payout for 2014 was 309 sen per share, what represents a 97.8 percentage earnings per share payout (2013: 97.8 percent). This translated into a dividend growth of 9.6 percent when compared to 2013.

## DEBT STRUCTURE

The Group successfully redeemed its RM250 million Medium Term Note (MTN) due in August 2014 through a combination of cash on hand and short term borrowings. The Group has chosen to utilise revolving credits to support its short term working capital requirements, which offers greater flexibility to mirror the movements in working capital, together with improved interest deductibility.

This has resulted in the MTN Programme being terminated.

# Review of Financial Results

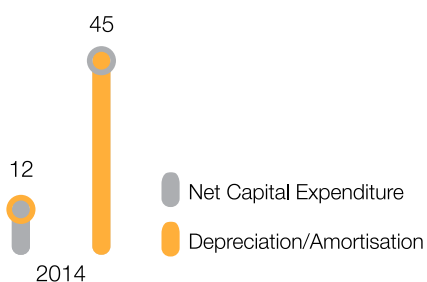
## WORKING CAPITAL AND LIQUIDITY

The closing cash and cash equivalents amounted to RM4 million, a decrease of RM56 million from year 2013. The higher net cash outflow in 2014 was largely attributed to repayment of borrowings of RM150 million, higher dividends of RM80 million, and higher tax payment of RM42 million. These outflows were partially offset by an increase in Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) of RM94 million, an improvement in working capital totaling RM113 million (predominantly increase in payables), and lower net capital expenditure of RM12 million, all compared to 2013.

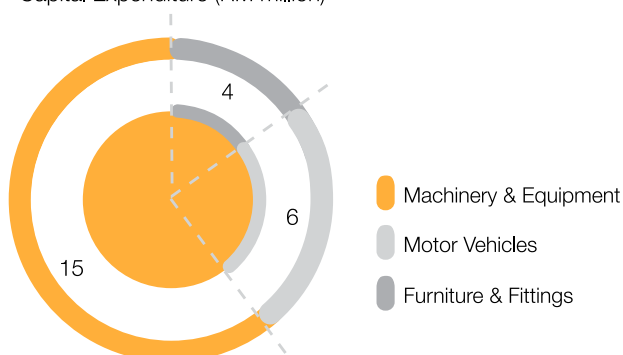
The EBITDA cash conversion recorded an increase of 9 percentage points, which was primarily attributable to the improvement in working capital.

	12 months 2014 RM million	12 months 2013 RM million	Favourable/ (Adverse) %
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	1,277	1,183	8%
Profit from Operations	1,234	1,126	10%
Cash from Operations	1,307	1,105	18%
EBITDA Cash Conversion	102%	93%	9%
Decrease in cash and cash equivalents	-56	-19	-195%

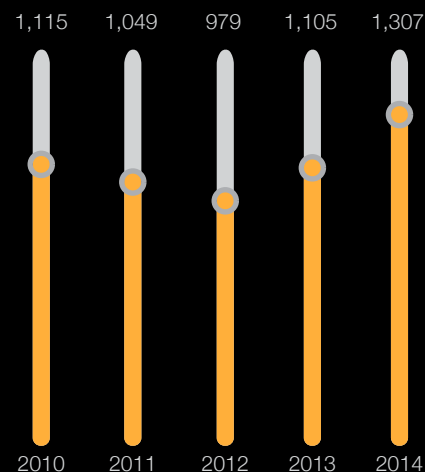
Net Capital Expenditure & Depreciation (RM million)



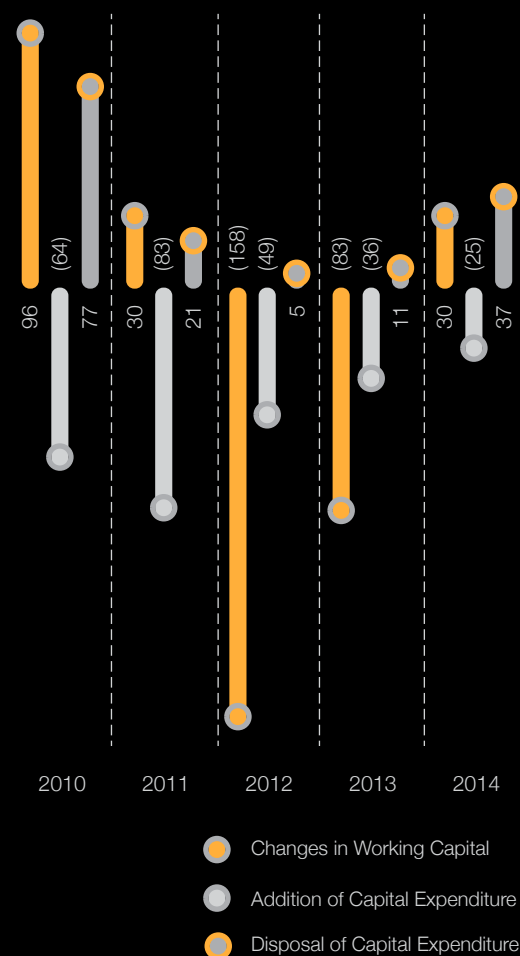
Capital Expenditure (RM million)



Cash from Operations (RM million)

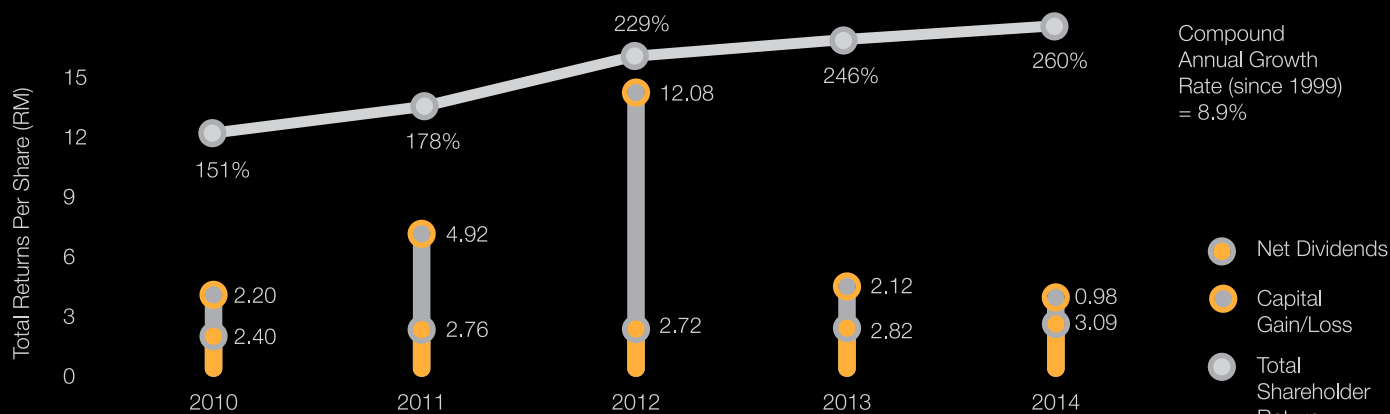


Key Cash Flow Components (RM million)





## SHAREHOLDERS' RETURN

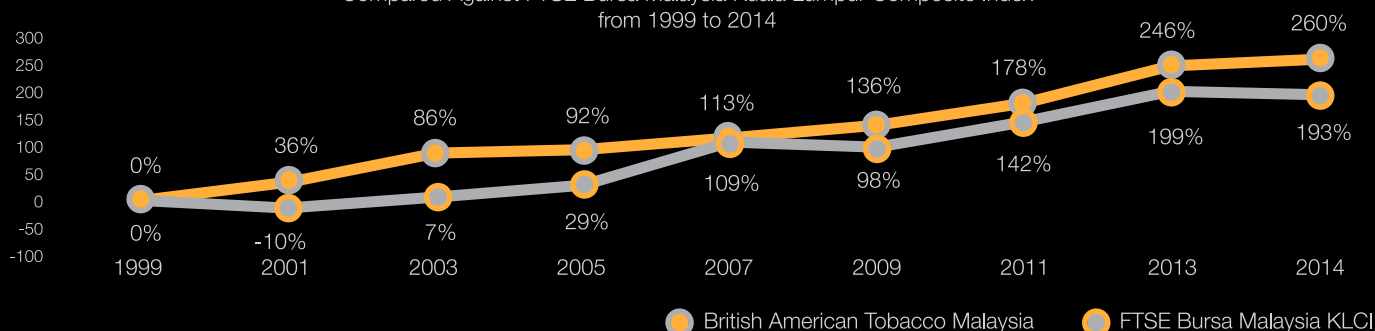


During December 2014, the Group's share price recorded an all-time high of RM74.40.

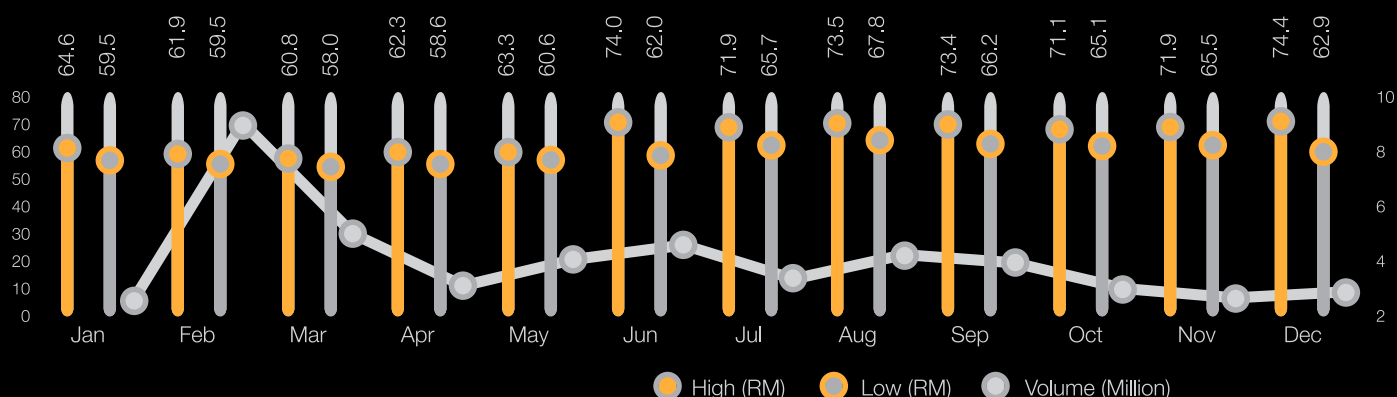
With the combination of the Group's solid business strategy and performance, strong market leadership and management capabilities, British American Tobacco Malaysia's shareholders made a gain of RM4.07 per share in 2014, representing a total annual return of 6.3 percent, comprised of dividends for the year together with growth in the share price of 1.5 percent. Measured since the merger in 1999, this represents a remarkable 8.9 percent return per annum on a compound basis.

British American Tobacco Malaysia has consistently outperformed the FTSE Bursa Malaysia Kuala Lumpur Composite Index for the past 15 years since the merger. The Group's share price has been consistently ranked the highest on the Bursa Malaysia Main Board with 2014 market capitalisation exceeding RM18 billion as at end of year 2014. The Group will continue its commitment to deliver long term sustainable shareholders value.

British American Tobacco Malaysia Total Shareholders' Return Compared Against FTSE Bursa Malaysia Kuala Lumpur Composite Index from 1999 to 2014



## SHARE PERFORMANCE 2014



Overview

Performance

Leadership

Governance

Growth

Productivity

Responsibility

Winning Organisation

Financial Statements

Other Information

# Review of Financial Results

## REVIEW OF OPERATING ACTIVITIES

### Delivering a globally-integrated business through an Enterprise Resource Planning Solution

On 3 September 2012, the Group successfully piloted the implementation of British American Tobacco p.l.c's Enterprise Resource Planning (ERP) solution. Continuing the journey two years on, the Company has been involved in testing the system functionalities in line with the global deployment of the ERP solution across other operating centres globally. The Company, along with all the other entities in Asia Pacific who are using the system, has performed tests in 2014 with minimal disruption to business.

## REGULATORY

Beginning 2014, the Ministry of Health implemented several amendments which were made to the current tobacco regulations under the Control of Tobacco Product (Amendment) Regulations 2013, which was gazetted on 11 June 2013 and the Control of Tobacco Product (Amendment) Regulations 2014, which was gazetted on 25 November 2014.

These are outlined below:

- Increase in size for Pictorial Health Warnings (PHWs) on the front panel of cigarette packets and the top panel for cigarette cartons by 10 percent.
- Addition of six new Pictorial Health Warnings (PHWs) to be printed on cigarette packets and cigarette cartons.
- Regulation on possession of any cigarette packet or carton that is not printed with the Pictorial Health Warnings (PHWs) and text as specified in the Control of Tobacco Product Regulations 2004.
- Sale of cigarettes limited to a packet containing 20 sticks and a carton containing 10 packets.
- Expansion of restrictions on the use of descriptors on tobacco product packaging and labels.
- Reduction in emission levels for cigarettes.
- Further enhancements to regulation on places where smoking is prohibited.

## TREASURY

The Group's foreign currency exposure mainly comes from purchases of raw materials and contract manufacturing exports. The currency exposure is minimised by partially hedging the net exposure for the next 12 months and by increasing the hedging ratio as the time for settlement gets nearer. The permitted range on the hedge ratio within 12 months of transaction date is 50 percent to 95 percent. This strategy is to avoid any ineffective hedges when the cash flow forecast changes before settlement date.

## RISKS

A comprehensive explanation on the Group's approach to risk management and the key risks to the Group is given in the Statement on Risk Management and Internal Control in this report.

## RESPONSIBILITY

British American Tobacco Malaysia's commitment to sustainability underpins our strategy and lies at the heart of our business operations. We work to ensure that our business model is sustainable and that we continue to uphold the highest standards of corporate conduct and integrity in everything we do. In 2014, our framework for Sustainability continues to focus on creating value for our shareholders and stakeholders in four key areas; Community, Workplace, Environment and Marketplace.

British American Tobacco Malaysia donated 351 digital assets comprising of computers and other equipment to be refurbished and distributed to deserving non-governmental organisations and communities aimed at educating and empowering underprivileged youth across Malaysia. Donating the Company's assets for a good cause has not only helped to bridge the digital divide and empowered underprivileged youth in Malaysia, it also serves as a more eco-friendly option in disposing used hardware.

British American Tobacco Malaysia also places top priority on the occupational health and safety of employees. The year 2014 was declared as the *Year of Zero Entrapment* whereby the Company rolled out numerous initiatives aimed at reducing the number of entrapment accidents at the workplace to zero. Other environment, health, and safety initiatives conducted include programmes on defense driving and improving standard practice for machine operators, amongst others. We also continued to take proactive measures towards reducing our environmental impact by upgrading to more environment-friendly machinery and amenities that reduced energy and water consumption.

## 2015 OUTLOOK

It is to the credit of our high performing team that we achieved another year of solid performance against a challenging business environment. Subsidy cuts and inflationary pressure, on top of a high excise increase in November 2014 added burden to consumers' disposable income, resulting in a contraction of the legal market.

Looking forward to 2015, our biggest challenge will be managing the impact of further inflationary pressures on the back of rising prices, and the upcoming implementation of the Goods and Services Tax in April 2015. We are concerned that the contraction of the legal market will see a corresponding spike in the illegal cigarette trade if left unchecked, and strongly encourage a continuation of the consistent and intensified enforcement efforts to crackdown on this illegal trade.

Our commitment will be to continue to drive our business strategy in a sustainable and responsible manner. I hope that our efforts are not hampered by the many challenges we will face this year.

### FIVE YEAR PERFORMANCE HIGHLIGHTS

#### 2010/2011

Government banned cigarettes pack size of less than 20 sticks in June 2010 and raised excise by RM30 per mille in October 2010, which further fueled down trading pressure. The Group lost RM85 million in 2011 as a result of the full year impact of this ban.

#### 2011

Special dividend to return excess cash to shareholders.

#### 2012

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

#### 2013

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

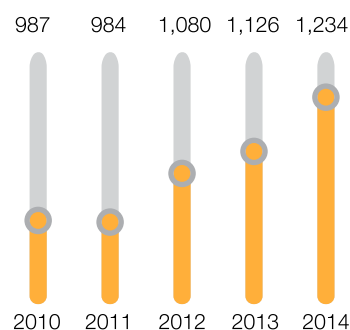
#### 2014

Profit from Operations grew 9.6 percent versus previous year driven by strong net revenue performance despite lower domestic and contract manufacturing volumes.

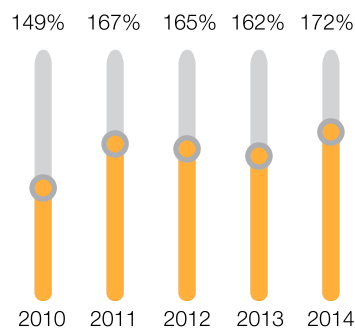
The Group fully redeemed the Medium Term Notes duly terminating the MTN Programme.

### FIVE YEAR PERFORMANCE HISTORY

Profit from Operations (RM million)



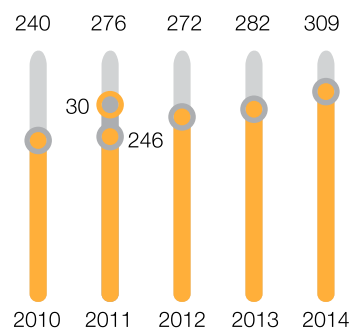
Return on Equity



EBITDA Cash Conversion



Dividend per Share (sen)



● Special dividend ● Interim dividend

# Corporate Profile

PALL MALL  KENT

  
**DUNHILL  
TOBACCO**  
*of LONDON LIMITED*

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



Today, British American Tobacco Malaysia is the clear market leader of the Malaysian cigarette industry, with approximately 61 percent market share, and ranks amongst the top 25 companies on Bursa Malaysia Securities Berhad in terms of market capitalisation. British American Tobacco Malaysia manufactures and markets high quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes well-established international names such as DUNHILL, KENT and PALL MALL.

British American Tobacco Malaysia has a combined history of over 100 years in Malaysia going back to 1912. The wealth of expertise, coupled with leading edge technology and efficient systems and processes employed in all aspects of our business activities, position us well to meet the challenges of the future. We employ about 1,000 employees who are involved in the full spectrum of the tobacco industry, from processing and manufacturing, to marketing and distribution. Our comprehensive distribution network spans the length and breadth of the country, ensuring that our brands are available everywhere in Malaysia.

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



# British American Tobacco Malaysia In The News

Telekom Malaysia, Non-Executive Chairman, Datuk Seri Dr Halim Shafie

Digi.com, Non-Executive Chairman, Sigve Brokke

RHB Capital, Non-Executive Chairman, Datuk Mohamed Khadar Merican

Petronas Gas, Non-Executive Chairman, Datuk Manharlal Rattal

Torong Nasional, Non-Executive Chairman, Tan Sri Leo Moggie

British American Tobacco (Malaysia), Non-Executive Chairman, Tan Sri Mohamad Salim Fateh Din

Sime Darby, Non-Executive Chairman, Tan Sri Abdul Ghani Otman

Malayan Banking, Non-Executive Chairman, Tan Sri Mergit Zaharuddin Megat Mohd Nor

UMW Holdings, Non-Executive Chairman, Tan Sri Asmat Kamaludin

CMB Group Holdings, Non-Executive Chairman, Tan Sri Mo Nor Yusof

## Most transparent big stocks

How do blue chip stocks feature when it comes to openness? We rank the 30 composite index stocks in terms of transparency, investor friendliness, fees, dividends and whistle blowing policies.

## WORKING TOWARDS A FAIRER WORKPLACE

BY JO-ANN TAN

Women make up almost half the population in Malaysia and 70% of graduates here are female. When it comes to the workplace, however, it is a different matter.

Data from the TalentCorp-PwC Diversity in the Workplace Survey 2013 shows that only 34% of those in top management and 46% at board level positions in public listed companies are women.

According to the World Economic Forum's Global Gender Gap Index 2013, which highlights gender-based disparities in workplaces in various countries, Malaysia is ranked 100, behind Singapore (98), Thailand (95) and Indonesia (96).

But the numbers only tell half the story. One of the widely known reasons women leave the workforce earlier than men is family demands. Hence, they may not have sufficient time to climb the corporate ladder to more senior positions.

Another reason that is not talked about enough is unconscious bias in the workplace. BAT's CEO, Martina Zedekovic, global diversity & inclusion manager at British American Tobacco PSC, and Fiona Geddes, human resources director at British American Tobacco (M) Bhd (BAT), about the firm's new initiative to tackle gender imbalance in the workplace.

line manager who likes to have a to-do list and tick things off, and if he has a subordinate who may be down's work in that manner and another who does, he will be quite comfortable with the subordinate who works the same way (as him) and that in itself is unconscious biasness.

"When given a choice to promote either one, the line manager will most likely promote the one who works in the same way as he does because it's only natural for him to think that that individual is better."

"This way of thinking will only promote and develop models and replicas," Geddes points out.

Unconscious bias affecting women as the old (and outdated) adage goes: Men the face, women the nurturer. Women are generally viewed as the caretakers of the family and it is sometimes presumed by both men and women that it is only natural for the latter to want to put their family first.

"As a working mother, assumptions are made about what I will and won't do. When I was offered a great opportunity in Hong Kong, the assumption was that I wouldn't take it because it was even discussed with me," Geddes says.

"It was a corridor conversation - 'Of course you won't do that because you've got a family and you can't leave them.' So somebody was making that assumption on my behalf based on their views of how a mother should be."

take it up if she can and wants to. Although the intentions may be good, we should always ask and offer that opportunity and then discuss with the individual if it works for her, says Zedekovic.

"We shouldn't prevent those discussions just because we ourselves would do things differently in that situation or we have a different picture of how society should look like," she adds.

Due to these presumptions, some women have put off starting a family because they feel uncomfortable about taking time off work to do so.

"In BAT, we don't tolerate that. Whether you want to have a baby and take time off at the beginning of your career or at the top of your career, it should be the same," says Geddes.

However, she believes that one of the greatest challenges women face is the fear of employers not hiring them when they are of childbearing age because the employers believe they will go on maternity leave.

As an HR director, she feels that this is best of a challenge in Asia because the maternity leave is short - three months compared to 16 weeks for Statutory Maternity Leave in the UK.

"Women shouldn't feel or see that taking time off to have a baby is a disadvantage to them," says Geddes.

According to her, women are not treated differently in BAT. The organisation allows women the advancement they deserve and ensures that they integrate well into the team when they return to work.

## BAT 2Q net profit up 18%, declares 78 sen dividend

By Ahmad Najib Idris  
Adnan Shah  
KUALA LUMPUR: British American Tobacco (M) Bhd (BAT) yesterday reported a 18% increase in net profit of RM225.4 million for its second quarter ended June 30, 2014 (Q2FY14) from RM191.6 million a year ago, due to the cumulative effect of the June 2013 revenue increase and the September 2013 excise-led price increase on the domestic business.

This was partially offset by a 14.9% decline in its contract manufacturing revenue versus the same period last year.

Revenue for Q2FY14 rose 6% to RM212.2 billion from RM201.6 billion.

The group declared a second quarter dividend of 78 sen per share for FY14.

For the six-month period ended June 30, BAT's net profit rose 14% to RM247.9 million from RM217.5 million a year ago, while revenue increased 6% to RM423.38 billion from RM402.21 billion.

In a filing with Bursa Malaysia yesterday, BAT said its market share had remained almost flat for the period up to May 2014, despite the price increase driven by the excise duty hike announced in September 2013, which had increased its premium portfolio.

Going forward, BAT remains concerned about the general decline in the legal cigarette market due to the impact of the illegal trade.

However, the group is encouraged by the enforcement action taken by the Royal Malaysian Customs in addressing the issue that started in the first quarter of the year.

BAT's share price closed 18 sen or 0.2% lower yesterday at RM48.2, bringing its market capitalisation to about RM15.42 billion.

## Volume drive BAT earnings

PETALING JAYA: British American Tobacco (M) Bhd's net profit for first quarter ended March 31 rose 10% to RM225.39mil on the back of revenues rising to RM1.15bil from RM1.05bil in the previous corresponding period.

The company said in a Malaysia announcement that the results were mainly driven by domestic and duty-free volume, which was counterbalanced by a contract manufacturing volume.

It also declared 75 sen per share dividends.

## BAT's 1Q14 net profit rises 10.4% to RM225.4m

By Wei Lynn Tang  
KUALA LUMPUR: British American Tobacco (M) Bhd reported a 10.4% increase in net profit to RM225.4 million for the first quarter ended March 31, 2014 (1QFY14) from RM204.2 million in the previous corresponding period.

Revenue rose by 5.3% to RM415.5 billion as a result of the compound effect of pricing last June and the excise-led price increase last September.

Manufacturing volume was notably weak - down 23% compared to 1QFY13 - due to the partial reallocation of volumes from Japan to another manufacturing facility.

BAT Malaysia managing director Stefano Cini said 1QFY14 volumes were 2.9% lower than in the same period last year following the sharp excise-led increase last October.

"More positively, however, we have observed some volume recovery

million), increased investment contracts (RM5 million higher incoincidence and cost (RM4 million).

BAT's leading brand, achieved a higher market share in the quarter (+0.5% point y-o-y). Its flagship premium portfolio, Pater Shu also charted a steady month growth to achieve a percentage point growth.

The illegal cigarette remains a concern for the but Cini said the group encouraged that the government is taking this illegal activity seriously, citing intensified enforcement campaigns such as Operation Carrot and the Malaysian Customs.



While professional coaches are there for the women, there are also discussions with the line managers, who are mostly men, to ensure clarity and shared responsibility.

"This is not about fixing women. It's about helping them understand that sometimes the character and behaviour traits they have, because of cultural conditioning, give them less of a chance to succeed in the workplace," says Geddes.

Women are viewed and described differently by both men and other women, she says. What may be seen as having leadership qualities in a man is sometimes interpreted as being bossy in a woman.

"The programme is about how manage careers and to let people the risks you're willing to take at sacrifices you can make. You don't miss opportunities just because make assumptions based on who think their mother, sister or son she will do, just because they see as a female as opposed to an individual," Geddes asserts.

## 首季淨賺2.25億 英美煙草派75仙股息

（吉隆坡24日訊）英美煙草（BAT，4162，主理板消費）截至3月底2014財年首季淨賺2億2539萬令吉，宣布派發每股75仙中期股息。

配合業績宣布，該公司宣布將在3月28日派發每股75仙中期股息，相當於總值2億1414萬7500令吉。

英美煙草向馬經交所披露，首季淨利按年成長10.4%，至2億2539萬令吉。營業額按年上揚5.3%至415.5億令吉，因為國內和免稅銷售量按年增长7%，以及显著抵

## BRITISH AMERICAN TOBACCO (M)

A deep culture of cost consciousness

By Wei Lynn Tang

High standards of quality and cost consciousness are key to BAT's success in the competitive market.

By the 10th month of the programme, participants will receive feedback on their performance, and will be able to compare their performance with the benchmark.

The internship or trainee programme is a significant time for a student to evaluate



BAT's day: British American Tobacco (M) Bhd chairman Datuk Mohamad Salim Fateh Din (right) and MD Stefano Cini at a press session after the group AGM on Tuesday.

## INTERVIEWING THE INTERVIEWERS: BRITISH AMERICAN TOBACCO

By Shahrul Hani

## operating exp

Monday that its gross 134.45 per cent year-on-year.

rester, excise-driven, in last year, which put its premium portfolio, also maintain its market 30-year-to-date.

Under the Government Tobacco excise duty by

# Awards and Achievements



We place the highest priority in creating long-term value to our shareholders and stakeholders. Naturally, this translates to a business model that demonstrates excellent standards of corporate governance, as well as exemplary shareholder value and financial management. The numerous recognition that we continue to receive on a local and international level is testament to this.

## 2014

1. Recognised in Life at Work Award 2014 for our talent brand and corporate programmes that promote diversity beyond gender and nationalities.
2. Acknowledged in Focus Malaysia newspaper 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 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 three Companies in Malaysia for Most Committed to a Strong Dividend Policy in FinanceAsia Awards Poll.

## 2012

1. Industry Excellence Award in the Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2012.
2. Silver Award in the Best Designed Annual Report Category for National Annual Corporate Report Awards (NACRA) 2012.
3. High Recognition for 2012 FinanceAsia Awards Poll. Our recognition includes:
  - First Place for Most Committed to a Strong Dividend Policy
  - Fifth Place for Best Corporate Governance
  - Sixth Place for Best Managed Company



4. Highest Return on Equity in the Consumer Product Category for The Edge Billion Ringgit Club 2012.
5. Highest Return on Equity among Companies with more than RM10 billion market capitalisation for The Edge Billion Ringgit Club 2012.
7. High recognition for 2011 FinanceAsia Awards Poll.  
Our recognition includes:
  - Third place for Most Committed to a Strong Dividend Policy
  - Third place for Best Corporate Governance
  - Fourth place for Best Investor Relations
  - Sixth place for Best Managed Company
5. Silver Award for Best Designed Annual Report in the National Annual Corporate Report Awards 2010.
6. Top 20 Companies in Asia for Asian Sustainability Rating.
7. Overall Award Winner in KPMG/The Edge Shareholder Value Award 2010.

## 2011

1. Industry Excellence Award in the Consumer Products Category for Malaysian Corporate Governance Index 2011 Awards.
2. Distinction Award for Malaysian Corporate Governance Index 2011 Awards.
3. Highest Return on Equity Over Three Years in the Consumer Products Sector and Big Cap Category for The Edge Billion Ringgit Club Corporate Awards 2011.
4. Industry Excellence Award in the Consumer Products Category for National Annual Corporate Report Awards 2011.
5. Top 10 Companies in Malaysia for Sustainability Disclosure for Asian Sustainability Rating.
6. Inaugural winner of SVA Exemplary Award for KPMG/The Edge Shareholder Value Awards 2011.
8. Gold Award for Environmental Responsibility and Investor Relations in The Asset Corporate Awards 2011.
9. Notable Achievement in Environmental Performance for Prime Minister's Hibiscus Award 2010/2011.
10. Winner for Reporting in an Annual Report category for ACCA Malaysia Sustainability Reporting Awards 2011.
9. High recognition in all categories for 2009 FinanceAsia Awards Poll.  
Our recognition includes:
  - Second place for Most Committed to a Strong Dividend Policy
  - Third place for Best Corporate Governance
  - Third place for Best Corporate Social Responsibility
  - Fourth place for Best Investor Relations
  - Fourth place for Best Managed Company

## 2010

1. Industry Excellence Award in the Consumer Products Category for Malaysian Corporate Governance Index 2010.
2. Distinction Award for Malaysian Corporate Governance Index 2010.
3. The Edge Billion Ringgit Club Corporate Awards 2010.
4. Industry Excellence Award under Consumer Products Category for National Annual Corporate Report Awards 2010.
10. Gold Award for Excellence in Investor Relations in The Asset Corporate Awards 2009.
11. Gold Award for Environmental Responsibility and Investor Relations in The Asset Corporate Awards 2010.



# 2014 Corporate Events Highlights

## January

- Conducted reinforcement of PETER STUYVESANT with the Freshness Seal.



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

## February

- Held employee town hall meeting at PJ Hilton.
- Conducted financial analyst briefing on Fourth Quarter 2013 financial results.

## March

- Launched DUNHILL Limited Edition Packs.
- Published the British American Tobacco Malaysia Annual Report 2013.
- Held Company Family Day at Sunway Lagoon Park.



## April

- Held fifty-third Annual General Meeting.
- Released First Quarter 2014 financial results.



## June

- Acknowledged in Focus Malaysia newspaper for excellent corporate governance practices and transparency.



## May

- Conducted Company Treasure Hunt and other British American Tobacco Malaysia Sports Club activities.







## July

- Conducted financial analyst briefing on Second Quarter 2014 financial results.
- Launched DUNHILL Taste Blue and Menthol with the tube filter technology.

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



## August

- Recognised in The Edge Billion Ringgit Club Awards 2014 as a profitable company in the consumer product category.

## October

- Conducted financial analyst briefing on Third Quarter 2014 financial results.
- Recognised in Life at Work Award 2014 for our talent brand and corporate programmes that promotes diversity beyond gender and nationalities.



## September

- Upgraded the PALL MALL brand range with the Taste Seal.



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

## November

- Launched PETER STUYVESANT Limited Edition Packs.
- Conducted reinforcement of DUNHILL Taste Blue and Menthol range.
- Held Company Annual Dinner, which also honoured long-serving and retiring employees.



## December

- Awarded scholarships to scholars pursuing higher education.



# Leadership

## In good governance and value-creation

We set the foundation towards a sustainable future by delivering on our commitments to the people that matter most to us, and investing in tomorrow. This is leadership done the BAT Way.



# Corporate Information

## Board Of Directors

**Tan Sri Mohamad Salim bin Fateh Din**  
PSM, PJN, DPMS, DSAP, DSPN, JP  
Independent Non-Executive Director  
(Chairman)

**Stefano Clini**  
Non-Independent Executive Director  
(Managing Director)

**Datuk Oh Chong Peng**  
PJN, JSM  
Independent Non-Executive Director

**James Richard Suttie**  
Non-Independent Non-Executive Director

**Pablo Daniel Sconfianza**  
Non-Independent Executive Director

**Dato' Chan Choon Ngai**  
DSNS  
Non-Independent Non-Executive Director

**Datuk Zainun Aishah binti Ahmad**  
KMN, PMP, DPMP, JSM, PJN  
Independent Non-Executive Director

**Christine Lee Oi Kuan**  
Non-Independent Executive Director

## Company Secretary

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

## Registered Office

Virginia Park, Jalan Universiti  
46200 Petaling Jaya, Selangor Darul Ehsan  
Tel: +60 (3)7956 6899  
Fax: +60 (3)7955 8416  
Email: bat\_malaysia@bat.com

## Company Website

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

## Share Registrar

Tricor Investor Services Sdn Bhd  
(Company No. 118401-V)  
Level 17, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel: +60 (3)2264 3883  
Fax: +60 (3)2282 1886  
E-mail: lay.kiow.lim@my.tricorglobal.com

## Auditors

PricewaterhouseCoopers (AF 1146)  
Level 10, 1 Sentral  
Jalan Travers, Kuala Lumpur Sentral  
P.O. Box 10192, 50706 Kuala Lumpur  
Tel: +60 (3)2173 1188  
Fax: +60 (3)2173 1288

## Principal Bankers

Citibank Berhad  
(Company No. 297089-M)

HSBC Bank Malaysia Berhad  
(Company No. 127776-V)

Malayan Banking Berhad  
(Company No. 3813-K)

The Royal Bank of Scotland Berhad  
(Company No. 301932-A)

Sumitomo Mitsui Banking Corporation  
Malaysia Berhad  
(Company No. 926374-U)

## Stock Exchange Listing

Main Market of Bursa Malaysia  
Securities Berhad  
(Company No. 635998-W)

Listed Since: 27 October 1961  
Stock Code: 4162  
Stock Name: BAT

# Corporate Structure



**BRITISH AMERICAN  
TOBACCO**  
MALAYSIA

**100%**

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

**100%**

Rothmans Brands  
Sdn. Bhd.  
(Trademarks Holding)

**100%**

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

**100%**

The Leaf Tobacco  
Development  
Corporation of Malaya  
Sdn. Berhad  
(Dormant)

**100%**

Commercial Importers  
and Distributors  
Sdn. Bhd.  
(Dormant)

**100%**

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

**100%**

Tobacco Blenders and  
Manufactures  
Sdn. Bhd.  
(Dormant)

Overview

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# Profile of Directors



**Tan Sri Mohamad Salim bin Fateh Din**  
*PSM, PJN, DPMS, DSAP, DSPN, JP*  
*(Independent Non-Executive Director / Chairman)*

Malaysian, Age 58 years

Tan Sri Mohamad Salim bin Fateh Din was appointed Chairman of British American Tobacco (Malaysia) Berhad on 11 April 2012. He is currently the Chairman of the Remuneration Committee and Nomination Committee.

Tan Sri Mohamad Salim through Gapurna Sdn. Bhd. and its group of companies, owns and manages construction, property investment and property development businesses. Some of the hallmark projects undertaken by Tan Sri Mohamad Salim included the 348 Sentral at KL Sentral, and the ongoing PJ Sentral Garden City, both hailed as industry benchmarks geared towards the highest standards of the Green Building Index (GBI) as well as Leadership in Energy & Environmental Design (LEED). Other notable achievements of Tan Sri Mohamad Salim was the successful re-engineering of the design of the Sepang distribution centre for retailer Giant. He is also known as a pioneer who customised and built the “super store” concept petrol stations for leading oil companies in Malaysia.

Tan Sri Mohamad Salim is currently the Group Managing Director of Malaysian Resources Corporation Berhad and also the Managing Director of Gapurna Sdn. Bhd. and sits on the boards of its group of companies; and is the Chairman of Jutaria Gemilang Sdn. Bhd., a joint venture vehicle with Giant Group as the flagship to undertake the convenience store concept. He is also a long-serving member of the Board of Trustees at the Yayasan Pendidikan Cheras.

Tan Sri Mohamad Salim attended all of the five Board Meetings in the financial year ended 31 December 2014.

Tan Sri Mohamad Salim does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company, other than as set out in Paragraph 2.2 and Appendix II of the Circular to Shareholders dated 2 April 2015. He has had no convictions for any offences within the past 10 years.

**Stefano Clini**  
*(Non-Independent Executive Director)*  
*Managing Director*

Italian, Age 48 years

Stefano Clini was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 May 2013 and officially appointed as Managing Director of the Group on 1 July 2013.

Stefano began his career in Procter & Gamble and held various senior leadership roles in the company during his 15 years there. His career in Procter & Gamble saw him holding different positions in marketing; first in Italy, then Belgium, Switzerland and Turkey.

He subsequently joined Heinz Italia S.p.A as President and Chief Executive Officer in October 2005 before assuming the role at HJ Heinz as President, Global Infant & Nutrition in May 2010. He held that role for three years before joining the British American Tobacco p.l.c Group in 2013.

Stefano holds a Degree in Business and Economics from Libera Università Internazionale Degli Studi Sociali, Italy.

Stefano attended all of the five Board Meetings which were held in the financial year ended 31 December 2014.

Stefano does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.



### **Datuk Oh Chong Peng**

*PJN, JSM*

*(Independent Non-Executive Director)*

Malaysian, Age 71 years

Datuk Oh Chong Peng was appointed a Non-Executive Director of the then Rothmans of Pall Mall (Malaysia) Berhad in January 1998, now British American Tobacco (Malaysia) Berhad.

He undertook his accountancy training in London and qualified as a Chartered Accountant in 1969. He is a Fellow of the Institute of Chartered Accountants, England and Wales (ICAEW) as well as a member of the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA).

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 currently sits as the Chairman of Alliance Financial Group Berhad. He is also a Non-Executive Director of several public companies, such as Kumpulan Europlus Berhad, Malayan Flour Mills Berhad, Dialog Group Berhad and several other private companies.

Datuk Oh is a Government appointed member of the Labuan Financial Services Authority (since 1996). He is also a trustee of the UTAR Education Foundation (2002) and a council member of University Tunku Abdul Rahman.

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

Datuk Oh is the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company.

Datuk Oh attended all of the five Board Meetings which were held in the financial year ended 31 December 2014.

Datuk Oh does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.



# Profile of Directors



**Pablo Daniel Sconfianza**  
(Non-Independent Executive Director)  
Finance Director

Italian, Age 38 years

Pablo Daniel Sconfianza was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 May 2014 and officially appointed as Finance Director of the Group on 21 June 2014.

Pablo joined British American Tobacco in Argentina in 2005 as a mid-career recruit having worked in mergers and acquisitions and investment banking both in Brazil and Argentina.

Between 2005 and 2008, Pablo held various Corporate and Marketing Finance roles working for British American Tobacco's Mercosur Cluster (Argentina, Paraguay, and Uruguay).

In 2008, Pablo was appointed Regional Head of Marketing Finance for the Americas Region, where he was also a member of the Global Marketing Finance Council and Global Excise Team. In 2010, Pablo moved to Moscow as Head of Operations Finance Eastern Europe, where he actively supported the Supply Chain integration under the new Eastern Europe, Middle East and Africa region.

In September 2011, Pablo became the Head of Finance Romania, and after that, moved to Malaysia to his current role as Finance Director of the Group in May 2014.

Pablo holds a BA degree from UCA (Catholic University, Argentina) and Master's Degree in Management and Corporate Finance from Fundação Getulio Vargas (RJ - Brazil).

Pablo attended two Board Meetings (since his appointment) which were held in the financial year ended 31 December 2014.

Pablo does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.

**Dato' Chan Choon Ngai**  
DSNS  
(Non-Independent Non-Executive Director)

Malaysian, Age 60 years

Dato' Chan Choon Ngai was appointed Production Director of the then Rothmans of Pall Mall (Malaysia) Berhad, now British American Tobacco (Malaysia) Berhad in October 1995. He holds a Bachelor of Science in Mechanical Engineering degree from the University of Birmingham, United Kingdom. He joined Rothmans of Pall Mall (Malaysia) Berhad in 1979, as Production Management Trainee and held various significant 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). He was a director of Tien Wah Press Holdings Berhad from May 1997 to June 2003.

In July 2000, Dato' Chan was appointed as the Operations Director of British American Tobacco (Malaysia) Berhad. Effective 15 November 2010, Dato' Chan's portfolio was expanded to include the Business Development Services function in addition to his current role as the Operations Director of the Company. Dato' Chan retired on 31 December 2010 after reaching the age of 55. He was subsequently reappointed as the Operations Director of British American Tobacco (Malaysia) Berhad effective 1 February 2011, overseeing both Operations and Business Development Services. He was re-designated as Non-Independent Non-Executive Director of British American Tobacco (Malaysia) Berhad on 1 January 2013 following the expiry of his contract of service as Operations Director of the Company on 31 December 2012.

Dato' Chan attended all of the five Board Meetings which were held in the financial year ended 31 December 2014.

Dato' Chan does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.



**James Richard Suttie**  
(Non-Independent Non-Executive Director)

British, Age 69 years

James Richard Suttie was appointed a Director of British American Tobacco (Malaysia) Berhad in May 2002. He is a member of the Institute of Chartered Accountants of Scotland. He joined Rothmans International p.l.c as a Commercial Accountant/Manager in 1972 and became the Finance Director of Carreras of Jamaica Ltd. in 1982, Rothmans International Europe in 1984 and Rothmans of Pall Mall (Malaysia) Berhad in 1992. In 1997, he was appointed the Regional Finance Controller for Rothmans International in Asia. In 1999, he was appointed the Regional Finance Controller, Africa and in 2002 as Regional Finance Controller, Asia Pacific, of British American Tobacco p.l.c until his retirement from British American Tobacco p.l.c on 31 December 2006.

He is a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

James attended all of the five Board Meetings which were held in the financial year ended 31 December 2014.

James does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.

**Datuk Zainun Aishah Binti Ahmad**  
KMN, PMP, DPMP, JSM, PJN  
(Independent Non-Executive Director)

Malaysian, Age 69 years

Datuk Zainun Aishah was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 March 2012.

Datuk Zainun graduated with a Bachelor of Economics degree from University of Malaya. She 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, notable of which her pivotal role as the National Project Director in the formulation of the first Malaysian Industrial Master Plan. She was the Director-General of MIDA for nine years and Deputy Director-General for 11 years.

She was previously a Director of Tenaga Nasional Berhad and Malayan Banking Berhad. Currently, she is a Director of Degem Berhad, Scomi Engineering Berhad, Shell Refinery Company (Federation of Malaya) Berhad and Berjaya Food Berhad. Datuk Zainun also sits as Chairman of Pernec Corporation Berhad, a public company.

Datuk Zainun is a member of the Audit Committee of the Company. Datuk Zainun attended all of the five Board Meetings in the financial year ended 31 December 2014.

Datuk Zainun does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. She has had no convictions for any offences within the past ten years.

# Profile of Directors



**Christine Lee Oi Kuan**

*(Non-Independent Executive Director)  
Corporate and Legal Affairs Director*

Malaysian, Age 56 years

Christine Lee Oi Kuan was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 March 2012.

She was appointed to the Top Team, now known as Leadership Team of British American Tobacco (Malaysia) Berhad on 1 January 2006 and assumed the role of Corporate and Legal Affairs Director of British American Tobacco (Malaysia) Berhad on 1 September 2006. She has been with British American Tobacco (Malaysia) Berhad since 2001.

Christine began her career in British American Tobacco (Malaysia) Berhad as Head of Legal and Company Secretary. She was previously the Legal Manager and Company Secretary of two public listed companies, Hong Leong Industries Berhad and Malaysian Pacific Industries Berhad.

Holder of a degree in law from the University of Malaya, Christine Lee served at the Attorney General's Chambers, Malaysia from 1983-1993 in the Prosecution and Advisory and International Law Divisions.

In her current role as the Corporate and Legal Affairs Director, Christine is responsible for corporate and regulatory affairs and legal matters of the Group.

Christine attended all of the five Board Meetings in the financial year ended 31 December 2014.

Christine does not have any family relationship with any director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interests in any business arrangement involving the Company. She has had no convictions for any offences within the past 10 years.

# Profile of Leadership Team Members



**Stefano Clini**  
*Managing Director*

Italian, Age 48 years

For details of Stefano Clini's profile, please refer to page 26 of this Annual Report.

**Marcelo Alvarenga Guimaraes**  
*Marketing Director*

Brazilian, Age 43 years

Marcelo Alvarenga Guimaraes was appointed Marketing Director of British American Tobacco (Malaysia) Berhad on 1 January 2013. He joined British American Tobacco's entity in Brazil, Souza Cruz as a Management Trainee in 1995 and has held various positions in Marketing.

In 2002, he joined the Regional Team in LACAR and was subsequently seconded to BATCCA (British American Tobacco Caribbean and Central America) and then to Nobleza Piccardo (British American Tobacco's entity in Argentina, also overlooking Paraguay and Uruguay). He returned to Souza Cruz in 2007, becoming Head of Brands in 2008.

In 2010, Marcelo moved to British American Tobacco p.l.c as Marketing Sustainability and Innovation Strategy Manager in Central Marketing and after that joined the Strategy and Planning Team, playing a key role in the Global Resource Allocation and the Re-articulation of the Global Strategy.

Marcelo holds a BSc in Economics from Pontificia Universidade Catolica of Rio de Janeiro, Brazil, MBA from Manchester Business School, UK and Master of Business Knowledge Management from Coppe/Universidade Federal do Rio de Janeiro, Brazil.

# Profile of Leadership Team Members



**Fiona Jane Geddes**  
*Human Resources Director*

British, Age 39 years

Fiona Jane Geddes was appointed Human Resources Director of British American Tobacco (Malaysia) Berhad on 14 May 2014.

Fiona joined the British American Tobacco p.l.c Group in February 2008 as the Business Engagement Manager with the Global Finance Shared Services before leading the British American Tobacco's global IT transformation as its Programme Manager and Change Manager in March 2010.

Since then, Fiona has held various leadership roles in the fields of Change Management and Organisation Effectiveness. Prior to her appointment in the Company, Fiona was based in the Asia Pacific Regional Office, Hong Kong, as the Regional Head of Organisation Effectiveness.

Fiona began her career with Accenture in February 1998 and throughout her 10 years of experience there, has taken on various roles specialising in the delivery of business transformation across a wide range of industries.

Fiona holds a Bachelor of Laws from Durham University, United Kingdom, and has a Certificate in Humanities from Open University.

**Pablo Daniel Sconfianza**  
*(Non-Independent Executive Director)  
Finance Director*

Italian, Age 38 years

For details of Pablo Sconfianza's profile, please refer to page 28 of this Annual Report.





**Joel Solomon A/L Enock Solomon**  
*Operations Director*

Malaysian, Age 40 years

Joel Solomon A/L Enock Solomon was appointed Operations Director of British American Tobacco (Malaysia) Berhad on 1 January 2013. He joined the Company in 1999 as a management trainee and thereafter held various positions in operations including supply chain management and material development, procurement and factory operations. He was promoted to senior management in 2004, in charge of Primary Manufacturing and subsequently Secondary Manufacturing.

In 2007, Joel moved into the role of Supply Planning Manager for British American Tobacco (Malaysia) Berhad covering a wider scope of end-to-end planning as well as defining the supply footprint for Malaysia. He was thereafter moved to a project role in January 2009, to shape the Company's supply chain and seconded to Singapore in May 2009 to assume the role of Regional Production Planning Manager which involved the setting up of the regional planning hub as well as the process, governance and organisation of the hub itself. He was promoted to Regional Supply Planning Manager in 2011 to head both production planning and distribution planning where his role involved reshaping of the supply models, introduced new supply models as well as paved the way for the regional footprint redesign.

Joel holds an Engineering Degree from the University of Malaya.

**Christine Lee Oi Kuan**  
*Corporate and Legal Affairs Director*

Malaysian, Age 56 years

For details of Christine Lee's profile, please refer to page 30 of this Annual Report.

# Standards of Business Conduct Statement

The Standards of Business Conduct (Standards) are a set of global policies, expressing the high standards of integrity that the BAT Malaysia Group (the Group) is committed to upholding. Our employees are governed by the Standards which form an integral part of the Group's corporate governance. It is a fundamental policy of the Group and the Standards require the Board of Directors of the Company, employees, contractors, service providers, suppliers and distributors to observe and comply with the laws and regulations applicable to them and also operate in accordance with high standards of business integrity. The Group believes that the actions, behaviour and how it does business must be responsible, honest, trustworthy and sincere.

The Standards are designed to:

1. Help employees who are faced with making difficult judgements in the course of doing their work and ensure that all decisions and judgements made by employees are lawful and comply with high ethical standards.

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

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

The Standards have been further revised to include new sections such as "Respect in the Workplace", "Human Rights and our Operations" and "Principles for Engagement". "Respect in the Workplace" renews our commitment to treating each other respectfully, and as equals. "Human Rights and our Operations" defines our role as a good corporate citizen, particularly in the supply chain. "Principles for Engagement" was introduced to the Standards in showing the Group's commitment to corporate transparency.

In addition to the inclusion of the new sections, certain sections of the Standards were also amended to provide further clarity and guidance to employees.

The areas covered by the revised Standards are:

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

A summary of the key changes made to the revised Standards are as follows:

No.	Section	Key Changes
1	Whistleblowing	Dealing/trading in, or consumption of illegal cigarettes included as examples of suspected wrongdoing that should be raised via whistleblowing.
2	Trade in Products	New paragraph included to this section to ensure that the Group and its employees do not engage or participate in any acts of dealing/trading in, or consumption of illegal cigarettes. Employees are also to ensure that they immediately report if they have been approached by any third parties to deal/trade in illegal cigarettes; or they immediately report if they are aware of any employee dealing/trading in, or consumption of illegal cigarettes or any employee who have been approached by any third parties to deal/trade in illegal cigarettes.

			Overview
3	Respect in the Workplace	A new section of Respect in the Workplace was introduced to the Standards in creating an inclusive workforce by promoting employment equality. The Group and its employees are expected to treat colleagues with respect to their characteristics and opinions and all aspects of harassment and bullying are completely unacceptable. Harassment and bullying includes, but is not limited to, any form of sexual, verbal, non-verbal and physical behaviour which is abusive, humiliating or intimidating.	Performance
4	Human Rights and Our Operations	A new section of Human Rights and Our Operations was introduced to the Standards in ensuring that the Group conducts the operations in a way that respects the human rights of its employees, the people working with and the communities in which the Group operates in. Among others, the Group encourages employees to play an active role both in their local and business communities and seeks to create opportunities for skills development, with the aim to work in harmony with the development objectives and initiatives of the Malaysian government.	Leadership
5	Principles for Engagement	A new section of Principles for Engagement was introduced to the Standards in showing the Group's commitment to corporate transparency. The Group also recognises that as a responsible company, all engagement activities undertaken must be guided by internal standards. When engaging with external stakeholders, employees are to ensure that they always identify themselves by name and corporate affiliation and do not directly or indirectly, offer, promise or give any gift, payment or other benefit to any person for the purposes of inducing or rewarding improper conduct or influencing any decision by a public official to the advantage of the Group.	Governance
The revised Standards were duly communicated to all employees of the Group through an announcement on the Group's intranet and email notification. The revised Standards have also been uploaded to the Group's intranet and website respectively.		The obligation to comply with the Standards also extends to the Group's contractors, service providers, suppliers and distributors and is essential in ensuring high standards of business ethics amongst all contractors, service providers, suppliers and distributors of the Group, including the related companies. The applicable provisions in the Standards are incorporated in the agreements with the relevant contractors, service providers, suppliers and distributors of the Group.	Growth
In ensuring compliance and transparency, all management employees, including the Board of Directors of the Company are required to declare their compliance with the Standards and disclose any conflicts of interest on a yearly basis. Conflicts of interest to be declared are in relation to whether the employee and/or immediate family have an interest in or association with the operations of the companies/business which may lead to a conflict of interest. Immediate family here includes parents, spouse, children, brothers and sisters as well as step and adoptive relations. These conflicts of interests are then registered and maintained in the Group's Conflict of Interest register.		It is made clear in all these agreements that compliance to the Standards are mandatory and that any non-compliance of the Standards is deemed a breach and the Group would terminate its agreement with the said contractors, service providers, suppliers or distributors.	Productivity
Among the conflicts of interest declared by employees of the Group is the declaration by Tan Sri Mohamad Salim bin Fateh Din (Tan Sri Salim), the Chairman of the Board of Directors, where the renting of space for siting of cigarette merchandising units to be entered into by Jutaria Gemilang Sdn. Bhd. (JGSB), which is a company indirectly owned by him through Gapurna Sdn Bhd pursuant to Section 131 of the Companies Act 1965. Gapurna Sdn. Bhd. holds 70% interest in JGSB and Tan Sri Salim in turn holds 98.25% of Gapurna Sdn. Bhd.		Compliance with the Standards is monitored regularly by the Board of Directors of the Company and Audit Committee of the Company. The Legal Department/Company Secretary of the Company is charged with the responsibility of reporting to the Board of Directors of the Company on an annual basis, the compliance of these Standards by the Group and its employees. Employees have a strict duty to report incidences of non-compliance with the Standards and any other incidences of wrongdoing at work.	Responsibility
		The Standards is made available to our employees and Board of Directors of the Company on the Group's intranet (Interact website) and the Group's corporate website at <a href="http://www.batmalaysia.com">www.batmalaysia.com</a> .	Winning Organisation
			Financial Statements
			Other Information

# Statement on Corporate Governance

## CORPORATE GOVERNANCE FRAMEWORK

The Company and its Board of Directors (Board) remain steadfast in its commitment in maintaining high standards of corporate governance. The Board firmly believes that the integrity and commitment of its Board and employees, supported by a comprehensive framework of policies, guidelines and internal controls, will serve to strengthen the Company's sustainability, organisational effectiveness and drive a high-performance culture within the organisation. This Statement on Corporate Governance (Statement) aims to provide insights to the shareholders and investors on the corporate governance practices of the Company.

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 developed and continuously enhanced based on the principles and best practices outlined in the following:

- (i) Malaysian Code on Corporate Governance (Revised 2012) (Malaysian Code)
- (ii) Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements)
- (iii) Corporate Governance Guide: Towards Boardroom Excellence of Bursa Malaysia Securities Berhad, 2<sup>nd</sup> Edition (CG Guide)
- (iv) Corporate Disclosure Guide by Bursa Securities (CD Guide)
- (v) Malaysia-ASEAN Corporate Governance Scorecard 2013 by Minority Shareholder Watchdog Group (MSWG)
- (vi) British American Tobacco p.l.c's Code of Corporate Governance
- (vii) Standards of Business Conduct of the Company
- (viii) Statement of Business Principles of the Company (Business Principles)
- (ix) Statement of Delegated Authorities of the Company

The Board also continuously reviews its corporate governance framework to ensure its relevance, effectiveness and sustainability in addressing the challenges of the future business environment. The Company is also guided by the Company's Statement of 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.

### INTERNAL POLICIES, STANDARDS, GUIDELINES, PROCEDURES AND CODES

The Company has in place internal policies, standards, guidelines, procedures and codes in support of the Company's corporate governance framework set out in the BATM Code. Some of the key internal policies, standards, guidelines, procedures and codes are outlined below:

#### Code of Practice on Sexual Harassment

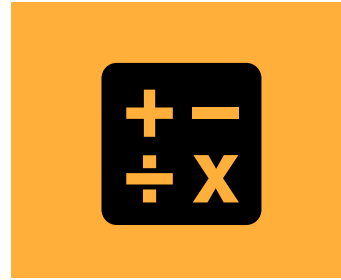
Ensures all employees are treated with respect and dignity regardless of gender and to outline that any form of sexual harassment, which disrupts or interferes with the work performance and dignity of another will not be tolerated.

#### Competition Compliance Guidelines

Outlines the general principles and standards of behaviour in relation to competition laws that employees are required to follow and comply as good business practice.

#### Employment Principles

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



### Guidelines on Dawn Raid

Sets out the procedures to be adhered to in the event there is a raid by relevant authorities so that the necessary cooperation can be provided.

### Guidelines on Employee Engagement

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

### International Marketing Principles

Framework to govern all aspects of tobacco marketing.

### Policy on Business Security

Provides for effective business focused security throughout the Company.

### Policy on Data Protection

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 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.

### Policy on Indirect Procurement

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

### Standards of Business Conduct

Set of global policies, expressing the high standards of integrity that 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 Contribution, 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 abovementioned internal policies, standards, guidelines, procedures and codes are made available to all our employees and Directors on the Company's intranet.

The Company is dedicated and committed in managing its business responsibly amidst a challenging environment for the tobacco industry and the awards and achievements that the Company has received are testimony of such dedication and commitment. For details of these awards and achievements, please refer to pages 20 to 21 of this Annual Report.

This Statement together with the Statement on Risk Management and Internal Control sets out the manner in which the Company had complied with the principles and recommendations of the Malaysian Code and BATM Code throughout the financial year ended 31 December 2014.



# Statement on Corporate Governance

## BOARD OF DIRECTORS

### Board of Directors’ composition

As at the date of this Statement, the Board consists of eight members, five of which are Non-Executive Directors (including the Chairman) and the remaining three are Executive Directors. Three out of the five Non-Executive Directors are Independent Non-Executive Directors. Two out of the eight members are women.

The Board had appointed a new Finance Director, Pablo Daniel Sconfianza on 21 June 2014 following the repatriation back to United Kingdom of the previous Finance Director, Andreas Michael Thompson on 20 June 2014. The Board had also seen the resignation of Dato’ Ahmad Johari bin Tun Abdul Razak on 3 March 2014.

The Board is collectively responsible for the Company’s vision and strategic direction and governance. The Board comprises a good balance of Executive and Non-Executive Directors and the composition complies with the requirements mandated by the Listing Requirements and as prescribed by the principles and best practices of the Malaysian Code and the CG Guide. The composition of the members of the Board reflects a good mix of experience, backgrounds, skills, gender and qualifications and the members are all professionals of high calibre and integrity, possessing in-depth knowledge and experience of the tobacco business which are vital to the sustainability and growth of the business.

Please refer to pages 26 to 30 for details of the Directors on the Board, their profiles and their respective memberships.

<b>Principle Responsibilities Of The Board</b>	<div><div>(i)</div><div>Responsible for the long term strategy of the Company and setting the goals and the direction of the Company.</div></div> <div><div>(ii)</div><div>Directs the Company’s risk assessment and ensures implementation of appropriate systems to manage these risks.</div></div> <div><div>(iii)</div><div>Reviewing and adopting strategic plans for the Company, including appointing, training, fixing the compensation and where appropriate, replacing senior management and financial and operational management.</div></div> <div><div>(iv)</div><div>Provides the leadership necessary to enable the Company’s business objectives to be met within the framework of internal controls as described in this Statement.</div></div> <div><div>(v)</div><div>Other key duties for the Board includes declaring dividends, approving financial statements and accounting policies of the Company, reviewing the adequacy and integrity of the Company’s internal control systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.</div></div> <div><div>(vi)</div><div>Pursuant to the Company’s Statement of Delegated Authorities, the Board is also tasked to decide on the following business transactions and activities:<div><div>• Acquisition, disposal or closure of a business.</div><div>• Establishment of new businesses.</div><div>• Annual strategic plan.</div></div></div></div>
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- Capital investment and disposal of tangible assets from existing business to third party.
- Purchase or sale of trademarks.
- Proposal of borrowings.
- Guarantee and Letters of Comfort.
- Proposal for borrowings or the grant of extended credit facilities by an operating subsidiary from another group company.
- Increase or reduction by an operating subsidiary of authorised or issued capital.
- Unbudgeted redemption or early repayment of loans.
- Any corporate restructuring not covered by any of the above paragraphs.
- The change of name of any group company and the establishment of any new company.

## Individual Roles Of The Board

### Role Of The Chairman

- Provides leadership to the Board.
- Ensures that the Board and its Committees function effectively.
- Facilitates contribution of the Directors.
- Sets the agenda for all Board meetings.
- Ensures effective shareholder engagement and safeguard shareholder interests.

### Role Of Independent Directors

- Responsible for providing unbiased and independent views, advice and judgement, which take into account the interests of the Company and all its stakeholders including shareholders and employees.

### Role Of The Managing Director

- Responsible for the overall performance of the Company.
- Stewardship of the Company's direction and the day-to-day management of the Company.
- Manages the business of the Company consistent with all relevant code, policies, standards, guidelines, procedures and practices of the Company and in accordance with any specific plans, instructions and directions of the Board.

### Role Of Executive Directors

- Responsible for the day-to-day management of financial and operational matters in accordance with the strategic direction established by the Board.

### Role Of Non-Executive Directors

- Responsible for scrutinising the performance of the Board and the management and also act as caretakers of the minority shareholders.
- The Non-Executive Directors do not participate in the day-to-day management of the Company and do not engage in any business dealing or other relationship with the Company, to ensure that they are capable of exercising judgement objectively and act in the best interest of the Company, its shareholders and minority shareholders.

In discharging its responsibilities, the Board is guided by the code of ethics and principles contained in the Malaysian Code, Listing Requirements, CG Guide, BATM Code, the Standards of Business Conduct, Business Principles and Statement of Delegated Authorities.

# Statement on Corporate Governance

## 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 following positions:

- (i) Managing Director
- (ii) Finance Director
- (iii) Marketing Director
- (iv) Operations Director
- (v) Corporate and Legal Affairs Director
- (vi) Human Resources Director

For details of each Leadership Team member, please refer to pages 31 to 33 of this Annual Report.

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 developing, coordinating and implementing business and corporate strategies for approval of the Board, implementing the policies and decisions of the Board and overseeing the operations of the Company. The relevant member of the Leadership Team will also be invited to attend Board meetings to advise the Board and furnish the Board with information and clarification as and when required on items in the agenda tabled to the Board and Board Committees, to enable them to arrive at a decision.

## BOARD AND BOARD COMMITTEE MEETINGS

The composition of the Board Committees as at 31 December 2014 and the attendance of the Directors at the Board and Board Committees meetings held in 2014 are as follows:

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	CSR Committee	Executive Compensation Committee
<b>Tan Sri Mohamad Salim bin Fateh Din</b> (Chairman) Independent Non-Executive Director	5/5	N/A – Not an Audit Committee member	2/2	2/2	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
<b>Stefano Clini</b> (Managing Director) Non-Independent Executive Director	5/5	N/A – Not an Audit Committee member	N/A	N/A – Not a Nomination Committee member	2/2	3/3

## COMPANY SECRETARY

The Company Secretary is responsible for providing support and guidance to the Board on policies and procedures, rules and regulations and relevant laws in regard to the Company as well as the best practices on governance. All Directors have access to the advice and the services of the Company Secretary. The Company Secretary provides support to the Chairman of the Company to ensure the effective functioning of the Board and also organises and attends all Board meetings and Board Committees meetings, ensuring that an accurate and proper record of deliberation of issues discussed, decisions and conclusions are taken.

The Company Secretary records, prepares and circulates the minutes of the meetings of the Board and Board Committees and ensures that the minutes are properly kept at the registered office of the Company and produced for inspection, if required. In addition, the Company Secretary also updates the Board regularly on amendments to the Listing Requirements, practice and guidance notes, circulars from Bursa Malaysia Securities Berhad, legal and regulatory developments and impact, if any, to the Company and its business.

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	CSR Committee	Executive Compensation Committee
<b>Datuk Oh Chong Peng</b> Independent Non-Executive Director	5/5	4/4	2/2	2/2	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
<b>Dato' Ahmad Johari bin Tun Abdul Razak<sup>1</sup></b> Independent Non-Executive Director	1/1	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
<b>Datuk Zainun Aishah binti Ahmad</b> Independent Non-Executive Director	5/5	4/4	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	N/A – Not a CSR Committee member	3/3
<b>James Richard Suttie</b> Non-Independent Non-Executive Director	5/5	4/4	2/2	2/2	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
<b>Dato' Chan Choon Ngai</b> Non-Independent Non-Executive Director	5/5	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
<b>Christine Lee Oi Kuan</b> (Corporate and Legal Affairs Director) Non-Independent Executive Director	5/5	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	2/2	N/A – Not an Executive Compensation Committee member
<b>Pablo Daniel Sconfianza<sup>2</sup></b> (Finance Director) Non-Independent Executive Director	2/2	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	1/1	2/2
<b>Andreas Michael Thompson<sup>3</sup></b> (Finance Director) Non-Independent Executive Director	3/3	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	1/1	1/1

<sup>1</sup> Dato' Ahmad Johari bin Tun Abdul Razak resigned as Independent Non-Executive Director of the Company with effect from 3 March 2014.

<sup>2</sup> Pablo Daniel Sconfianza was appointed as Non-Independent Executive Director with effect from 1 May 2014 and subsequently appointed as Finance Director of the Company with effect from 21 June 2014.

<sup>3</sup> Andreas Michael Thompson resigned as Finance Director of the Company and was repatriated back to the United Kingdom with effect from 20 June 2014.



# Statement on Corporate Governance

The Board schedules a minimum of four meetings in a year to consider all matters relating to the overall control, business performance and strategy of the Company.

The Board has a regular schedule of matters which are in the agenda and reviewed during the course of the year. These are the Managing Director's Quarterly Reports, the Quarterly Unaudited Consolidated Results and recommendations made in the minutes of the Audit Committee, Remuneration Committee and Nomination Committee. All Board and Board Committee meeting dates are pre-scheduled at the end of the year for the following year.

In 2014, amongst the key issues presented for consideration by the Board were:

- (i) Managing Director's Quarterly Reports.
- (ii) Quarterly Unaudited Consolidated Results.
- (iii) Company's Audited Financial Statements.
- (iv) Recurrent Related Parties Transactions.
- (v) Appointment of new Finance Director.
- (vi) Appointment of new Human Resources Director.
- (vii) Major announcements released to Bursa Malaysia Securities Berhad.
- (viii) Company's Corporate Social Responsibilities activities.
- (ix) Company's Enterprise Risk Management Programme.
- (x) Directors' Performance Evaluation.
- (xi) Company's Annual Report (which includes the Statement on Corporate Governance, Statement on Risk Management and Internal Control, Audit Committee Report and Corporate Social Responsibility Committee's Report).
- (xii) Revision of the Company's Standards of Business Conduct.
- (xiii) Medium Term Notes Refinancing Plan.
- (xiv) Goods and Services Tax issues and preparation.

Decisions of the Board are made unanimously or by consensus and these decisions and conclusions are recorded in the minutes of the Board and Board Committees respectively. Where the Board or Board Committee is considering a matter in which a Director has an interest, the relevant Director abstains from deliberating and voting on the subject matter. Minutes of all Board and Board Committees meetings are also circulated to all Directors for their review and confirmation. Additionally, the Directors may request for clarification or raise comments on the minutes prior to confirmation of the minutes. Management, employees or external advisors are invited to attend Board and Board Committees meetings to advise the Board and Board Committees members and provide the Board with relevant information or updates, as and when is required by the Board.

Where any decisions are required expeditiously or urgently from the Board between the scheduled meetings, special Board meetings are convened by the Company Secretary with sufficient notice, after consultation with the Chairman. The agenda for Board meetings is set by the Chairman in consultation with the Managing Director and the Company Secretary. Where appropriate, decisions may be taken by way of Directors' Circular Resolution between scheduled and special meetings. In 2014, 10 resolutions were approved by the Directors via Circular Resolutions which covered among others, finance matters such as the change of bank signatories and the revision of banking facilities.

## BOARD COMMITTEES AND SUB-COMMITTEES

The Board delegates certain of its responsibilities to the three main Board Committees; the Audit Committee, Nomination Committee and Remuneration Committee. Both the Audit Committee and Remuneration Committee have sub-committees reporting in to them. The Corporate Social Responsibility Committee and Risk Management Team report in to the Audit Committee and the Executive Compensation Committee reports in to the Remuneration Committee.

The sub-committees members are made up of the Leadership Team and senior managers of the Company. Each Board Committee adheres to a set of terms of reference approved by the Board and set out in the BATM Code. Their roles and functions, operating procedures and authorities are clearly defined in the said terms of reference which are reviewed by the Board from time to time. Each Board Committee has to submit to the Board, reports of their respective deliberations and recommendations and all deliberations and decisions taken have to be minuted. The roles and responsibilities of the Board Committees are described in detail below.

### Board Committees

#### 1. Audit Committee

As at the date of this Statement, the Audit Committee comprises of three Directors. All members of the Audit Committee are Non-Executive Directors, where two of the three members are Independent Non-Executive Directors. All members of the Audit Committee are financially literate as defined by the Malaysian Code. The Chairman of the Audit Committee, Datuk Oh Chong Peng, fulfills the financial expertise requisite of the Listing Requirements and is also a qualified Chartered Accountant and is a Fellow of the Institute of Chartered Accountants, England and Wales.

**(a) Authority**

- (i) Assists the Board in its review of the effectiveness of the internal control, risk management and governance process of the Company which includes reviewing the Company's financial statements and reporting processes.
- (ii) Meets with senior management and the internal and external auditor to review the effectiveness of internal controls and business risk management and receive reports from the Group's Regional Audit Committee.
- (iii) Reviews compliance with the Standards of Business Conduct and the procedures in place within the Company for the management of its business policies.
- (iv) Responsible for approving audit, recurring audit related and non-audit services undertaken by the external auditor and in carrying out their duties, the Audit Committee ensures that the independence and objectivity of the external auditor are not compromised.

**(b) Meetings**

- (i) The meetings of the Audit Committee are attended by the Managing Director, Finance Director, a representative from British American Tobacco p.l.c Group Internal Audit and representatives of the external auditor. The Audit Committee had met four times during 2014.
- (ii) No member of the Audit Committee, save and except the Chairman of the Audit Committee, received any payments in 2014 from the Company other than the fees which had been received as a Non-Executive Director of the Company and allowances for attendance at meetings. The Chairman of the Audit Committee receives an annual fixed fee for his chairmanship of the Audit Committee.

The Audit Committee had reviewed and discussed the Audited Financial Statements as at 31 December 2014 audited by Messrs. PricewaterhouseCoopers Malaysia and recommended to the Board on 16 February 2015, that the Audited Financial Statements as at 31 December 2014 be included in the Company's Annual Report 2014. The Board had on 16 February 2015 approved the aforesaid Audited Financial Statements for inclusion in the Company's Annual Report 2014 and to be filed with the Bursa Malaysia Securities Berhad and Securities Commission.

For details on the functions, composition, membership and summary of activities of the Audit Committee in 2014, please refer to pages 60 to 64 of this Annual Report.

**2. Nomination Committee**

The Nomination Committee comprises exclusively of Non-Executive Directors, where three of the four members are Independent Non-Executive Directors. The Chairman of the Nomination Committee is Tan Sri Mohamad Salim bin Fateh Din, Independent Non- Executive Director of the Company.

**(a) Authority**

The Nomination Committee is authorised by the Board to act as follows:

- (i) To make proposals to the Board on suitable candidates for appointment as Directors.
- (ii) To ensure that the Board has an appropriate balance of skills, expertise, attributes and core competencies from its members.
- (iii) To regularly review profiles of the required skills, expertise, attributes and core competencies for membership to the Board.
- (iv) To review succession plans for members of the Board.
- (v) To recommend to the Board, Directors to fill the seats on Board Committees.
- (vi) To assess annually the effectiveness of the Board, Board Committees and the contribution of each individual Director.

**(b) Meetings**

- (i) The Nomination Committee shall meet at least once a year or upon the request of any of its members.
- (ii) A majority of the members in attendance must be Independent Non-Executive Directors in order to form a quorum for the meeting.
- (iii) The Company Secretary shall record, prepare and circulate the minutes of the meetings of the Nomination Committee and ensure that the minutes are properly kept and produced for inspection if required.
- (iv) The Nomination Committee shall report to the Board and its minutes will be tabled and noted by the Board.

# Statement on Corporate Governance

- (v) The Nomination Committee met twice during the financial year ended 31 December 2014.

## 3. Remuneration Committee

The Remuneration Committee consists of four Directors who are mainly Non-Executive Directors. Two of the three Non-Executive Directors in the Remuneration Committee are Independent Non-Executive Directors. The Chairman of the Remuneration Committee is Tan Sri Mohamad Salim bin Fateh Din, Independent Non-Executive Director of the Company.

The remuneration packages of Executive Directors and Leadership Team are put forth to the Remuneration Committee for deliberation and decisions. In addition, the Managing Director, (who is one of the four Directors in the Remuneration Committee) in consultation with the Chairman of the Company, shall recommend to the Board, the fees payable to Non-Executive Directors as set forth in the BATM Code. The Managing Director, who is a member of the Remuneration Committee, makes presentations to the Remuneration Committee on the remuneration, compensation payments, annual bonus and salary increments of Executive Directors and members of the Leadership Team.

For other employees of the Company, their remuneration packages are overseen by the Executive Compensation Committee. The Board had on 16 February 2015 reviewed and approved a change in the composition section of the Executive Compensation Committee's Terms of Reference to be aligned with the internal governance committee of British American Tobacco p.l.c Group. The Chairman of the Executive Compensation Committee is Stefano Clini, Managing Director of the Company. The Executive Compensation Committee ensures that remuneration packages are such as to enable the Company to recruit and retain talented and dedicated employees of the necessary skills and comparable to those employees in other benchmarked companies.

## (a) Authority

The Remuneration Committee is authorised by the Board to act as follows:

- (i) To recommend to the Board the Company's policy framework on the terms of employment of the Executive Directors and members of the Leadership Team.
- (ii) To recommend to the Board on all elements of remuneration and compensation payments of the Executive Directors and members of the Leadership Team.
- (iii) To review and approve the annual bonus and salary increments of the Executive Directors and members of the Leadership Team.
- (iv) To review and recommend to the Board the remuneration of the Non-Executive Directors.

## (b) Meetings and minutes

The Remuneration Committee shall meet at least once a year or otherwise as it decides.

- (i) A majority of the members in attendance must be Non-Executive Directors in order to form a quorum for the meeting.
- (ii) Executive Directors and Non-Executive Directors shall abstain from the deliberations and voting decisions in respect of their respective remuneration either at the Remuneration Committee or Board level, as the case may be.
- (iii) The Remuneration Committee shall be entitled to call for advice internally from the Human Resources Department or from external sources, when necessary.
- (iv) The Remuneration Committee shall report to the Board and the minutes of the Remuneration Committee Meeting will be tabled and noted by the Board.

In 2014, the Remuneration Committee met twice. Amongst the items deliberated by the Remuneration Committee in 2014 were the annual bonus and salary increment for the Executive Directors and Leadership Team and remuneration package of the new Finance Director and Human Resources Director.

## Sub-Committees

### 1. Executive Compensation Committee (ECC)

Composition of members*	Roles and responsibilities	Operating procedures
<p>(a) The ECC shall comprise the following:</p> <ul style="list-style-type: none"> <li>Managing Director of the Company.</li> <li>Finance Director of the Company.</li> <li>Human Resources Director of the Company.</li> </ul> <p>(b) The Chairman of the ECC shall be the Managing Director of the Company.</p> <p>(c) The following may be invited to attend ECC meetings as and when necessary:</p> <ul style="list-style-type: none"> <li>British American Tobacco p.l.c's Asia Pacific Regional Head of Human Resources.</li> <li>British American Tobacco p.l.c's Asia Pacific Regional Head of Rewards.</li> <li>Leadership Team members of the Company.</li> </ul> <p>(d) The Company Secretary of the Company acts as the Secretary of the ECC</p>	<p>Perform, with respect to all employees (except members of the Leadership Team) of the Company, the following functions:</p> <ul style="list-style-type: none"> <li>review and approve all elements of remuneration, compensation payments, bonuses, rewards and benefits which include inter alia, the elements set out below, save and except salaries of employees in the Company which are reviewed and approved by the relevant Head of Functions with the Human Resources Director:</li> </ul> <p>(i) ensure that the Group remuneration systems offer the opportunity of excellent reward for excellent performance.</p> <p>(ii) examine reward packages as a whole, seeking overall competitiveness rather than item-by-item comparability based on the market and affordability.</p> <p>(iii) review the individual components of the total reward package to determine, via employees and market trends, the benefit value of each element and adjust the package to achieve the greatest perceived value for cost.</p> <p>(iv) establish an appropriate comparator market in terms of the types of organisations which would be direct competitors for the calibre of employees required and against which the Company in practice has to recruit within the business environment.</p>	<ul style="list-style-type: none"> <li>To meet at least twice a year or more frequently, if necessary.</li> <li>The quorum for the ECC shall be at least three members, including the Chairman, British American Tobacco p.l.c's Asia Pacific Regional Director or British American Tobacco p.l.c's Asia Pacific Regional Head of Human Resources and the Managing Director, being present.</li> <li>The Secretary shall record and circulate the minutes of the meeting.</li> <li>ECC minutes will be tabled and noted by the Remuneration Committee and Board.</li> </ul> <p>In 2014, the ECC met three times to review and deliberate on matters such as bonus payments and benefits, budgets for increment and guidelines for increment.</p>

\* With effect from 16 February 2015

# Statement on Corporate Governance

Composition of members	Roles and responsibilities	Operating procedures
	<p>(v) ensure that arrangements are made for regular surveys of remuneration and benefits, with a sufficient sample of comparator companies to obtain a reliable measure of the market. This may be through participation in surveys of other companies or the commissioning of a survey through suitable local consultants.</p> <p>(vi) ensure that the remuneration package is at all times fully in compliance with local taxation and legal requirements, whilst at the same time maximising legitimate commercial advantage.</p> <ul style="list-style-type: none"> <li>• review and approve the mandate for collective agreement.</li> <li>• review, approve and amend as the case may be, the design and terms of the executive shares scheme.</li> <li>• review and approve voluntary separation scheme.</li> <li>• note job grades of Grades 36 to 38.</li> </ul>	

## 2. Corporate Social Responsibility (CSR)

Composition of members	Roles and responsibilities	Operating procedures
Company's Leadership Team with the Corporate Affairs Manager as the Secretary of the CSR Committee.	<ul style="list-style-type: none"> <li>• Identification and management of key social and environmental issues.</li> <li>• Identification and engagement with key stakeholders.</li> <li>• Monitoring the efficiency and effectiveness of corporate social responsibility management systems and controls.</li> <li>• Ensuring the reliability of social and environmental performance management information.</li> <li>• Monitoring alignment with the Company's Statement of Business Principles.</li> </ul>	<ul style="list-style-type: none"> <li>• To meet at least twice annually.</li> <li>• British American Tobacco p.l.c Group Internal Audit are invited to attend the CSR Committee meeting and be heard on any corporate responsibility matters which affects the Company.</li> </ul> <p>In 2014, the CSR Committee met twice to deliberate on among others, the review of the Company's current sustainability framework and strategy and the update on the Company's 2014 sustainability initiatives.</p> <p>For details of the corporate responsibility activities, please refer to pages 82 to 92 of this Annual Report.</p>



### 3. Risk Management Team (RMT)

Composition of members	Roles and responsibilities	Operating procedures
(a) Finance Director (Chairman of RMT)	<ul style="list-style-type: none"> <li>Protect the Company's corporate assets and its ability to meet or exceed its strategic business objectives consistently.</li> </ul>	<ul style="list-style-type: none"> <li>To meet at least twice annually.</li> </ul>
(b) Senior managers from all functions of the Company	<ul style="list-style-type: none"> <li>Minimise the total cost of risk.</li> <li>Comply with the Malaysian Code and the guidelines on risk management set by the Company's ultimate holding company, British American Tobacco p.l.c</li> <li>Review and update the Leadership Team and Audit Committee on the Company's Enterprise Risk Management programme.</li> <li>Review and recommend to the Leadership Team and Audit Committee the key risks for the Company.</li> <li>Review and update the Leadership Team and Audit Committee on the ongoing status of the key risk response measures.</li> <li>Review and update the Leadership Team and Audit Committee on the status of the Business Continuity Plans.</li> </ul>	<ul style="list-style-type: none"> <li>British American Tobacco p.l.c Group Internal Audit participates in the RMT meetings as an advisor on the effectiveness of the risk management process. British American Tobacco p.l.c Group Internal Audit also reviews the effectiveness of the internal controls and risk mitigation plans in place for key business risks identified and provides a facilitation role on above market risks – regional and global risks that have been identified by related parties.</li> <li>The Board through the Audit Committee reviews the effectiveness of the Group's Enterprise Risk Management Programme bi- annually.</li> </ul> <p>The Risk Management Team met twice during the financial year ended 31 December 2014 to deliberate on among others, the review of the Risk Register, key learnings from the conducted Business Continuity Plan (BCP) tests as well as the risk mitigation plans.</p> <p>For details of the Company's Enterprise Risk Management activities in 2014, please refer to page 68 of the Annual Report.</p>

# Statement on Corporate Governance

## Board Members appointment process

The Board appoints its members through a formal process as set out in Article 103 of the Company's Articles of Association (Articles). Directors who seek re-election or re-appointment at the Company's Annual General Meeting are also subjected to the same process. A Director seeking re-election and re-appointment will abstain from all deliberations regarding his re-election and reappointment to the Board and Board Committees.

The Nomination Committee is empowered to identify and recommend new appointments to the Board. In discharging this duty, the Nomination Committee will assess the suitability of an individual to be appointed to the Board by taking into account the individual's skills, knowledge, expertise and experience, professionalism and integrity. The Nomination Committee shall also ensure that the procedures for appointing new Directors are transparent, rigorous and that appointments are made on merit and against objective criteria for the purpose. Besides evaluating the skills and experience of the candidates, the Nomination Committee also takes into consideration the following factors:

- (a) whether the individual meets the requirements for independence as defined in the Listing Requirements;
- (b) the individual's general understanding of the Company's business and market;
- (c) the individual's professional expertise and background; and
- (d) other factors that promote diversity of views and experience.

Article 95(2) of the Company's Articles states that at any point of time, the total number of Directors shall not be less than two and not more than fifteen. Also, Directors may only hold up to five directorships in public listed companies.

The Board had appointed a new Finance Director, Mr. Pablo Daniel Sconfianza on 21 June 2014 following the repatriation back to the United Kingdom of the previous Finance Director, Mr. Andreas Michael Thompson on 20 June 2014.

The changes at the 2014 Annual General Meeting are as follows:

Name	Designation	Nature of changes at the 2014 Annual General Meeting
Dato' Chan Choon Ngai	Non-Independent Non-Executive Director	Re-elected
Datuk Zainun Aishah binti Ahmad	Independent Non-Executive Director	Re-elected
Christine Lee Oi Kuan	Non-Independent Executive Director (Corporate and Legal Affairs Director)	Re-elected
Stefano Clini	Non-Independent Executive Director (Managing Director)	Re-elected
Datuk Oh Chong Peng	Independent Non-Executive Director	Re-elected

## Re-election process

The Company is confident and firmly believes that individuals chosen and appointed to the Board are all individuals of high calibre and integrity and can be tasked to discharge their duties and responsibilities independently and effectively notwithstanding their tenure on the Board.

The Company does not have term limits for both Executive Directors and Independent Directors but the Board does review its evaluation process annually and in terms of the tenure for Independent Directors, the Board believes that valuable contribution can be obtained from Directors who have, over a period of time, developed valuable insight of the Company and its business. Their continued contribution provides benefit to the Board and the Company as a whole.

Notwithstanding the above, Directors of the Company are regularly re-appointed at regular intervals in accordance with the Company's Articles and good corporate governance practice. Independent Directors who have been on the Board for a cumulative period of more than nine years will be recommended by the Board for re-election annually at the Annual General Meeting after evaluating the performance of the individual Independent Director.

Articles 97(1) and (2) of the Company's Articles provides that at least one third of the Board is subject to retirement by rotation at each Annual General Meeting. The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-election.

The Board will recommend to shareholders, Executive and Non-Executive Directors proposed for re-election or re-appointment at the Annual General Meeting, in accordance with the Articles and upon recommendation of the Nomination Committee after evaluating the performance of the individual Director. In determining whether to recommend a Director for re-election, the Director's past attendance at meetings, participation and contribution to the activities of the Board will be duly considered by the Nomination Committee.

Retiring Directors can offer themselves for re-election. Two are due to retire pursuant to Articles 97(1) and (2) at this Annual General Meeting and will be recommended for re-election by the Board pursuant to the Articles.

Tan Sri Mohamad Salim and James Richard Suttie are due to retire by rotation in accordance with Articles 97(1) and (2) at this Annual General Meeting.

Tan Sri Mohamad Salim bin Fateh Din, Chairman and Independent Non-Executive Director of the Company is recommended for re-election by the Board pursuant to Article 97(1) and (2) at this Annual General Meeting. The Company believes that Tan Sri Mohamad Salim is able to draw upon his extensive knowledge to continue to serve the Company and recommends his re-election for his continuous contributions to the Company.

James Richard Suttie, Non-Independent Non-Executive Director of the Company is recommended for re-election by the Board pursuant to Article 97(1) and (2) at this Annual General Meeting. The Board opined that his experience is invaluable to the Company and the Board recommends that he be re-elected at the forthcoming Annual General Meeting.

Article 103 provides that a Director appointed by the Board from time to time shall hold office only until next Annual General Meeting and shall then be eligible for re-election. Pablo Daniel Sconfianza is due to retire pursuant to Article 103 and be subjected to re-election at this Annual General Meeting.

The Company would like to continue to retain Datuk Oh Chong Peng, (who has served as an Independent Director of the Company for more than nine years) on its Board as an Independent Non-Executive Director and to hold office until the conclusion of the next Annual General Meeting. The Nomination Committee and the Board are confident in Datuk Oh's continuous invaluable contributions to the Company and firmly believe that Datuk Oh can be tasked to discharge his duties and responsibilities independently and with integrity notwithstanding his tenure on the Board. As part of good corporate governance, Datuk Oh Chong Peng has offered himself for re-election at the Annual General Meeting on 27 April 2015.

The abovenamed Directors who are due for re-election at the forthcoming Annual General Meeting on 27 April 2015, as evaluated by the Nomination Committee and approved by the Board, have met the Board's expectations and continued to perform in an exemplary manner as demonstrated by their contributions to the Board's deliberations.

The above Directors who are subject to re-election have accepted the recommendation and have agreed to serve as Directors if elected by the shareholders at the forthcoming Annual General Meeting.

## DIRECTOR'S REMUNERATION

The Company's remuneration policy for Directors is tailored to provide a remuneration package needed to recruit, retain and motivate individuals of the necessary calibre and quality that is required to manage the business of the Company.

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

In evaluating the Managing Director's remuneration, the Remuneration Committee 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 Committee recommends to the Board the remuneration package of an Executive Director and it is the responsibility of the Board as a whole to approve the remuneration package of an Executive Director.

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

- (i) Basic salary - The basic salaries for the Executive Directors are recommended by the Remuneration Committee to the Board for approval.
- (ii) 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.
- (iii) 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.

# Statement on Corporate Governance

Directors	Fees (RM)	Salaries (RM)	Other emoluments* (RM)	Benefits in-kind**	Total (RM)
<b>Tan Sri Mohamad Salim bin Fateh Din</b> Independent Non-Executive Director (Chairman)	345,000	NIL	169,212	NIL	514,212
<b>Datuk Oh Chong Peng</b> Independent Non-Executive Director	100,000	NIL	28,000	NIL	128,000
<b>Dato' Ahmad Johari bin Tun Abdul Razak<sup>4</sup></b> Independent Non-Executive Director	16,667	NIL	1,000	NIL	17,667
<b>Datuk Zainun Aishah binti Ahmad</b> Independent Non-Executive Director	100,000	NIL	4,000	NIL	104,000
<b>James Richard Suttie</b> Non-Independent Non-Executive Director	100,000	NIL	8,000	NIL	108,000
<b>Dato' Chan Choon Ngai</b> Non-Independent Non-Executive Director	100,000	NIL	NIL	NIL	100,000
<b>Stefano Clini</b> Non-Independent Executive Director (Managing Director)	NIL	1,399,853	1,532,765	686,486	3,619,104
<b>Pablo Daniel Sconfianza<sup>5</sup></b> Non-Independent Executive Director (Finance Director)	NIL	374,171	508,221	284,785	1,167,177
<b>Christine Lee Oi Kuan</b> Non-Independent Executive Director (Corporate and Legal Affairs Director)	NIL	924,926	636,635	2,404,169	3,965,730
<b>Andreas Michael Thompson<sup>6</sup></b> Non-Independent Executive Director (Finance Director)	NIL	384,932	836,329	3,035,523	4,256,784

<sup>4</sup> Dato' Ahmad Johari bin Tun Abdul Razak resigned as Independent Non-Executive Director of the Company with effect from 3 March 2014.

<sup>5</sup> Pablo Daniel Sconfianza was appointed as Non-Independent Executive Director with effect from 1 May 2014 and subsequently appointed as Finance Director of the Company with effect from 21 June 2014.

<sup>6</sup> Andreas Michael Thompson resigned as Finance Director of the Company and was repatriated back to the United Kingdom with effect from 20 June 2014.

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, is paid a meeting attendance allowance for each Committee meeting attended. In recognition of the additional time and commitment required, the Chairman of the Audit Committee also receives an annual fixed fee for his chairmanship in the Audit Committee. 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.

## BOARD PERFORMANCE/EFFECTIVENESS EVALUATION

The purpose of the Board and Board Committee Assessment Questionnaire is to form the basis upon which the Board can enhance its effectiveness and aims to highlight areas of strength and areas where improvements can be made. Additionally, it also acts as a benchmark against which to measure initiative that will increase the Board's effectiveness and organizational performance. The performance and effectiveness of the Board were assessed in 2014 using evaluation survey questionnaires to evaluate the overall Board's performance against criteria that the Board determines are important to its success. Thereafter, the Board and Board Committee Assessment Questionnaires are compiled into a report for the Chairman. The report is presented to the Nomination Committee and then to the Board for evaluation and consideration.

The Board and Board Committee Assessment Questionnaire is divided into five sections on the following key areas:

1. Board Composition and Competencies
2. Board Responsibility
3. Board and Board Committee Meetings
4. Board Communication
5. Board Effectiveness

A summarised report was presented to the Board on 16 February 2015 to enable the Board to identify areas for improvement. The Board's performance and effectiveness evaluation in 2014 reported that the Board and Board Committees had continued to operate responsibly, efficiently and effectively in discharging their duties and responsibilities. Overall, the Directors were of the opinion that they have fulfilled their responsibilities as members of the Board and Board Committees and were satisfied with the Company's vision and goals, direction, strategy, planning and budgeting process and their level of contribution to these matters. All Directors also confirmed that the Board meetings are constructive and are conducted in a manner that allows for open and constructive communication, encourages focused discussions, critical questioning and the expression of various viewpoints and also ensures open and meaningful participation, and the timely resolution of issues related to the Board meetings.

Additionally, all Directors agreed they have sufficient access to the Chairman and that the Managing Director and senior management were responsive to questions and issues raised by the Board and that the Managing Director and senior management communicated with the Board in an open and timely manner.

As such, the findings of the Board performance and effectiveness evaluation for 2014 were fairly consistent with the 2013 findings, indicating that the Board had performed effectively for 2014.

## DIRECTORS' TRAINING

Upon joining the Board, all newly appointed Directors receive an induction programme on all areas of the Company's business. All existing Directors of the Company have also completed the Mandatory Accreditation Programme (MAP). Any Director appointed to the Board is required to complete the MAP within four months from the date of appointment. Following the repeal of the Continuing Education Programme (CEP) requirements prescribed by Bursa Malaysia Securities Berhad with effect from 1 January 2005, the Board of Directors continue to evaluate and determine the training needs of its Directors to ensure continuing education to assist them in the discharge of their duties as Directors.

The Directors will continue to undergo other relevant training programmes, seminars and conferences to gain insight into the state of the economy as well as the latest regulatory and developments relevant to the Company's business. Pursuant to Paragraph 15.08(2) and Appendix 9C (Part A, Paragraph 28) of the Listing Requirements, the Directors have during the financial year ended 31 December 2014 attended training programmes in areas of leadership, corporate governance, risk management, finance, regulatory developments and corporate social responsibility.

Particulars of training programmes attended by the Directors as at 31 December 2014 are as follows:

Directors	Training Programme
Tan Sri Mohamad Salim bin Fateh Din	1. Directors CEP Training 2014 <sup>7</sup>
Datuk Oh Chong Peng	1. Recovery & Resolution Planning for Financial Institutions <sup>8</sup> 2. Directors CEP Training 2014 <sup>9</sup>
Dato' Ahmad Johari bin Tun Abdul Razak	NIL
James Richard Suttie	1. Directors CEP Training 2014 <sup>10</sup>
Stefano Clini	1. Directors CEP Training 2014 <sup>11</sup>
Andreas Michael Thompson	NIL
Datuk Zainun Aishah binti Ahmad	1. Board Chairman Series: The Role of the Chairman 2. Nominating Committee Programme 2: Effective Board Evaluation 3. Managing Business Risk and Creating Opportunities with GST Implementation 4. Directors CEP Training 2014 <sup>12</sup>



# Statement on Corporate Governance

Christine Lee Oi Kuan	<ol style="list-style-type: none"> <li>1. Directors CEP Training 2014<sup>13</sup></li> <li>2. A Comprehensive Understanding of GST in Malaysia</li> <li>3. MAISCA Annual Conference 2014: Challenges of the Changing Corporate and Regulatory Landscape</li> </ol>
Pablo Daniel Sconfianza	<ol style="list-style-type: none"> <li>1. Directors CEP Training 2014<sup>14</sup></li> <li>2. Mandatory Accreditation Programme for Directors of Public Listed Companies<sup>15</sup></li> </ol>
Dato' Chan Choon Ngai	<ol style="list-style-type: none"> <li>1. Directors CEP Training 2014<sup>16</sup></li> </ol>

Apart from the above training programmes, all the members of the Audit Committee are updated at every Audit Committee meeting on matters in relation to any new accounting or reporting standards and any relevant legal / regulatory updates applicable to the Company.

## SUPPLY OF INFORMATION AND ACCESS TO INDEPENDENT ADVICE

### Access to Management

The Board has direct access to the Senior Management and has unrestricted as well as immediate access to information relating to the Company's business affairs. Prior to Board and Board Committees meetings, a formal and structured agenda together with a set of Board and Board Committees papers containing information relevant to the matters to be deliberated at the meeting is forwarded to all Directors at least five days before the relevant Board and Board Committees meetings. This is to enable Directors to 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 supporting documents. Presentations to the Board and Board Committees are prepared and delivered in a manner that ensures a clear and adequate presentation of each subject matter. In addition, reading materials on the subject matter are prepared and circulated prior to each meeting to allow the Directors to have an understanding of the subject matter ahead of the meeting.

The Board also encourages the attendance of senior management of the Company at Board and Board Committees meetings to facilitate better understanding of the Company's operations and to give the Directors adequate access to senior management. The Directors are regularly updated on 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.

### Company Secretary

All Directors have access to the advice and services of the Company Secretary. The Board and Board Committees receive up-to-date information for review ahead of each meeting, and the Company Secretary, under the direction of the Chairman, ensures the flow of information to the Board and Board Committees. The Company Secretary is also responsible for advising the Board, through the Chairman on all governance matters.

### Access to Independent Advisers

There is also a formal procedure approved by the Board for all Directors, whether acting as a full Board or in their individual capacity, to obtain independent professional advice when necessary, at the Company's expense. Prior to engaging an independent adviser, approval must be obtained from the Chairman of the Board and, where applicable, the Chairman may circulate the external advice to the Board.

<sup>7</sup> One day in-house workshop on the global and domestic economic developments and outlook, consumer trends and market insights, goods and services tax and social media crisis management.

<sup>8</sup> One day in-house workshop organised by Bursa Malaysia Securities Berhad on the recovery and resolution planning for financial institution.

<sup>9</sup> Please refer to footnote no.7 above.

<sup>10</sup> Please refer to footnote no.7 above.

<sup>11</sup> Please refer to footnote no.7 above.

<sup>12</sup> Please refer to footnote no.7 above.

<sup>13</sup> Please refer to footnote no.7 above.

<sup>14</sup> Please refer to footnote no.7 above.

<sup>15</sup> Mandatory Accreditation Programme conducted by Bursa Malaysia Securities Berhad on overall rules and regulations governing public listed companies.

<sup>16</sup> Please refer to footnote no.7 above.

## RELATIONSHIP WITH STAKEHOLDERS

The Company is aware that a key element of good corporate governance is the effective communication and dissemination of clear, relevant and comprehensive information which is timely and readily accessible by the Company's stakeholders.

## SHAREHOLDERS

The Company believes that the management of a successful and productive relationship with its shareholders must be underpinned by the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and ensure that the rights of all investors, including minority shareholders are protected.

The Company's primary contact with shareholders is through the Chairman, Managing Director, Finance Director and Company Secretary. All shareholders' queries will be received by the Company Secretary and the Company Secretary will provide feedback and responses to shareholders' queries and where any information may be regarded as undisclosed material information about the Company such information will not be made available to a shareholder unless already in the public domain through disclosure.

### Annual General Meeting (AGM)

The Company recognises that good corporate governance requires active participation of shareholders in the decision making process at the Company's AGM. The Company's AGM remains the principal forum for dialogue and communication between the shareholders and the Board. At the AGM, shareholders participate in the deliberations of the resolutions being proposed or on the Company's operations in general. Shareholders are encouraged to ask questions about the resolutions being proposed and the operations of the Company and communicate their expectations and concerns. Questions posed are, where possible, answered in detail either at the 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.

Shareholder attendance at the AGM continued to be high as evidenced by the presence of 653 shareholders at the 53<sup>rd</sup> AGM of the Company held on 22 April 2014 at the One World Hotel in Petaling Jaya, Selangor. All resolutions were approved and all Directors and the Company Secretary attended the meeting. The Board, senior management, the Company's external legal counsels and auditors, Messrs. PricewaterhouseCoopers were present to answer questions raised and provide clarification as required by the shareholders.

Feedback on questions raised by the Minority Shareholder Watchdog Group (MSWG) prior to the AGM is shared with all shareholders during the AGM, where critical issues or queries in relation to the Company's business are adequately addressed.

Among the questions and topics of discussion raised by the shareholders during the 53<sup>rd</sup> AGM of the Company were on issues such as the state of preparation of the Company in view of the impending Goods and Services Tax (GST), whether the Company had any policy in relation to the provision of its bad debts, whether the Company had any plans to launch e-cigarettes in Malaysia and the steps taken by the Company in the effort to reduce illegal cigarettes trade. These issues were adequately addressed and answered by the Board during the AGM.

A press conference was held immediately after the AGM where the Chairman, Managing Director, Finance Director and Corporate and Legal Affairs Director advised the media on the resolutions approved by the shareholders and clarified issues and answered questions posed by the media to the Company.

The 2015 AGM will be held on 27 April 2015 at the Sime Darby Convention Centre in Petaling Jaya, Selangor. The Notice of AGM and the Form of Proxy are enclosed with the Abridged Annual Report 2014. The results of all resolutions proposed will be available on the Company's and the Bursa Malaysia Securities Berhad's website on the closure of business on 27 April 2015.

### Annual Report

The Company believes that the Annual Report is a key channel of communication between the Company and the shareholders and embody the characteristics laid down by Bursa Malaysia Securities Berhad in ensuring disclosure beyond the requirements of the Listing Requirements in promoting better governance. The contents of the Annual Report are continuously enhanced to take into account developments, amongst others, in corporate governance and best practices. The Board also aims to provide and present a clear and comprehensive assessment of disclosures in the Annual Report to shareholders. In disclosing information in the Annual Report, the Board is guided by the principles set out in the Listing Requirements and the BATM Code.

The Statement on Corporate Governance, Statement on Risk Management and Internal Control, Corporate Social Responsibility Committee's Report, and Audit Committee Report form part of the Annual Report 2014. These statements and reports were tabled at the Audit Committee meeting for its comments and recommendation to the Board of Directors for review and deliberation before being incorporated into the Annual Report.

# Statement on Corporate Governance

An essential aspect of an active and constructive communication policy is the promptness in disseminating information to shareholders and investors. The Company sends out the Notice of the Annual General Meeting and related circular to shareholders at least 21 days before the meeting as required by the Companies Act 1965 in order to facilitate full understanding and evaluation of the issues involved. Where special business items appear in the Notice of the Annual General Meeting, a full explanation is provided to shareholders on the effect of the proposed resolution emanating from the special business item. Prompt and timely release of financial results on a quarterly basis enables shareholders to have an overview of the Company's performance and operations and make informed investment decisions.

## Release of Annual Report

	<b>Date of Issue/Release</b>	<b>Bursa Securities Deadline</b>	<b>Number of days after end of year</b>
<b>Annual Report 2014</b>	2 April 2015	30 June 2015	92
<b>Annual Report 2013</b>	27 March 2014	30 June 2014	86

## Release of Quarterly Financial Results

<b>2014 Quarterly Results</b>	<b>Date of Issue/Release</b>	<b>Bursa Securities Deadline</b>	<b>Number of days after end of quarter</b>
<b>First Quarter</b>	24 April 2014	31 May 2014	24
<b>Second Quarter</b>	22 July 2014	31 August 2014	22
<b>Third Quarter</b>	16 October 2014	30 November 2014	16
<b>Fourth Quarter</b>	16 February 2015	28 February 2015	53

## INVESTOR RELATIONS

### (i) Quarterly briefings and other forms of communication

The Company holds separate quarterly briefings for fund managers, institutional investors and investment analysts as well as the media after each quarter's announcement of financial results to Bursa Malaysia Securities Berhad. 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.

The quarterly briefings are attended by the Managing Director, Finance Director and Corporate and Legal Affairs Director of the Company.

In 2014, the Company held four quarterly briefings, 23 direct one-on-one meetings, one road-show and hosted nine teleconferences with fund managers, institutional investors and investment analysts.

### (ii) Company website

To further enhance transparency to all shareholders and stakeholders of the Company, the Company has established a website at [www.batmalaysia.com](http://www.batmalaysia.com). Shareholders can access information under the 'Investor' link encompassing corporate information, latest annual reports, latest press releases, latest financial results, share prices, Bursa Malaysia Securities Berhad's announcements, investor relations and briefings.

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

In 2014, the Company website was further enhanced based on key recommendations from the Malaysia-ASEAN Corporate Governance Scorecard 2013.

### (iii) Senior personnel

Shareholders and other interested parties may contact the Company's designated Senior Independent Non-Executive Director, Datuk Oh Chong Peng to address any concerns by writing or via telephone, facsimile or electronic mail as follows:

#### **Datuk Oh Chong Peng**

Senior Independent Non-Executive Director

#### Contact Details

Telephone number: +60 (3)7956 6899/7491 7100

Fax: +60 (3)7491 3772

E-mail: ocpeng@bat.com

Postal Address: Virginia Park, Jalan Universiti,  
46200 Petaling Jaya, Selangor Darul Ehsan Malaysia

Primary contact for investor relation matters:

#### **Pablo Daniel Sconfianza**

Finance Director

#### Contact Details

Telephone number: +60 (3)7491 7328

E-mail: fdoffice\_malaysia@bat.com

Postal Address: Virginia Park, Jalan Universiti,  
46200 Petaling Jaya, Selangor Darul Ehsan Malaysia

### EMPLOYEES

The Company believes in promoting high standards of conduct and all employees are guided by four value systems, namely the Guiding Principles, Employment Principles, Business Principles and Standards of Business Conduct (Value Systems), in ensuring that they continuously uphold such conduct in the performance of their duties.

The Guiding Principles are premised on four values. They are as follows:

- Strength from diversity
- Open minded
- Freedom through responsibility
- Enterprising spirit

These principles embodies the Company's culture, the personality of the organisation and also serves as a guide for proper employee behaviour.

The Employment Principles focuses on work place practices and ethics, employee relations and employee human rights. This principle set out a common approach to the development of policies and procedures taking into account labour laws and practices and the political, economic and cultural context.

The Business Principles describe how the Company should be run in terms of responsibility.

The Standards of Business Conduct describe high standards of business integrity and code of ethics that guide an employee's conduct.

To ensure compliance, all management employees, including the Board and the Group's suppliers and service providers are required to declare their compliance with the Standards of Business Conduct and disclose any conflicts of interest on a yearly basis. A register of declaration of interest is maintained by the Company Secretary. All declarations of interest are tabled at the Board meeting for consideration. Any potential conflict of interest which does not involve a member of the local Leadership Team or an employee of Grade 37 or above, will not have to be reported to the Regional Audit Committee provided that it was:

- properly declared by the employee concerned at the appropriate time;
- reviewed at the appropriate management level and deemed acceptable; and
- not otherwise inconsistent with the requirements of the Standards of the Business Conduct. In 2014, there had been 17 declarations of conflict of interest made by employees of the Company. Details of the Company's Value Systems are available at the Company's website at [www.batmalaysia.com](http://www.batmalaysia.com).

### CONSUMERS

Guided by the Principle of Responsible Product Stewardship, the Company's products and brands are developed, manufactured and marketed in a responsible manner.

# Statement on Corporate Governance

## SUPPLIERS AND SERVICE PROVIDERS

The Standards of Business Conduct which binds the Group's employees, are similarly binding on the Group's suppliers and service providers (where applicable) in ensuring high standards of business ethics amongst all suppliers and service providers of the Group, including the suppliers' or service providers' related companies. The applicable provisions in the Standards are incorporated in the contract with the relevant suppliers or service providers. It is made clear in all these agreements that compliance to the Standard of Business Conduct are mandatory and that any non-compliance of the Standard is deemed a breach and the Group would terminate its agreement with the said contractors, service providers, suppliers or distributors.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

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 and quarterly announcement of results. The Audit Committee 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 prior to release to Bursa Malaysia Securities Berhad and Securities Commission.

### Directors' responsibility statement in respect of the preparation of the Audited Financial Statements

The Directors have provided assurance that financial statements prepared for each financial year which have been made out in accordance with the provisions of the Act and applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flows of the Group and Company for the financial year. In preparing the financial statements, the Directors have ensured that accounting standards approved by the Malaysian Accounting Standards Board (MASB) in Malaysia and the provisions of the Companies Act 1965 have been complied with and reasonable and prudent judgements and estimates have been made.

The Directors are satisfied with the preparation of the financial statements of the Company's position and prospects in the Directors' Report at pages 116 to 122 and the Financial Statements from pages 126 to 196 of this Annual Report.

### Internal control

The establishment of an appropriate control framework as well as the reviewing of its effectiveness and integrity is evidence of the Board's overall responsibility for the Company's system of internal controls. The Board sets policies and procedures for internal control and ensures that such internal control system is properly carried out by the management of the Company. The Company has established processes to oversee and manage risks.

For the Statement on Risk Management and Internal Control, please refer to page 65 to 70 of this Annual Report.

## ETHICAL, INTEGRITY AND COMPLIANCE FRAMEWORK

### Anti-Corruption

#### (i) Anti-Corruption Toolkit

The Standards of Business Conduct requires all employees to act with the highest standards of business integrity and strict compliance to it is of significant importance to the Company. The Anti-Corruption Toolkit (Toolkit) 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 Toolkit further identifies the relevant requirements of the Standards of Business Conduct and provides additional guidance, training materials and useful documents as well as templates, in order to facilitate compliance with the Standards of Business Conduct and to support the Company in implementing the relevant procedures and controls.

The Toolkit is divided into the following sections:

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



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

## (ii) Corporate Integrity Pledge

The Company is a signatory of the Malaysian Corporate Integrity Pledge (Pledge). The Pledge was signed on 19 February 2014, demonstrating the Company's commitment in upholding the anti-corruption principles for companies in Malaysia.

The Pledge is as a result of collaboration amongst Bursa Malaysia Securities Berhad, Companies Commission of Malaysia, Malaysian Institute of Integrity, Malaysian Anti-Corruption Commission & NKRA Corruption Monitoring & Coordination Division, Securities Commission Malaysia, Transparency International Malaysia and the Performance Management and Delivery Unit (PEMANDU), Prime Minister's Office. The objective is to make a unilateral commitment to uphold principles of anti-corruption in business dealings and to aid companies in recognising the importance of anti-corruption measures in being a competitive business and operating in increasingly competitive and globalised markets.

By signing the Pledge, the Company is now listed in the register of signatories that is carried on the website of the Malaysian Integrity Institute and the full list of signatories to the Pledge can be accessed through the website of Bursa Malaysia Securities Berhad.

## Whistleblowing policy

The Company has adopted a whistleblowing policy which serves as an early warning system to assist the Company in detecting wrongdoings and taking early corrective action. It is the Board's belief that having a whistleblowing procedure in place will increase investors' confidence in the Company and is in line with the Company's sound corporate governance practices. The whistleblowing policy is one of the key provisions in the Standards of Business Conduct. It was established in 2004 and is reviewed by the Company for enhancements from time to time. The whistleblowing procedure enables employees to make their concerns known without fear of retaliation and with the knowledge that their complaints will be acted upon and their identity is kept confidential.

To further enhance the whistleblowing procedure framework, the Company had put in place the Procedures on Incident Reporting and Investigation (Incident Procedures). The Incident Procedures is made available to all employees via the Company's intranet and informed to all employees during corporate 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 Company and non-employee who is a business partner/service provider of the Company in a prompt and effective manner. The evaluation of any incidences reported is conducted by a formal evaluation committee comprising a majority of the Company's Leadership Team (EVT). The EVT is tasked to effectively drive and evaluate the investigation of any reported incident and decide on appropriate action to be taken arising from the investigation and is guided in its review of all 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 reported were investigated by an investigation team comprising of senior managers working closely with the EVT to ensure that all cases which have been reported or discovered are investigated upon promptly. The reports of investigation are then sent to the EVT for review and evaluation and if the case warrants it, police reports will be made, domestic inquiries will be conducted and appropriate disciplinary action including freezing of increments, issuance of warnings and termination will be taken. If any control weaknesses are identified by the investigation team, such weaknesses will be rectified to prevent future occurrences.

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

With the presence of the whistleblowing procedure, Incident Procedures and stringent control measures, the Company investigated 14 breach incidents involving areas such as fraud and the gross losses suffered by the Company arising from the incidents reported in 2014 were approximately RM532,114.84. Seven employees of the Company's distributors were dismissed from the respective distributors and one employee of the Company was dismissed as a result of misconduct.

# Statement on Corporate Governance

## Competition Compliance

Ahead of the passing of the Competition Act 2010 which came into force in Malaysia in January 2012, the Company had in 2009 launched the Competition Compliance Guidelines to ensure that the Company's practices will be in compliance with competition laws, when such competition laws are introduced in Malaysia. The Guidelines sets out the general principles and standards of behaviour in relation to competition laws that employees are required to follow and comply as good business practice. As part of the Company's Competition Law Compliance Programme, training programmes have been conducted for our employees to instill awareness on the principles of Competition Law. The Competition Compliance Guidelines is made available to all employees via the Company's intranet.

## Personal Data Protection

The Personal Data Protection Act 2010 (PDPA), which came into force in Malaysia effective from 15 November 2013 seeks to regulate the processing of personal data by data users in commercial transactions and to safeguard the interests of data subjects. The PDPA also furthers the notion that an individual has the right to ensure that his personal information is accurate and is being used fairly in accordance with the law. Prior to the coming into force of the PDPA, the Company has put in place the requisite privacy notices for all job applicants as well as embarked on a company-wide process to have all employees sign a personal data notice and consent form in order to be compliant with the PDPA.

The Board of Directors of the Company had on 22 July 2014 approved the Policy on Data Protection. The Policy on Data Protection has been adopted in order 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.

## Related Party Transactions

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

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

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

- (i) 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.
- (ii) All related party transactions will be reported to the Audit Committee of the Company. Any member of the Audit Committee of the Company may as he deems fit, request for additional information pertaining to the transaction including from independent sources or advisers.
- (iii) 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.
- (iv) 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.

- (v) 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 Audit Committee shall direct the British American Tobacco p.l.c Group Internal Audit to carry out investigation pertaining to the discrepancies or queries.

The Recurrent Related Party Transactions entered into by the Company with its related parties in 2014 were:

- purchase and sale of cigarettes and tobacco products.
- purchase of leaf, cigarette packaging and wrapping materials and tobacco products.
- procurement of information technology services, payment of royalties, payment of fees for technical and advisory support services.
- provision of technical and advisory support services,
- purchase and sale of equipment.
- rental of space to place cigarette dispensing units for the sale of cigarettes in all G-Ekspres convenience stores.

Commercial Marketers and Distributors Sdn. Bhd. (CMD), a wholly-owned subsidiary of the Company, had entered into a related party transaction with Jutaria Gemilang Sdn. Bhd. (JGSB) in relation to the rental of space to place cigarette dispensing units for the sale of cigarettes in all G-Ekspres convenience stores (Proposed Transaction). JGSB is duly licensed with the Ministry of Domestic Trade, Co-operatives and Consumerism to operate convenience stores in Malaysia. JGSB is indirectly owned by Tan Sri Mohamad Salim bin Fateh Din, the Chairman of the Board. At the 410th Board Meeting of the Company held on 17 October 2013, the Chairman had declared his interest in the proposed transaction with CMD for the renting of space to site cigarette dispensing units in all G-Ekspres convenience stores, to be entered into by JGSB, a company which is indirectly owned by him through Gapurna Sdn Bhd. Gapurna Sdn Bhd holds 70 percent interest in JGSB and Tan Sri Salim in turn holds 98.25 percent of Gapurna Sdn Bhd. The Chairman had abstained from the deliberations and voting on this matter during the Board Meeting.

For details of these transactions, please refer to pages 180 to 185 of this Annual Report.

## Relationship with External Auditor

The Board via the Audit Committee maintains a formal and transparent professional relationship with the Group's auditors, both internal and external. The role of the Audit Committee in relation to the auditors is described in the Audit Committee Report set out on pages 60 to page 64 of this Annual Report. The Audit Committee discusses with the external auditor the nature and scope of the audit and reporting obligations before audit commences. The Audit Committee ensures that the management will provide a timely response on any material queries raised by the external auditor after the audit to management, in respect of the accounting records, financial accounts or systems of control.

The Audit Committee works closely with the senior audit partner assigned by Messrs. PricewaterhouseCoopers Malaysia to the Company, to act as the key representative for overseeing the relationship of the Company with the external auditor. In compliance with the Malaysian Institute of Accountants, the Company rotates its audit partners every five years to ensure objectivity, independence and integrity of the audit opinions.

The Audit Committee also meets with the external auditor to review the reasonableness of significant judgement, accounting principles and the operating effectiveness of internal controls and business risk management. The Audit Committee met with the external auditor twice in 2014 without the presence of the Executive Directors or management.

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

## COMPLIANCE WITH THE BATM CODE

The Board has deliberated, reviewed and approved the Statement on Corporate Governance. The Board is satisfied that the Statement on Corporate Governance provides the information necessary to enable shareholders to evaluate how the Malaysian Code has been applied and that the Company had fulfilled its obligation under the BATM Code, Malaysian Code, the Listing Requirements and all applicable laws and regulations throughout the financial year ended 31 December 2014.

This Statement is made in accordance with the circular resolution of the Board dated 16 February 2015.

# Audit Committee Report



The Audit Committee Report provides an insight on the Audit Committee's functions and activities for the Group in 2014.

## MEMBERSHIP AND ATTENDANCE

The Audit Committee comprises the following members and details of attendance of each member at the Audit Committee meetings in 2014 are as follows:

Composition of Audit Committee	Number of Audit Committee Meetings		Percent
	Held	Attended	
<b>Datuk Oh Chong Peng</b> Chairman (Independent Non-Executive Director)	4	4	100
<b>James Richard Suttie</b> (Non-Independent Non-Executive Director)	4	4	100
<b>Datuk Zainun Aishah binti Ahmad</b> (Independent Non-Executive Director)	4	4	100

The Managing Director, Finance Director, a representative from British American Tobacco p.l.c Group Internal Audit and representatives of the external auditor had attended all the meetings upon invitation by the Audit Committee. From time to time, other members of senior management may also be invited by the Audit Committee to attend Audit Committee meetings.

All members of the Audit Committee are financially literate and are able to analyse and interpret financial statements to effectively discharge their duties and responsibilities as members of the Audit Committee.

## COMPOSITION AND TERMS OF REFERENCE

### (a) Members

The Audit Committee is appointed by the Board of Directors and comprise of not less than three members and the majority being independent directors. Currently, all the members of the Audit Committee are Non-Executive Directors.

The Audit Committee requires at least one member to be a member of the Malaysian Institute of Accountants or if he is not a member, he must have at least three years' working experience and

- (a) have passed the examinations specified in Part I of the First Schedule of the Accountants Act, 1967; or
- (b) is a member of one of the associations of accountants specified in Part II of the said schedule; or
- (c) has a degree/masters/doctorate in accounting or finance and at least three years' post qualification experience in accounting or finance; or
- (d) is a member of a professional accountancy organisation which has been admitted as full members of the International Federation of Accountants and at least three years post qualification experience in accounting or finance; or
- (e) at least seven years of experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

There are no alternate directors to the Audit Committee. The terms of office and performance of the members are reviewed once every three years to determine whether the members have carried out their duties in accordance with their terms of reference.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of paragraph 15.09(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements), the Board shall fill the vacancy within three months from the date of the vacancy.

**(b) Chairman**

The Chairman of the Committee is approved by the Board of Directors and is an Independent Non-Executive Director.

**(c) Quorum**

The quorum is two members, both of whom are to be Independent Directors.

**(d) Meetings and minutes**

The Audit Committee meets at least four times annually. However, at least once a year, the Audit Committee meets with the external auditor without the Executive Directors and management being present. In 2014, the Audit Committee had two such meetings with the external auditor.

Other than in circumstances which the Chairman considers inappropriate, the Finance Director, a representative from British American Tobacco p.l.c Group Internal Audit and a representative of the external auditor attend all meetings of the Audit Committee to make known their views on any matter under consideration by the Audit Committee, or which in their opinion, should be brought to the attention of the Audit Committee. The Audit Committee may, as and when necessary, invite other members of the Board and members of senior management to attend the meetings to provide further information or details on matters that are being discussed and deliberated.

The Company Secretary is the Secretary of the Audit Committee and will record, prepare and circulate the minutes of the meetings of the Audit Committee and ensure that the minutes are properly kept and produced for inspection if required. The Audit Committee reports to the Board and its minutes tabled and noted by the Board.

**(e) Authority**

The Audit Committee is authorised by the Board to review any activity within the Audit Committee's terms of reference and may seek any information the Audit Committee requires from any Director or member of management. Further, the Audit Committee has full and unrestricted access to any information pertaining to the Group and the management, and all employees of the Group are required to comply with the requests made by the Audit Committee.

The Audit Committee is empowered to obtain external professional advice and secure the attendance of external parties with relevant experience and expertise if it considers this necessary, the expenses of which will be borne by the Company.

In the event that any member of the Audit Committee needs to seek external professional advice in furtherance of his or her duties, he or she shall first consult with and obtain approval of the Chairman of the Audit Committee.

The Audit Committee shall have direct communication channels and be able to convene meetings with the external auditor without the presence of the non-independent members of the Audit Committee, whenever deemed necessary.

**RESPONSIBILITIES AND DUTIES**

The Audit Committee's responsibilities and duties are:

**(a) Financial Reporting**

- To review quarterly and annual financial statements of the Company, focusing particularly on:
  - any significant changes to accounting policies and practices;
  - significant adjustments arising from the audits;
  - compliance with applicable Financial Reporting Standards and other legal and regulatory requirements; and
  - the going concern assumption.

**(b) Related Party Transactions**

- To review any related party transactions and conflict of interest situations that may arise within the Group including any transaction, procedure or course of conduct that may raise questions of management integrity.

**(c) Audit Reports**

- To prepare the annual Audit Committee report to the Board which includes the composition of the Audit Committee, its terms of reference, number of meetings held, a summary of its activities and the existence of internal audit services and summary of the activities for inclusion in the Annual Report; and
- To review the Board's statements on compliance with the Malaysian Code of Corporate Governance for inclusion in the Annual Report.



# Audit Committee Report

## (d) Internal Control

- To consider the Risk Management Framework adopted within the Group annually and to be satisfied that the methodology employed allows the identification, analysis, assessment, monitoring and communication of risks in a regular and timely manner that will allow the Group to minimise losses and maximise opportunities;
- To ensure that the system of internal control is soundly conceived and in place, effectively administered and regularly monitored;
- To cause reviews to be made of the extent of compliance with established internal policies, standards, plans and procedures including for example, the Group's Standards of Business Conduct;
- To obtain assurance that proper plans for control have been developed prior to the commencement of major areas of change within the Group; and
- To recommend to the Board steps to improve the system of internal control derived from the findings of the internal and external auditor and from the consultations of the Audit Committee itself.

## (e) Internal Audit

- To be satisfied that the strategies, plans, manning and organisation for internal auditing are communicated down through the Group. Specifically:
  - to review the internal audit plans and to be satisfied as to their consistency with the Risk Management Framework used and adequacy of coverage;
  - to be satisfied that Internal Audit has the competency and qualifications to enable Internal Audit to complete its mandates and approved audit plans;
  - to review status reports from Internal Audit and ensure that appropriate actions have been taken to implement the audit recommendations.
  - to recommend any broader reviews deemed necessary as a consequence of the issues or concerns identified;
  - to ensure Internal Audit has full, free and unrestricted access to all activities, records, property and personnel necessary to perform its duties; and
  - to request and review any special audit which it deems necessary.

## (f) External audit

- To review the external auditor audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and coordination of the external auditor. The Audit Committee will consider a consolidated opinion on the quality of external auditing at one of its meetings;
- To review with the external auditor the Statement on Risk Management and Internal Control of the Group for inclusion in the Annual Report;
- To review any matters concerning the appointment and re-appointment, audit fee and any questions of resignation or dismissal of the external auditor;
- To review and evaluate factors related to the independence of the external auditor and assist them in preserving their independence;
- To be advised of significant use of the external auditor in performing non-audit services within the Group, considering both the types of services rendered and the fees, such that its position as auditor is not deemed to be compromised; and
- To review the external auditor's findings arising from audits, particularly any comments and responses in management letters as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.

## (g) Other matters

- To act on any other matters as may be directed by the Board.

## SUMMARY OF ACTIVITIES DURING THE YEAR

In 2014, the Audit Committee carried out its responsibilities and duties in accordance with the terms of reference of the Audit Committee and carried out the following activities:

### Financial Reporting

- Reviewed the quarterly and annual financial statements of the Company and the Group with the Finance Director and Managing Director, focusing particularly on significant changes to accounting policies and practices, adjustments arising from the audits, compliance with accounting standards and other legal requirements to ensure that the financial statements presented a true and fair view of the Company's financial performance before recommending them to the Board of Directors for approval.
- Reviewed the proposed dividend pay-out for the financial year.

## Internal Control

- a. Reviewed the Group's Risk Management Programme, including the top 20 risks for the Group and Risk Management Programme work plan,
- b. Reviewed and recommended to the Board steps to improve the Company's internal control systems derived from the findings of the internal and external auditors.
- c. Received updates on breaches of the Standards of Business Conduct and whistle-blowing incidents.

## Internal Audit

- a. Reviewed internal audit plans as to their consistency with the Risk Management Framework used and adequacy of coverage.
- b. Reviewed status reports from internal audit to ensure that appropriate actions had been taken to implement the audit recommendations.
- c. Reviewed and enhanced the internal control processes. Where appropriate, the Audit Committee to instruct to rectify and improve the internal control processes based on internal audit's recommendations and suggestions for improvements.

## External Audit

- a. Reviewed with the external auditor the Company's Statement on Risk Management and Internal Control before recommending the same for inclusion in the Company's 2014 Annual Report.
- b. Reviewed with the external auditor the Group's quarterly and annual financial statements with the Finance Director and Managing Director, focusing on findings arising from audits, particularly comments and responses in management letter as well as assistance given by the employees of the Group before recommending them to the Board of Directors for approval.
- c. Reviewed the external auditor's audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and coordination of the external auditor.
- d. Reviewed the external auditor's findings arising from audits, particularly comments and responses in management letters as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.
- e. Held two meetings with the external auditor without the presence of the Executive Directors or management to reinforce the independence of the external audit function of the Company.

- f. Reviewed the overall performance of the external auditor and upon satisfactory assessment, recommended the fee payable for the Board's approval.
- g. Reviewed with the external auditor the possible future requirement of adopting Integrated Reporting for the Company.

## Related Party Transactions

- a. Reviewed reports of related party transactions and possible conflict of interest transactions to ensure that all related party transactions were undertaken on an arm's length basis and on normal commercial terms, consistent with the Company's usual business practices and policies, which are generally not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.
- b. Reviewed recurrent related party transactions to ensure that they were undertaken on an arm's length basis and on normal commercial terms,
- c. Reviewed the estimated recurrent related party transaction mandate for the ensuing year and recommended to the Board to seek shareholders mandate at the upcoming Annual General Meeting of the Company.

## Ethical and Integrity Areas

- a. Deliberated on reports on Whistle-Blowing and Standards of Business Conduct breach incidents.
- b. Deliberated on security and safety matters and Loss reports.
- c. Deliberated on Environmental, Health & Safety review reports.

## Annual Reporting

- a. Reviewed disclosure statements on the Statement on Corporate Governance, Audit Committee Report, Standards of Business Conduct Statement, Statement on Risk Management and Internal Control and Corporate Social Responsibility Committee Report for the financial year ended 31 December 2013 for inclusion in the Annual Report 2013 and recommended their adoption by the Board.

# Audit Committee Report

## INTERNAL AUDIT

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

The role of Head of Internal Audit for the Group is fulfilled by the Regional Audit Manager, based in Malaysia, who is a UK Chartered Management Accountant.

Within British American Tobacco p.l.c Group Internal Audit, three types of audit exist, namely Entity Audit, Process Audit and Project and Programmes Audit. Entity Audit is focused on one entity with a scope of more than one process. Based on the history of a sound control environment, the Group is in scope for a full entity audit every six years. Process audit has scope of one process across multiple British American Tobacco global entities and Project and Programmes Audit is focused on an ongoing project or programme.

The British American Tobacco p.l.c Group Internal Audit has direct access to both the Audit Committee and the Chairman of the Audit Committee and reports to the Audit Committee on all matters of control and audit.

British American Tobacco p.l.c Group Internal Audit assists the Audit Committee in reviewing the effectiveness of the Company's internal control systems whilst ensuring that there is an appropriate balance of controls and risks throughout the Group in achieving its business objectives. All proposals by management regarding the appointment, transfer and removal of British American Tobacco p.l.c Group Internal Audit shall require prior approval of the Audit Committee. Any inappropriate restrictions on audit scope are to be reported to the Audit Committee.

Internal Audit provides independent assessment on the effectiveness and efficiency of internal controls utilising a global audit methodology and tool to support the Company'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 in page 66, and the Audit Committee.

In turn, the Audit Committee formally approves the internal audit plan during the first Audit Committee meeting each year and reviews the plan on a quarterly basis. Any subsequent changes to the internal audit plan are approved by the Audit Committee. The scope of Internal Audit covers the audits of all units and operations, including subsidiaries within the Group.

Furthermore, the Audit Committee can request immediate assistance from British American Tobacco p.l.c Group Internal Audit for any matter it considers appropriate.

Internal Audit adopts a risk-based approach towards the planning and conduct of audits which is consistent with the Group's established framework in designing, implementing and monitoring of its control systems.

Other main activities performed by Internal Audit are as follows:

- Review of the approval procedures in respect of recurrent related party transactions.
- Review the revisions to the credit policy and procedures for trade debtors and intercompany balances.
- Undertake special reviews requested by the Audit Committee and/or management.
- Review the findings and action plans resulting from internal audits.

During the financial year, the audits conducted by Internal Audit are as follows:

- TaO Programme - Post Go Live Review (May-June 2014)
- Malaysia Tier 1 Operations follow-up Audit (July 2014)

Internal audit fees in 2014 were RM1.35 million.

This Audit Committee Report is made in accordance with the resolution of the Board of Directors on 16 February 2015.

# Statement on Risk Management and Internal Control

## RESPONSIBILITY

The Board of Directors recognises the importance of sound risk management practices and internal controls to safeguard shareholders' investments and the BAT Group (the Group)'s assets. The Board affirms its overall responsibility for the Group's system of risk management and internal control which includes the establishment of an appropriate control environment and framework, as well as reviewing its adequacy and integrity from time to time. The Board is responsible for determining the nature and extent of the strategic risk 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 mitigate and control those risks. There are inherent limitations to any system of internal control and the system is designed to manage and minimise impact rather than completely eliminate risks that may impact the achievement of the Group's business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter alia, financial, operational and compliance controls and risk management procedures.

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

The Group's Standards of Business Conduct underpin our commitment to business integrity and good corporate behaviour, and is an integral part of the Group's system of corporate governance. Further information and details on this can be found in the Standards of Business Conduct section of this Annual Report.

## ENTERPRISE RISK MANAGEMENT PROCESS

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

### GROUP'S ENTERPRISE RISK MANAGEMENT OBJECTIVES

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

# Statement on Risk Management and Internal Control

The management operates a Risk Management Team which comprised of senior managers from all functions of the Group led by the Finance Director. 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 Group’s Risk Management Programme and its initiatives are discussed and reviewed bi-annually by the Audit Committee in the Audit Committee meeting.

**RISK MANAGEMENT TEAM RESPONSIBILITIES**

- Steer the Group’s enterprise risk management programme;
- Promote a pro-active risk awareness culture in the Group;
- Conduct an annual review of the business risks;
- Coordinate the development and implementation of risk mitigation action plans;
- Develop and update business continuity plans for key business risks;
- Plan and coordinate the testing of business continuity plans;
- Organise training and education for employees on risk management.

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.



## Five Phase Enterprise Risk Management Process

- (1) Risk Identification**

All potential events that could adversely impact the achievement of business objectives, including failure to capitalise on opportunities are identified.
- (2) Risk Evaluation**

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

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

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

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

## RISK HEAT MAP

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

Key Focus Area

**(3) Risk Mitigation**

In completing the Risk Register, Risk Owners identified 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 organisation.

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.
	Loss prevention	Implement pro-active risk mitigation (control measures and practices) to reduce likelihood of the risk crystallising.
RETAIN	Loss reduction	Implement reactive risk mitigation (control measures and practices) to reduce the impact and consequences if a risk materialises.
	Insurance	Purchase insurance for insurable risks e.g. fire, life, theft, etc.
TRANSFER	Contract	Protection clauses in contracts e.g. indemnity clauses, etc.
	Sharing of risks	Joint venture or partnerships.
	Outsourcing	Third party to assume risk.

**(4) Risk Monitoring**

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

**(5) Risk Review**

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

**BUSINESS CONTINUITY AND CRISIS MANAGEMENT****Crisis Management****Crisis Management Team**

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

**Communications Team**

- Handles all communications with stakeholders
- Obtains the support of key allies who can help to overcome the crisis within the shortest time frame
- Coordinates execution of communication strategy

**Crisis Response Team**

- Implements agreed actions in response to a crisis
- Keeps the Crisis Management Team informed on the progress
- Documents all learning points and update the respective business continuity plans

Business Continuity is defined as the strategic and tactical capability of the organisation 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.

The Group has 13 Business Continuity Plans in place to manage the various potential disruptions which could impact the Group. Examples are the manufacturing contingency sourcing plan and IT Disaster Recovery Plan.

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



# Statement on Risk Management and Internal Control

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

Our approach involves immediate formation of a Crisis Management Team, assisted by a Crisis Response Team and Communications Team. The responsibilities of these teams are outlined above.

## KEY RISKS TO THE GROUP

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

1. **Growth of illegal cigarette trade; and**
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 neutralize such risks are core to our business.

## 2014 RISK MANAGEMENT ACTIVITIES

### Review Of The Group's Risks

The Risk Management Team met formally twice during the year, in February and July 2014, to review and assess the Group's risks, and to monitor progress of key initiatives for the year, including the progress of the business continuity plans.

The Leadership Team and the Audit Committee reviewed with the Enterprise Risk Manager the Group's Enterprise Risk Management programme in April and October 2014. This included updates on the key risks of the Group and the risk mitigation plans, and the status of business continuity plans 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 participant's knowledge on risk management and their role in managing the Group's risks.

## Crisis Management Activation

In 2014, the entire state of Selangor experienced a period of water disruption brought about by a prolonged dry season. Whilst crisis management was not specifically activated as the water disruption did not adversely impact the availability of water supply, contingent plans were updated and reinforced in the event of severe water disruption at the Company's premises.

## Significant Risk Mitigation Activities

With regard to the above, the Group identified and contracted an external water supplier to be in a state of readiness in the event of a water disruption at the Company's premises. The Group also identified and explored underground water sources at the Company's premises. The Group will continue to identify alternative water sources for future purposes.

In 2014, the Company had also further enhanced its internal and external security measures. Part of this exercise included substantially increasing the height of the perimeter walls surrounding the Company's premises, the frequency of perimeter patrolling and enhancing the lighting and CCTVs within the Company's premises.

For external security measures, the Company's authorised distributors (Distributors) enhanced the security features of their sales vans by installing 3D tracking and geo fencing features. By doing this, the Distributors are able to constantly monitor and track the movement of their sales vans and aid the police in the event there are security breaches in their sales vans.

## Business Continuity Plan (BCP) Simulation and Testing

During the year, a desktop review/simulation was conducted by the BCPs owners, with the support of Crisis Response Team members, across the 13 BCPs.

The review and testing indicated that the existing plans were still relevant to the current business environment.

## SYSTEM OF INTERNAL CONTROL

### Control Self Assessment (CSA) Process

Central to the Group's system of internal control is its Control Self Assessment process and the backbone of this process is a key control checklist known as the Control Navigator. The Control Navigator sets out various key controls and process requirements across all functions in the Group. The Group's CSA process requires controls and processes to be self-assessed for effectiveness on an annual basis. Where control gaps/weaknesses are identified, corrective actions and timelines are identified and agreed. The findings from the CSA and year-on-year trend analysis is 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 2014, the Group's Control Navigator was refreshed and updated.

### Financial Reporting Controls

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

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

### Internal Audit

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

Within Global Audit three types of audit exist, Entity Audits, Process Audits and Project & Programmes Audits. Entity Audits are focused on one entity with a scope of more than one process. The Group is in scope for full entity audits at regular intervals. Process audits have scope of one process across multiple BAT global entities, and Project & Programmes audits are focused on an ongoing projects or programmes. Global Audit is organised into both central and regional teams and also include a specialised IT Audit capability.

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 to the Board and Audit Committee. A report on the above is made officially to the Audit Committee and the management once a year post substantial completion of the year-end audit. Additionally, the external auditors attend the quarterly Audit Committee meetings, and where applicable will provide views on any related matters for the attention of the Audit Committee. At least once 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.

During the year, as part of the annual statutory audit, the external auditors were involved in performing certain review over the controls and processes affecting financial reporting to support the audit of the financial statements. There is no significant matter with material financial impact arising from the review of these related controls and processes, although certain improvement recommendations were highlighted to the Board and Audit Committee.

### 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.

# Statement on Risk Management and Internal Control

- Clearly documented internal policies, standards and procedures are in place and regularly updated to reflect changing risks or 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 pertinent issues;
- Annually, a detailed budgeting process is completed for the year ahead which is discussed and approved by the Board; and
- 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

During the year 2014, the Finance Director notified the Audit Committee and the Board on breakdowns in the control procedure related to stock counting of stock held by one of the Distributors. The Group discovered within a Distributor's store, an empty master case placed in the middle of the pellet, which prompted a full physical stock check. Findings revealed that there were empty master cases hidden in the middle of a few other pellets as well as some cartons missing within a few master cases. There were two reported cases of the above that resulted in a financial loss amounting to RM0.2 million to the Group. Police reports were lodged for both these incidences. Measures were subsequently put in place to enhance the controls surrounding the procedure of stock counting, which included the tightening of the reconciliation and counting procedures as well as enhancement of security in the Distributor's premises.

In 2013 there were non-conformance with procurement practices which had been identified and reported. Investigations were successfully undertaken and concluded in 2014 and there was no financial loss associated with the non-conformance. Actions plans were however identified to further improve procurement practices and these said actions were successfully completed in 2014.

## BOARD ASSESSMENT

The Board is of the view that the Company's overall risk management and internal control system is operating adequately and effectively, and have received the same assurance from both the Managing Director and Finance Director of the Company. The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Company has been in place throughout 2014 and up to the date of approval of this statement. The Board is also of the view that the Company's system of internal control is robust and is able to detect any material losses, contingencies or uncertainties that would require disclosure in the Group's 2014 Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 16<sup>th</sup> February 2015.

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised) issued by the Malaysian Institute of Accountants. RPG 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.



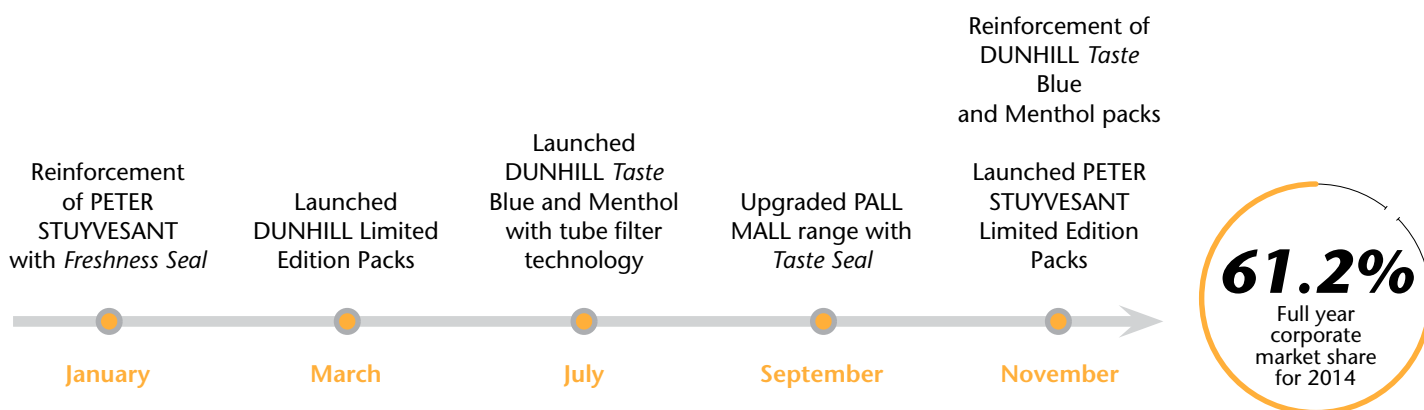
# Growth

## Driven by consumers

We are committed to driving growth by delivering high quality and relevant products that meet consumer needs. We are focused on enhancing our product quality and expanding our product range in tobacco and beyond to meet the evolving needs of consumers. Understanding consumers is paramount to the business and we aim to achieve responsible leadership in consumer, and trade partner engagement to drive a sustainable business moving forward.



# Growth



## Winning in Market

The year 2014 was an important one for British American Tobacco Malaysia. Having performed strongly and increased our market share in the previous year, 2014 was ripe for a change in approach to continue delivering our vision. We aimed to continue being brand-focused and excel at bringing superior and differentiated offers to the market.

To achieve this, a strategy was put in place, which concentrated on accelerating growth through compelling market initiatives undertaken to enable the Company to solidify our leadership position in the market and continue our growth achievement in the coming years.

## SUMMING UP 2014

Despite the challenging business environment, 2014 has given the Company the opportunity to show its mettle with regard to its Premium brands. DUNHILL, KENT, BENSON & HEDGES and LUCKY STRIKE remained relatively stable despite the significant excise-led price increase in early November, coupled with fierce competition throughout the year. In our Aspirational Premium portfolio, PETER STUYVESANT continued to perform strongly in 2014 and delivered 1.1 percentage point growth to put the brand at 4.3 percent share of market, its highest ever performance. PALL MALL's performance established in the market with the inclusion of the *Taste Seal*. The brand now stands at 4.5 percent share of market.

### Key highlights of 2014

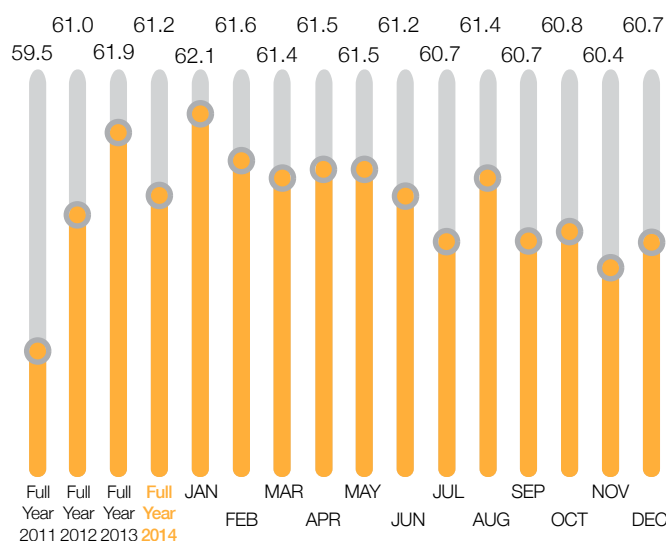
Leveraging on the growth achievement in 2013 of the Global Drive Brands, 2014 saw the momentum carried forward with the vision of becoming the undisputed leader in the market. Closely following PALL MALL's upgrade of its Red and Blue variant with capsule filter offering in December 2013, PETER STUYVESANT kick started 2014 with a reinforcement of its pack with a *Freshness Seal* to further improve awareness of that feature among consumers.

The major part of the year's activities was spearheaded by DUNHILL. March 2014 saw the introduction of a Limited Edition Pack series, while July 2014 witnessed the introduction of DUNHILL *Taste* Blue and Menthol, a new variant which features a tube filter.

This was then followed by the introduction of PALL MALL's *Taste Seal* in the entire PALL MALL range in September. To conclude the year's activities, PETER STUYVESANT introduced its Limited Edition Pack series concurrently with the revised packaging for DUNHILL *Taste* Blue and Menthol in November.

All in all, 2014 recorded a full year market share of 61.2 percent, a small decline of 0.7 share of market versus the same period last year in spite of the challenging business environment.

British American Tobacco Malaysia Corporate Market Share (%)



Source : Retail Audit

Base : Total legal market

# Growth

## Premium brand: DUNHILL

Hailed as British American Tobacco Malaysia's cornerstone brand, DUNHILL continues to be the benchmark for premium cigarette offers in Malaysia. It has continued to drive corporate market share growth and stretched its leadership in the Premium and Premium Lights segment.

As the key brand, DUNHILL's mission is to continue enhancing its position as the leading tobacco brand amongst consumers. In 2014, DUNHILL continued its growth trajectory which saw several successful new product launches.

## DUNHILL

### Growing Premium and driving leadership

In 2014, DUNHILL continued to further strengthen its position as the leading tobacco brand amongst consumers by delivering many exciting offers. It started the year by introducing its Limited Edition Packs in March 2014 to modernise and improve its premium imagery.



DUNHILL Limited Edition Packs bringing its modern heritage to life.

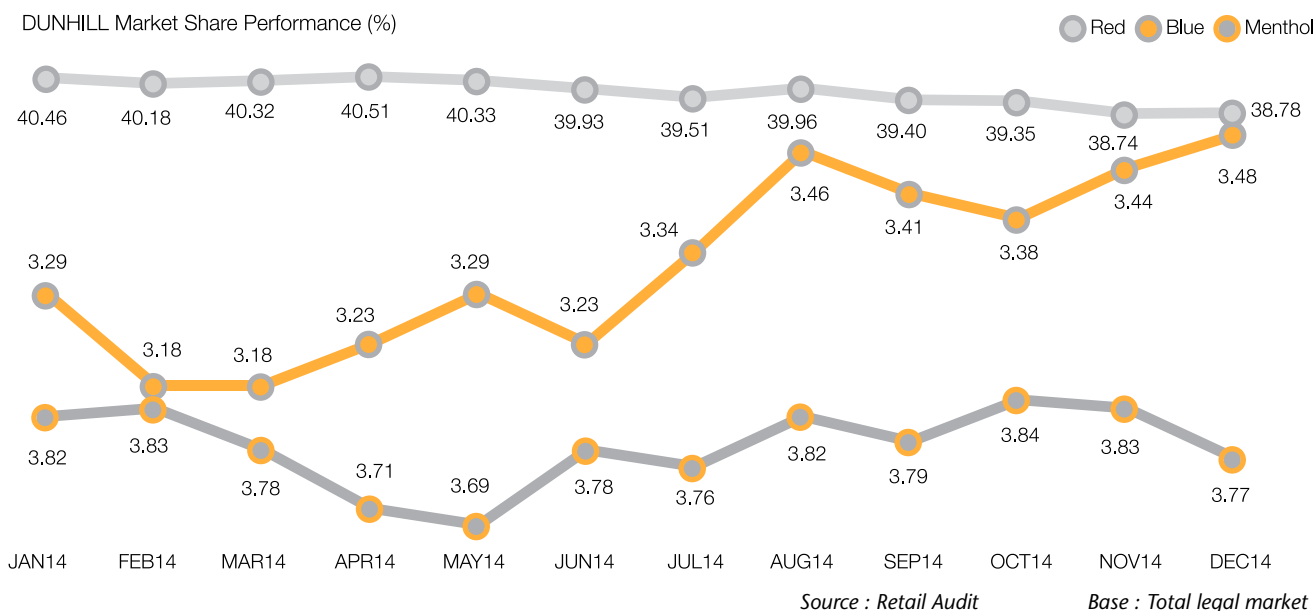
Subsequently, DUNHILL introduced two new variants featuring a tube filter. Both variants performed strongly in the first three months, gaining incremental shares within the Lights and Menthol segment and stabilised from October onwards. DUNHILL *Taste* contributed to the growth in the Lights segment to reach its highest share of 3.5 percent since its launch in July 2014.

### Tube filter technology by DUNHILL

The year 2014 saw a new addition in the innovation space with the introduction of DUNHILL *Taste*'s tube filter. This product features a tube filter which enhances taste by concentrating flavour and providing smoothness.



DUNHILL *Taste* Blue and Menthol variant with tube filter to deliver smoother taste.





# Growth

## Aspirational Premium Brand: PALL MALL and PETER STUYVESANT

In 2014, PALL MALL and PETER STUYVESANT continued to build on the previous year's efforts to elevate the performance of these Aspirational Premium brands. In pursuit of leadership in the Aspirational Premium segment, both brands have made further inroads into the market to further strengthen their position in this segment.

### PALL MALL

#### Delivering more

As the leading Menthol brand in the Aspirational Premium segment, PALL MALL began 2014 with a vision to elevate its overall brand position within other segments to truly become a leading Aspirational Premium brand. PALL MALL's key initiative, on top of including a capsule filter in the PALL MALL Red and Blue variants, was to feature the *Taste Seal*, a resealable seal that maintains product freshness in all of its packaging since September 2014. With the inclusion of the *Taste Seal*, PALL MALL continues to enhance its brand equity which in turn, delivered stability to PALL MALL's performance towards the end of the year.



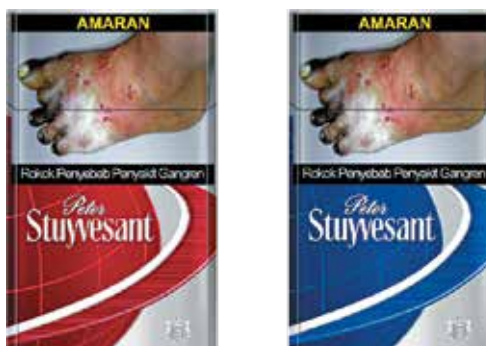
PALL MALL Taste Seal – Freshness for longer.

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

## PETER STUYVESANT

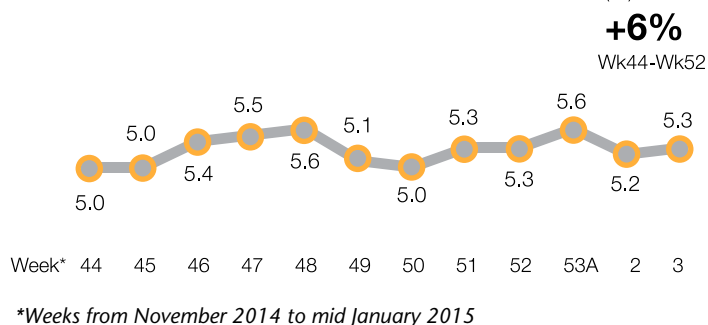
### Journey towards greater heights

Riding on the growth in 2013, PETER STUYVESANT continued to deliver exceptional growth performance in the Aspirational Premium segment in 2014. The key initiative for PETER STUYVESANT in 2014 was the introduction of its Limited Edition Packs in November 2014, which referenced the brand's premium characteristic.



PETER STUYVESANT Limited Edition Packs.

PETER STUYVESANT Market Share in 7-Eleven Performance (%)



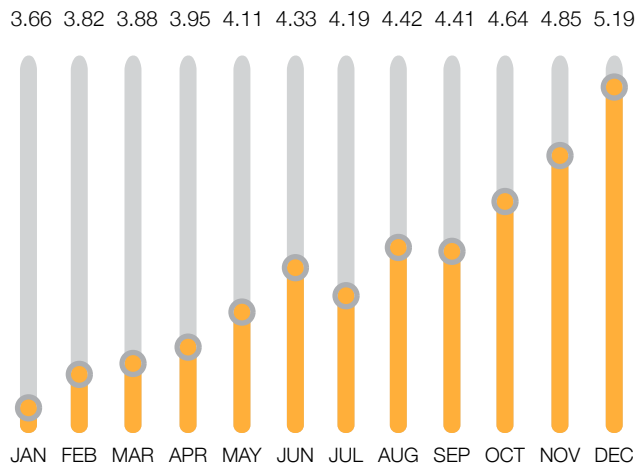
Source : Retail Audit

Base : Total legal market

# Growth

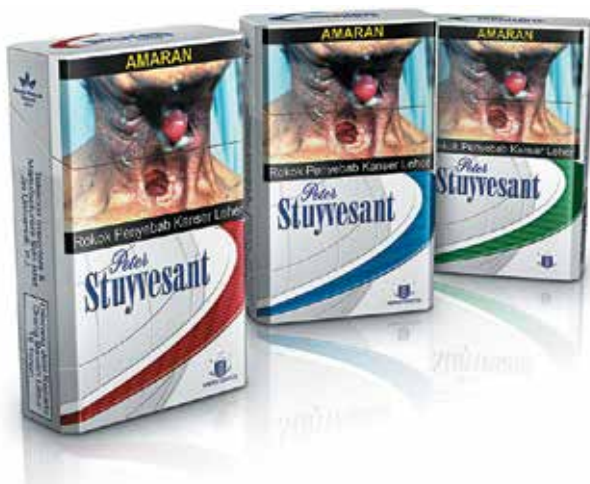
The brand exit the year at 4.3 percent share of market, up 1.1 percentage points compared to the brand's 2013 full year share of market.

PETER STUYVESANT Market Share Performance (%)



Source : Retail Audit

Base : Total legal market



PETER STUYVESANT with the Freshness Seal.

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



Trade Marketing team during a POSITIVE training session.

## TRADE MARKETING ACTIVITIES IN 2014

As part of its continuous improvement journey, the Company's Trade Marketing division continued their capability building in 2014 via embedding the POSITIVE programme and the My Peak Performance (MPP) programme.

Developed by the Global Marketing Skills and Development Team, these programmes were designed to build capabilities and achieve a fit for the future Trade Marketing team.

The POSITIVE programme helps to build the team's competitive edge by identifying key opportunities and ensure that Trade Marketing is equipped with a framework of creating solutions to grow the retailer's business through the distribution of our brands. MPP identifies six key competencies needed to drive the business and ensure that the Marketing Teams chart their development in accordance to those competencies.

Over the past year, all members of Trade Marketing have attended the POSITIVE programme whilst all Marketing management staff were enrolled for the MPP programme. The results are promising as graduates from the programme are equipped with the necessary skills and knowledge to deliver against our growth ambitions. We pride ourselves on having great people and teams, and believe that developing human capital will ensure that the business continues to be fit for the future.



# Productivity

## Efficiency in motion

We aim to be the best organisation operationally to deliver higher returns for our shareholders. In line with improving our cost base, we rely on effective deployment of resources to enhance productivity. We are focused on improvements in supply chain performance, making it more agile and responsive to market needs. On the people front, our efforts are focused on fostering a healthy environment of knowledge sharing and collaboration to facilitate efficient work flow.



# Productivity

## Focusing on Driving Sustainable Business Growth

British American Tobacco Malaysia places high importance on the productivity pillar as it is one of the main drivers for sustainable business growth. In order to support investment in our brands, the Company has improved productivity by directing our focus to enhance cost efficiency which contributed towards higher returns for shareholders. In 2014, we leveraged on our consumer-centric and flexible supply chain while continuing to build on the global operating model which was implemented in 2013.

### Key highlights of 2014:

- Improved and strengthened basics in supply chain
- Streamlined Operations to improve effectiveness in organisational structure
- Updated IT infrastructure to deliver a globally integrated business

### SUPPLY CHAIN PERFORMANCE

Supply Chain Operations	
Business highlights	People development
<ul style="list-style-type: none"> <li>• Achieved 100 percent delivery on time, and in full; providing confidence to customers for our high level of service.</li> <li>• Consolidated the entire end-to-end supply chain logistics.</li> <li>• Continuous success in delivering new product innovations.</li> <li>• Delivered on tobacco waste reduction.</li> <li>• Delivered excellent quality performance, and continued striving for perfection.</li> <li>• Benchmarking against the Global Standards: International Audit 2014.</li> </ul>	<ul style="list-style-type: none"> <li>• Built strong bonds with the Company and fellow colleagues and developed a deeper understanding of our products across functions.</li> <li>• Cultivated a knowledge sharing culture and learning mindset among different industries.</li> </ul>

### Achieved 100 percent delivery on time, and in full; providing confidence to customers for our high level of service

British American Tobacco Malaysia strives to ensure customer satisfaction is met at all times. The Company aims to deliver high quality products to every customer on time and in full (OTIF). In 2014, we achieved an overall 100 percent OTIF for delivery which resulted in high customer confidence. This achievement served as a great morale booster to the delivery team, and encouraged them to consistently maintain this exceptional result.

### Consolidated the entire end-to-end supply chain logistics

On 1 January 2014, the Company had officially consolidated the entire end-to-end supply chain logistics under one roof. DHL Supply Chain was appointed as the new third party logistic service provider for the Company to take on the responsibility of managing the finished good exports, semi-finished goods exports and imports, finished goods domestic distribution, and many more.

### Continuous success in delivering new product innovations

British American Tobacco Malaysia has always been highly effective in delivering new product innovations. The year 2014 was another outstanding one for the Company in consistently delivering new product innovations. We have produced 55 new product innovations for the domestic market. In addition, the Company has successfully delivered 42 SKUs (Store Keeping Units) for the export market.

### Delivered on tobacco waste reduction

The Company sees the importance in minimising tobacco waste to increase profit and revenue. Tobacco is ultimately the heart of our product, hence, the Company has focused its resources on reducing tobacco waste within the factory. This was done by leveraging on the vast shop floor experience among the *Self Directed Work Team* to implement initiatives to reduce cigarette rejects during the production process. Ultimately, a total tobacco waste reduction of 43 percent was recorded.

### Delivered excellent quality performance, and continued striving for perfection

British American Tobacco Malaysia prides itself in meeting quality expectations from key customers like Japan, Taiwan and Hong Kong, as well as in the domestic market. The team has managed to achieve significant results in ensuring customers quality expectations are met.

# Productivity

Japan is a well-known market which seeks perfection when it comes to quality. Compared with 2012, we have come a long way in reducing quality complaints. The Company saw a reduction of complaints by 77 percent in 2014, in line with other factories of the British American Tobacco p.l.c Group. Success does not stop here, as our team is highly motivated to reduce the complaints further in the years to come. We have high confidence to match Japan's desire for perfection.

## **Benchmarking against the Global Standards: International Audit 2014**

The International Audit conducted in 2013 helped British American Tobacco Malaysia by sharing feedback and highlighting areas for improvement based on the global standard best practices. Subsequent to the feedback received, immediate actions were put in place to address the areas for improvement highlighted.

In July 2014, the Company welcomed the International Audit team to return and conduct another round of detailed audit to ensure we have addressed all highlighted areas and are aligned to the British American Tobacco p.l.c Group's standards of best practices. The audit officially endorsed the factory with a *Successful* rating which adheres to all global standard best practices.

## **PEOPLE DEVELOPMENT**

### **Built strong bonds with the Company and fellow colleagues and developed a deeper understanding of our products across functions.**

British American Tobacco Malaysia strongly believes that having people in the Company who are highly motivated is the formula to a successful business. In line with this belief, the Supply Chain management team has planned and conducted eight sessions of team bonding activities integrating the Supply Chain management and non-management staff. These bonding sessions are aimed at building a strong bond towards the Company, our products, and fellow colleagues.

### **Cultivated a knowledge sharing culture and learning mindset among different industries**

The Supply Chain management team encourages a culture of knowledge sharing, combined with a continuous learning mindset amongst its people. In line with this belief, the Supply Chain function introduced a series of face-to-face knowledge sharing sessions for its management employees in 2014, known as *Knowledge Friday*. As of end 2014, 17 *Knowledge Friday* sessions were conducted, which covered technical topics such as *Month End Closing Overall Process* to cross-functional topics like *Finance for Non-Finance Managers*. Each thought-provoking session was carefully selected and planned to ensure the knowledge shared was not just informative but also beneficial for all attendees in understanding the overall supply chain function.

In 2014, the Company has visited three different factories from different industries to learn their best practices and to expose our people to different manufacturing environments. The factories visited were Samsung Electronics (Malaysia) Sdn. Bhd.'s manufacturing plant, Toyota Malaysia's Assembly Plant, and Guinness Anchor Bhd's brewery. Reciprocating the warm welcome provided by these companies, British American Tobacco Malaysia in turn hosted a visit by Guinness Anchor Bhd.

## **DELIVERING A GLOBALLY INTEGRATED BUSINESS**

Continuing on the journey that British American Tobacco Malaysia embarked on in 2012 with the globally designed Enterprise Resource Planning (ERP) solution on a single SAP platform, the Company is still diligently involved in testing its system functionalities. This is in line with the deployment of ERP to other British American Tobacco p.l.c Group's operating entities around the globe. This testing is a vital part of the deployment process as it ensures that any system changes requested by other entities do not affect the Company's operations. British American Tobacco Malaysia, along with all the other entities in Asia Pacific who are using the single SAP platform has performed this test four times in 2014.

The infrastructure backbone required to support the single SAP platform must have a highly responsive, robust, and resilient network. It must also have a state-of-the-art data center with a highly secure environment to provide data security, greater business continuity and growth. This is now provided by global players who have the capability to meet British American Tobacco p.l.c Group's highly demanding business requirements.

## **MODERNISING AND UPDATING OUR IT INFRASTRUCTURE**

British American Tobacco globally strives to modernise and update its IT infrastructure to keep pace with the ever-evolving world. One of the initiatives that British American Tobacco Malaysia embarked on in 2014 was a project whereby we converted semi-private networks to public internet connections. As a result of this project, we now have a cost effective and fit-for-purpose IT estate which is a simplified solution that still maintains the necessary security, firewalls, and authentication in place to provide a secure environment.

Another step towards modernisation was when IT deployed a new tablet model for all our Trade Marketing Executives nationwide. This new tablet model is a touch-screen with a detachable keyboard which makes it even handier to use. This new device has enabled the Trade Marketing Executives to have more effective engagement with retailers and it has some new features which help in enhancing business processes through innovation and technology of touch-screens.

Last but not the least, we have improved the disaster recovery plans in line with providing better business continuity, by reducing the risk of losing critical data during a disaster. Critical data can now be restored in less than 24 hours in case of an emergency.



# Responsibility

## Creating shared value

We are building British American Tobacco Malaysia into a sustainable business that meets stakeholders' evolving expectations, operating with integrity and responsibility and in a manner sensitive to our environment and the needs of the community. Our commitment to sustainability underpins our business and we are committed to creating shared value for our shareholders and stakeholders. We take pride in upholding the highest ethical standards in the workplace, marketplace, community and for the environment.





# Responsibility

## Delivering our commitments to society

As society changes, and people's priorities and needs shift, we need to be ready to meet new challenges. As the industry leader, we understand that this status comes with great responsibility, from being open and transparent about the risks from our products, to building brighter futures for disadvantaged communities. We prioritise creating shared value for our shareholders and stakeholders in order to build a sustainable future.

British American Tobacco Malaysia's commitment to sustainability underpins our strategy and lies at the heart of our business operations. We work to ensure that our business model is sustainable and that we continue to uphold the highest standards of corporate conduct and integrity in everything we do.

The Company acknowledges that supporting the sustainability of our biodiversity and surrounding communities make sound business sense. The sustainability of our business depends on the availability of these resources, and an operating environment that is commercially-viable. As such, over the years, we have seen a transition from carrying out individual acts of charity, to supporting sustainable initiatives that look at creating long-term benefit for our community and environment.

In this Responsibility section of our 2014 Annual Report, we will share examples of how we translate strategy into action and deliver on our commitments to society.

## SUSTAINABILITY AGENDA – COMMITMENT FROM SENIOR MANAGEMENT

The governance of our sustainability agenda is a process that is extremely important to the Company as it enables the business to effectively embed sustainability. Good governance structures also ensure that we are consistently aligned to our principles and standards. Demonstrating its commitment from the top, the Company's sustainability agenda is governed by a Corporate Social Responsibility (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.

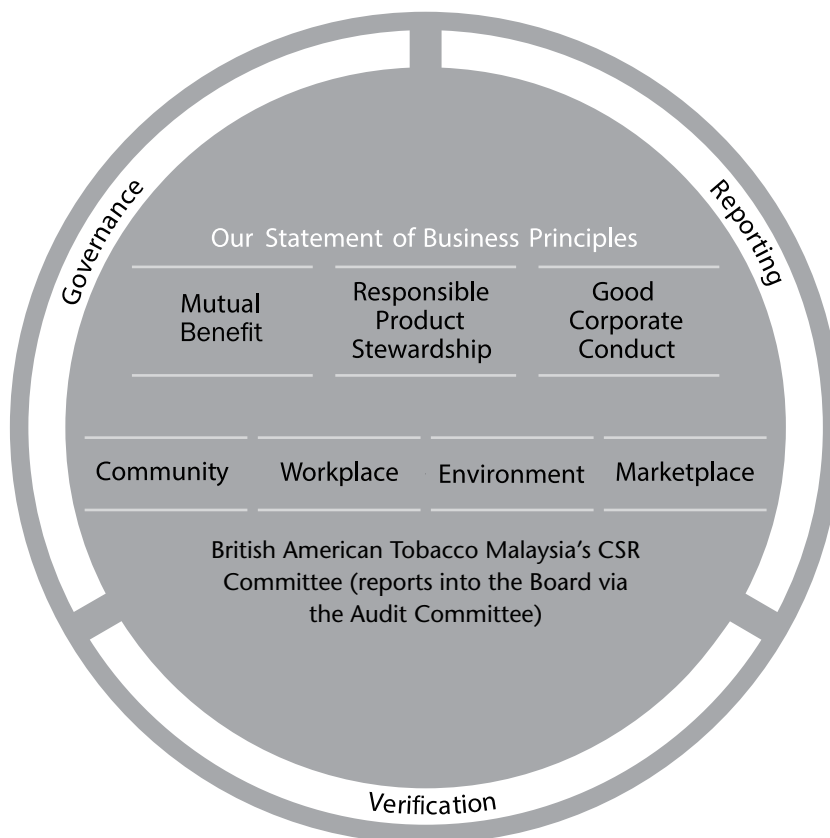
The focus areas of the CSR Committee include those outlined below:

- Identification and management of key social and environmental issues.
- Engagement with relevant stakeholders on sustainability initiatives.
- Ensuring reliability of social and environmental performance management information.
- Monitoring alignment with the Company's Statement of Business Principles – Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct.

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

## BRITISH AMERICAN TOBACCO MALAYSIA'S SUSTAINABILITY FRAMEWORK

The Company understands that effective governance is needed to ensure we live up to our principles and standards to successfully deliver on our sustainability agenda. 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's Sustainability Framework

## Key Sustainability for British American Tobacco Malaysia



# Community



British American Tobacco Malaysia strongly believes that to be a responsible organisation, it is imperative that we support the sustainability of our surrounding communities. This is why we place the highest commitment towards giving back where it matters – by conducting sustainability activities that support this.

Outlined below are the key highlights of our community activities in 2014:

## Key highlights in 2014 under our Community pillar

### Education

- Awarded scholarships amounting to RM358,000 to 26 students.

### Employee volunteerism

- Conducted annual blood donation drive with 77 employee donors.

### Environment

- Replaced machinery in the factory with more energy efficient versions.
- Replaced old pipes around the office premise to curb water wastage.
- Pledged to exclude shark fin from the menu of all corporate events.

### Underprivileged

- Donated 351 digital assets to be refurbished and distributed to deserving non-governmental organisations and communities aimed at educating and empowering underprivileged youth across Malaysia.

### Education: Enabling education opportunities for tomorrow's leaders

- In 2014, the British American Tobacco Malaysia Foundation awarded over RM358,000 in scholarships to 26 aspiring 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 RM17 million.

It is the Company's belief that education is the most powerful tool for a successful future and this is why we aim to foster, develop, and improve education opportunities to deserving students. Demonstrating this, the British American Tobacco Malaysia Foundation held its 31<sup>st</sup> Foundation Day Awards Ceremony in December, where we awarded scholarships to 26 students from the retailer community, our SmartInvest Trade Retailer Programme, employees' children and employees themselves. This year, we also opened the scholarships to children of our distributors' employees. The scholarships awarded amounted to RM358,000, which covers the full duration of the students' courses.

Over the years, more than 2,800 students have benefited from the Foundation's various education aid programmes which include scholarships for university degrees, college diplomas and certificates for technical studies in local higher education institutions. The various Foundation programmes represent an investment of well over RM17 million.

### Employee Volunteerism: Giving back for a good cause

- In 2014, 77 employees participated in the annual blood donation drive organised by the British American Tobacco Malaysia Sports Club.

Since 2007, the British American Tobacco Malaysia Foundation has encouraged employees to volunteer their time and hard work towards giving back to the community through its various programmes.

In 2014, we continued to keep the spirit of volunteerism alive by encouraging employees to participate in British American Tobacco Malaysia's blood donation drives. Approximately 77 employees donated blood during the blood donation drives, in May and November.

This blood donation drive provides a much-needed contribution towards replenishing the blood bank in University Malaya Medical Centre.

# Responsibility

## Environment: Protecting the environment at the workplace and beyond

- British American Tobacco Malaysia has a dedicated Environment, Health and Safety (EHS) Committee that reviews and makes recommendations on the Company's Environmental Management performance and activities, against annual targets.
- In 2014, the Company replaced machinery in the factory with more energy efficient versions.
- The Company also replaced old pipes on the premises to curb water wastage.
- From September 2014 onwards, the Company pledged to exclude shark fin from the menu of all corporate events.

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

From the operations front, we replaced machinery in the factory with more energy efficient versions, and replaced old pipes to curb water wastage. These changes have resulted in a reduction of energy consumption and has minimised the Company's water consumption.

Our commitment towards protecting the environment has British American Tobacco Malaysia following in the footsteps of many companies to exclude shark fin from the menu of all corporate events from 2014. This decision was made in support of the global move to safeguard marine ecosystems and endangered marine life. This proposal was raised in the EHS Committee Meeting as a proactive effort to protect our biodiversity in light of the impact that shark fishing has on the environment.

**For further information on our environment-related activities, please refer to our Environment section of the Responsibility pillar.**



*British American Tobacco Malaysia's digital assets being donated by SOLS Tech to deserving NGOs during the ngo.hub Asia launch.*

## Underprivileged community: Bridging the digital divide

- In 2014, British American Tobacco Malaysia donated 351 digital assets to be refurbished and distributed to deserving non-governmental organisations and communities aimed at educating and empowering underprivileged youth across Malaysia.

They say that technology is the literacy of the 21<sup>st</sup> century and yet there is an ever present digital divide in Malaysia. Annually, Malaysia creates approximately 78,000 tonnes of industrial e-waste while over 3 million Malaysians go without access to a computer or the internet. Without access to information and technology, even the best individuals in underserved communities will not have opportunities to improve their quality of life.

In an effort to give back to our surrounding communities, British American Tobacco Malaysia created a partnership with SOLS Tech, the technology arm of SOLS 24/7, a non-profit organisation which collects, refurbishes, and distributes donated computers and other electronic devices for free to underserved communities throughout Malaysia under their 'Tech Cycle' programme. It is their mission to narrow the digital divide, combat computer illiteracy, and provide a sustainable alternative to digital waste.

In July 2014, the Company contributed to this programme by donating 351 of our digital assets comprising of laptops, central processing units, keyboards, mice and other digital accessories. Out of these, 181 laptops and central processing units were refurbished for reuse while the rest were stripped and recycled. This was the largest donation that SOLS Tech has ever received.

We are proud to report that in September 2014, the first 28 of the Company's refurbished laptops were donated to deserving NGOs such as All Women's Action Society (AWAM), Society for the Prevention of Cruelty to Animals (SPCA), Befrienders Malaysia, Dignity for Children Foundation, Light up Borneo and many others to assist them in the running of their day-to-day causes. In December 2014, 36 refurbished laptops were sent to six orang asli community centres in Sabah. The rest of the refurbished assets are being used in SOLS Tech's initiative in partnership with the Multimedia Development Corporation's nationwide program to bring digital literacy to 40 communities across Malaysia, targeted at 4,000 youth in rural areas. The Company's donated assets have been instrumental in the success of this programme as many youth in rural areas are currently deprived of computers and laptops.

Donating the Company's assets for a good cause has not only helped to bridge the digital divide and empowered underprivileged youth in Malaysia, it also serves as a more eco-friendly option in disposing used hardware.

# Workplace



## Key highlights in 2014:

- Creating a clear line of sight of the Company's direction to employees via a comprehensive communications strategy.
- Protecting employees' welfare and wellbeing.
- Increasing safety and health initiatives to eliminate work-related accidents.

## Engaging Employees

The Company subscribes to the belief that engaged employees are key to a committed and high performing workforce. This is why British American Tobacco Malaysia places great emphasis on a comprehensive communications strategy to provide each and every employee with a clear line of sight of how their roles and responsibilities are aligned to the Company's strategy and direction. It is vital to the Company that our employees understand their individual contribution to the Company's performance and sustainability as they are the drivers for our business performance and development.

The Company's communication strategy in 2014 leveraged on numerous communication channels that comprised of direct communication (i.e. face-to-face) and indirect communication (i.e. companywide emails, circulars, and newsletters).

Our communication channels and activities for 2014 are outlined below:

### Indirect communication

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

### Direct Communication

In 2014, we disseminated our key business information through the direct communication channels outlined below:

	<b>Business Update (Employee town hall session)</b>	<b>Functional Team Talks</b>	<b>Departmental/ Functional meetings</b>	<b>Focus Group Sessions</b>	<b>Hot Topic briefing sessions</b>
Scheduled dates	February, June, August, December	March, June	Throughout 2014	Throughout 2014	Throughout 2014
Objective	To share updates on the global business, the region we operate in (i.e. Asia Pacific), as well as the business in Malaysia.	<i>(See Business Update objectives)</i> Additionally, updates from individual functions are also shared companywide.	To provide departmental updates and encourage team feedback.  These updates enable departments to align strategy and plans within the team.	To communicate Company's strategic direction for the year, and obtain employee feedback and ideas for improvement.	To brief on implementation of new processes and new ways of working.  Clinics provide open forums for employees to provide feedback and ask questions.
Audience	Management employees	All employees	Specific employee groups	All employees	Specific employee groups
Spokesperson	Managing Director, Leadership Team and senior management	Senior management	Senior management	Leadership Team and senior management	Business Content Experts

## Employee propositions

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

- A reward structure that pays competitively for performance.
- Strong career development opportunities.
- Robust talent development programmes.
- Great working environment.
- Emphasis on work-life balance as well as employees' well-being.

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

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

## Protecting employees' welfare and wellbeing

We believe that providing employees with a safe place to work and protecting their wellbeing are part of creating a happy, 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* – Since 2011, the Company has extended paid maternity leave from 60 to 90 days.
4. *Paternity leave* – British American Tobacco provides all confirmed male employees with four days paternity leave.
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 days marriage leave for all confirmed employees.
7. *Compassionate leave* – The Company allocates three days 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. *In-house clinic and doctor* – The Company has an in-house clinic with a full-time doctor and nurses for on-site health and medical services. The clinic also provides health related education, counselling, prevention and other programmes for employees to ensure their health and general wellbeing are well taken care of.
10. *External medical support* – The Company provides a list of panel clinics across all regions for employees to seek medical help, outside of office.
11. *Parking for Moms to be* – The Company has implemented designated parking spaces located near each entrance of the Virginia Park Headquarters office for the convenience of pregnant employees.

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

## Enhancing Health and Safety at our workplace

### *Driving effective Environment, Health, and Safety management for a zero accident workplace*

The year 2014 was declared as the *Year of Zero Entrapment* where British American Tobacco p.l.c Group carried out this global campaign to reduce the number of entrapment accidents at the workplace to zero. The campaign was aimed to make British American Tobacco p.l.c Group as safe as possible for all employees across the world. The campaign emphasised the importance of adhering to behaviour and policies that drive towards the goal of zero entrapment accidents.

In line with carrying out the *Global Year of Zero Entrapment* campaign, British American Tobacco Malaysia continued to conduct additional local-level activities which emphasised good health and safety practices in the organisation.



# Responsibility

Outlined below are the key activities conducted:

- **Safety and Health Campaign**

In conjunction with the World Safety Day on 28 April 2014, the Company had organised a two-day Safety & Health campaign in our Virginia Park headquarters. The focus of the campaign this year was to raise awareness on entrapment safety in line with British American Tobacco p.l.c Group's *Year of Zero Entrapment*. Throughout the two days, more than 237 participants from various departments, including external suppliers attended and participated in games simulating factory machinery to create awareness on safe practices in the factory.

Another key focus was on road safety awareness, whereby driving simulations were available to show employees the possible distractions a driver could face. In support of these key messages, general industrial safety and road safety information were displayed on information boards to educate employees.



British American Tobacco Malaysia's Head of Production simulating the handswheel machinery to signify the opening of the Safety and Health Week.

- **Pedestrian Walkway**

In a continuous effort to improve employee safety around the workplace, a designated walkway running across the factory was put in place to avoid the heavy traffic in this area.

- **Safety Induction for Visitors**

The Company does not only look at ensuring the safety of our employees but also looks to safeguard the safety all visitors. In 2014, The Company developed a mandatory safety induction video that is displayed to all visitors at our main security guardhouse. This is to ensure that all visitors who enter onto our premises are made aware of the Company's safety requirements.

- **Replacement of damaged motorcyclist reflective safety vest to employees**

In 2014, The Company carried out the replacement of damaged safety vests to all employees that commute to work on motorcycles. The initiative of providing employees with reflective safety vests was first introduced to emphasise good safety practice to all motorcyclists as the reflective vest will improve their visibility to other road users with the aim of reducing road accidents.

- **Defensive Driving Programme**

The Company also conducted a session of the *Defensive Driving Training Programme* to train employees on handling their vehicles which included, forklifts and stackers, during an emergency situation. The session was organised for employees across Malaysia and the *Defensive Driving Training Programme* is aligned to the national 1Malaysia staff upskilling and safety programme.

- **Safety Observation Card**

British American Tobacco Malaysia introduced a *Safety Observation Card* initiative over the past ten years in our efforts to ensure for a safer working environment. The *Safety Observation Card* enables any employee to observe and report non-compliance on health and safety guidelines or an "unsafe act", to designated Safety Observation Officers. Employees who have been identified as not complying with the safety guidelines can face disciplinary action.

- **Green Card Programme for External Contractors**

Our emphasis on high safety standards applies not only to our employees but also to the business partners we work with. All contract supervisors that have been hired by British American Tobacco Malaysia for contract work around the office premises are required to undergo the *Green Card Programme*. In the *Green Card Programme*, these contract supervisors are briefed by our Environment, Health and Safety (EHS) team on the EHS policies and regulations in British American Tobacco Malaysia. The contract supervisors then undergo an evaluation session to ensure they have full understanding of these policies.

A *Green Card* training programme was carried out in June 2014 whereby a total of 17 new green cards were issued to new contractors.

- **Achieved over two years of zero Lost Workday Cases**

In 2014, British American Tobacco Malaysia and its subsidiaries yet again achieved zero Lost Workday Cases (LWC) after clocking in a total of 4,391,736 man-hours without any workdays lost due to accidents, since 2012.

To date, the Commercial Marketers and Distributors, and British American Tobacco Malaysia entities have achieved 3,086,225 man-hours without a Lost Workday Case since September 2011, whereas the Tobacco Importers and Manufacturers entity achieved 2,140,281 man-hours without a Lost Workday Case since August 2012.

The achievements are testament to our commitment to continue making the Company a safer place to work. Health and safety is everyone's responsibility and as a thank you gesture, last year, every employee of the Company was given a first aid kit and an appreciation letter from the Managing Director for their hard work and dedication in keeping the workplace safe.

- **Safety and Health initiatives around the factory and workplace:**

- **Frequent health and safety 'walkabouts'**

Inculcated a culture of continuous improvement on health and safety around the office based on feedback from weekly health and safety 'walkabout' checks.

- **Fire Fighting Training for Trade Marketing employees**

In 2014, the Company organised a Fire Fighting Training for its Trade Marketing employees with the aim of educating and creating awareness on fire safety in the workplace and at home. A total of 160 employees including the Emergency Response Team were given hands-on training by the Malaysian Fire and Rescue Department firefighters on the correct procedure of extinguishing a fire. The training also provides participants with basic knowledge on how fires start. This is to act as a preventative measure to help employees look for signs in a fire emergency.

- **Introduction of the *Near Misses/Incident* report form**

In August 2014, the *Near Misses/Incident* report form was introduced to continuously improve the safety of the factory work place at all times. Employees were highly encouraged to provide their feedback on potential incidences that can be avoided via these report forms which were provided at various locations in the factory.

- **Regional Environment, Health and Safety (EHS) initiatives**

In 2014, the Company successfully implemented 33 EHS Awareness Sessions, or *Handholding Sessions* which focused on regional EHS topics such as *Safety Operations of Handwheel, Rotating Airlock Safety, Conveyor Safety and Zero Entrapment*. Close to 200 shop floor employees attended these sessions aimed at improving and reinforcing standard practice for machine operators to meet EHS requirements. *License to Operate* initiatives were also carried out where all statutory permits relating to EHS were checked and ensured to be compliant to the current statutory requirements.

# Environment



## Key highlights in 2014:

- Environmental management governed by robust policies.
- Efforts to reduce energy, water, and air pollution continued to be a key focus.
- Maintained focus to drive a carbon positive business forward.

## OUR ENVIRONMENTAL POLICIES

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

### Global Environmental, Health and Safety Policy

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

All of British American Tobacco p.l.c Group'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 impact 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.

### Integrated Management System (IMS) Policy

The Integrated Management System Policy, which is certified by three systems (ISO 9001, ISO 14001 and OHSAS 18001), acts as a guide for all British American Tobacco p.l.c Group employees in exercising their individual responsibilities in all aspects of Quality, Environment, Health and Safety in our business operations.

In accordance to the IMS policy, British American Tobacco Malaysia is committed to continuously improving its business operations in the aspects of upholding environmental responsibility and the prevention of pollution.

## Maintaining high standards of responsible management

A yearly surveillance is carried out by external auditors, Lloyd's Register Quality Assurance in order to maintain the highest standards underpinning the IMS. In 2014, the surveillance audit was completed without any minor or major no-compliance findings. British American Tobacco Malaysia was successfully recertified for the standards outlined below in 2014:

- ISO 9001: 2008, for a quality management system that consistently provides and enhances products that meet regulatory requirements and delivers customer satisfaction. (Surveillance Audit: 2 - 3 October 2014)
- ISO 14001: 2004, for implementing, maintaining and improving our environmental management system. (Surveillance Audit: 25 - 26 September 2014)
- OHSAS 18001: 2007, for effective management of occupational health and safety in reducing risk and improving performance. (Surveillance Audit: 25 - 26 September 2014)

## Minimising our environment impact for a sustainable future

British American Tobacco Malaysia recognises the importance of understanding and taking proactive measures towards reducing our environmental impact to ensure environmental and business sustainability. Outlined below are several of our key initiatives to this effect:

### Reducing energy consumption

#### Energy-efficient machinery

In 2014, the Company replaced factory machinery with more energy efficient versions and installed new energy efficient machinery after the routine equipment maintenance procedures. These machinery replacements included: Sewage Treatment Plant reinforcement, a boiler, power transformers, and air washers. Replacement of these machinery have resulted in a reduction of energy consumption, and minimised water consumption.

### Reducing water consumption

The Company also conducted a routine replacement of old pipes around the office premises in continuous efforts to curb water wastage.

Following from these initiatives, we also monitor and track our usage of energy and water consumption, as well as waste recycling rate.

	2013	2014	2014 vs 2013	Remarks
<b>Total Energy (Gj)</b>	278,415	239,628	-16.2%	16.2% decrease in total energy versus 2013 primarily due to lower production volumes and better production planning activities.
<b>Water (m<sup>3</sup>)</b>	209,775	177,117	-18.4%	18.4% decrease in water usage versus 2013 primarily due to lower production volumes, better production planning activities, and usage of more efficient water consumption equipment such as rotar spray unit (air conditioning unit), as well as continuous monitoring and repair work on leaky pipes.
<b>Waste recycling rate (%)</b>	98.6	98.7	+0.1%	0.1% increase in recycling rate compared to 2013.

## • Driving a carbon positive business

In 2000, British American Tobacco Malaysia established an afforestation programme as part of our long-term commitment to reduce our carbon footprint. This programme is aligned to Malaysia's goal of reducing 40 percent of its carbon dioxide (CO<sub>2</sub>) emissions by the year 2020 compared to 2005 levels.

To date, British American Tobacco Malaysia has planted more than 6,467 hectares of various tree species (equivalent to 8,858 football fields). Planted in the Forest Management Unit No.4 in Ulu Tungud, Sabah, the afforestation programme has sequestered more than 172,500 tonnes of CO<sub>2</sub>.

In 2014, British American Tobacco Malaysia's total CO<sub>2</sub> emission was 27,686 tonnes and these calculations demonstrate that the Company was carbon positive for the year.

## • Benchmarking key business partners against our environmental standards

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

A new key business partner, Benkert (M) Sdn Bhd who is our service provider for tipping paper, was identified for the EHS Mentoring Programme in 2014.

# Marketplace



## Key highlights for 2014:

- Continued to help address the illegal cigarette trade issue in the country.
- Complied with key regulatory requirements that took effect in 2014, and continued to support sensible regulations.

### BATTLING THE IMPACT OF ILLEGAL CIGARETTES

The scourge of illegal cigarettes has long been in the spotlight for a good reason. The latest Illicit Cigarette Study (ICS) conducted by Nielsen Malaysia in 2014 revealed that illegal cigarette incidence now stands at 33.7 percent<sup>1</sup> of the total market. This means that around three out of 10 cigarette packs sold in the country are illegal. It is certainly an issue that continues to be of great concern for both the industry and the country.

Malaysia remains an attractive market for cigarette smuggling, as cigarette prices are the second highest among ASEAN countries after Singapore. A bigger concern is that the illegal cigarette trade is not a victimless crime. It is also linked to organised crime and the funding of terrorism and criminal activities such as human and drug trafficking, which has been highlighted by the Malaysian Home Ministry and Crime Prevention Groups<sup>2</sup>. Criminal syndicates have been attracted to deal in illegal cigarettes due to the lucrative profits, and lack of deterrent penalties. These syndicates maintain a robust and dynamic supply chain model, from unmarked factories in undisclosed locations, to wide distribution networks via retail outlets across Malaysia, as well as street peddlers.

The illegal cigarette trade also undermines the Government's health objectives as illegal cigarettes are sold at extremely low prices and do not comply with any regulatory requirements. It costs the Government an estimated RM1.9 billion in lost taxes each year, which could be channeled towards improving education, rural development, and other initiatives to benefit the nation.

Faced with the severity of this issue, law enforcement authorities, especially the Royal Malaysian Customs (RMC), embarked on a game-changing strategy in 2014 to step up retail enforcement efforts and create wide public awareness to retailers and consumers on the impact of the problem.

RMC launched a nationwide anti-illegal cigarette campaign called *Ops Outlet* and *Ops Pacak* in 2014. Both campaigns focused on disrupting the illegal cigarette supply chain by targeting enforcement efforts on retailers and wholesalers. *Ops Outlet* saw RMC conducting intensive weekly enforcement on retail outlets across the nation selling illegal cigarettes, whilst *Ops Pacak* was carried out as a targeted operation that concentrated on enforcement efforts and surveillance in 'hot spot' areas identified with high illegal cigarette activity.

RMC has also taken stronger deterrent action by remanding offenders to assist in investigations, and also pushed for more deterrent penalties to be meted out on those guilty of selling illegal cigarettes. As a result of these concerted efforts, close to a thousand offenders have been arrested and remanded for investigation, with many charged in court with stiffer penalties, such as jail term.

On top of enforcement activities, RMC also raised awareness at a retailer and consumer level through the placement of anti-illegal cigarette posters at all retail outlets, and conducted walkabouts to hand out anti-illegal cigarette pamphlets to the public. These actions were a clear indication of the Government's resolve to do more to combat the illegal cigarette trade.

These efforts have also gained support from various retail associations, including the Malaysia-Singapore Coffee Shop Proprietors General Association, the Federation of Sundry Goods Merchants Association, Malaysian Muslim Wholesellers and Retailers Association, Malaysian Muslim Restaurant Owners Association, and Malaysian Indian Restaurant Owners Association, who have urged their members not to sell illegal cigarettes.

The increased enforcement activities carried out by the Royal Malaysian Customs and various law enforcement agencies such as the Malaysian Maritime Enforcement Agencies, the Marine Police, and the Anti Smuggling Unit in 2014 is making headway and has begun to show encouraging results. This is evident from an unprecedented 2.0 percentage point drop in the 2014 ICS results, from 35.7 percent in 2013 to 33.7 percent in 2014.

In 2014, the Ministry of Health, RMC, the Ministry of Domestic Trade, Cooperatives, and Consumerism, as well as the Royal Malaysian Police carried out a first-of-its-kind joint-enforcement campaign which focused on illegal cigarette consumers. The Ministry of Health stressed that the campaign was timely as the sale of illegal cigarettes had become widespread in the country and it had to be stopped.

The Confederation of Malaysian Tobacco Manufacturers (CMTM), of which British American Tobacco Malaysia is a member, continued to support and work together with various Government agencies to raise awareness on the severity of the illegal cigarette trade to retailers and members of the public.

The CMTM held workshops with the Session Court Judges and Magistrates in four different states (Penang, Perak, Negeri Sembilan and Kelantan) in 2014 to raise awareness on the severity of the illegal cigarette trade to society at large, its link to criminal activities and to consider stringent penalties of imposing imprisonment over fines to help deter this illegal activity.

<sup>1</sup> 2014 Illicit Cigarette Study (ICS) commissioned by the Confederation of Malaysian Tobacco Manufacturers

<sup>2</sup> Cigarettes and the terrorists link, New Straits Times, 30 September 2013

## PROCUREMENT LANDSCAPE CHANGES IN 2014

The year 2014 saw the transformation of the Procurement department of British American Tobacco Malaysia from a local-focused structure into one with a more global reach. The evolution of the Procurement department is in line with the approach to achieve the following:

- Leverage of category knowledge and procurement expertise.
- Enhance aggregation of spend.
- Standardise our ways of working.

By collaborating with the regional sourcing hub and Global Procurement in rolling out strategies, guidelines, and toolkits, the Company is able to leverage on both scale and knowledge of its people throughout the globe.

The Global Travel Policy rollout which drives organisational discipline in air ticket and hotel bookings; the implementation of globally-appointed creative production houses; and the appointment of a Regional service provider for site facilities management are a few examples of this collaboration.

## PRODUCT RESPONSIBILITY

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

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

## REGULATORY DEVELOPMENTS IN 2014

British American Tobacco Malaysia operates in a challenging industry, and we are fully aware of the societal expectations on the business. As such, the Company has always remained fully committed towards ensuring that we adhere to the highest standards of corporate conduct and responsibility throughout our business operations.

The consumption of tobacco carries with it real risks to health. This is a belief that the Company acknowledges. British American Tobacco Malaysia has always supported sensible and enforceable regulations on tobacco products. We agree that tobacco should be regulated in appropriate ways which would balance the preferences of consumers with societal interests and allow for the business to operate and continue to compete.



# Responsibility

In 2014, the Ministry of Health enforced several amendments which were made to the current tobacco regulations under the Control of Tobacco Product (Amendment) Regulations 2013, which was gazetted on 11 June 2013 and the Control of Tobacco Product (Amendment) Regulations 2014, which was gazetted on 25 November 2014. These are outlined as below:

The key regulatory requirements which took effect from 1 January 2014 were:

## **1. Increase in size for Pictorial Health Warnings (PHWs) on the front panel of cigarette packets and the top panel for cigarette cartons by 10 percent**

Effective 1 January 2014, the Ministry of Health requires for PHWs on the front of the cigarette packets and top panel for cigarette cartons to be increased by 10 percent, which is from 40 percent to 50 percent.

## **2. Addition of six new Pictorial Health Warnings (PHWs) to be printed on cigarette packets and cigarette cartons**

Effective 1 January 2014, the Ministry of Health requires an additional six PHWs to be printed on cigarette packets and cigarette cartons. There are now a total of 12 PHWs printed.

## **3. Regulation on possession of any cigarette packet or carton that is not printed with the Pictorial Health Warnings (PHWs) and text as specified in the Control of Tobacco Product Regulations 2004**

Effective 1 January 2014, the Ministry of Health has prohibited the sale, or offer for sale, purchase or possession of any cigarette packet or cigarette carton that is not printed with the PHWs and text as specified in the Control of Tobacco Product Regulations 2004.

## **4. Sale of cigarettes limited to a packet containing 20 sticks and a carton containing 10 packets**

Effective 1 January 2014, the Ministry of Health has mandated that all cigarettes shall be in a packet containing only 20 sticks of cigarettes, or in a carton containing only 10 packets of cigarettes.

## **5. Expansion of restrictions on the use of descriptors on tobacco product packaging and labels**

Effective 1 January 2014, the Ministry of Health clarifies that forbidden descriptors on tobacco product or labels was expanded to include any term, word, description, claim, representation or graphic that states the grading, quality or supremacy of the product, or is fanciful, or that is not relevant to the physical characteristics of the tobacco product, or any other words that is meant for the purpose of promoting directly or indirectly the sale or disposal of the tobacco product.

## **6. Reduction in emission levels for cigarettes**

Effective 1 January 2014, the Ministry of Health requires the following maximum allowable emission levels per cigarette:

- Total Aerosol Residue: 15mg
- Nicotine: 1.3mg
- Carbon Monoxide: 15mg

## **7. Further enhancements to regulation on places where smoking is prohibited**

Effective 1 January 2014, the Ministry of Health has further clarified the definition of any area in a building to refer to "any area inside the building and includes the five-foot way and within three metres from the distance of the building line, and also includes the area covered by any additional permanent roof that is connected to the main building".

The Ministry of Health also gazetted an additional seven areas in the state of Johor as no-smoking areas effective 19 June 2014. The seven areas cover two public recreation parks and five National Parks in Johor. Similar smoke free areas have also been envisioned by the Ministry for Pantai Batu Buruk in Terengganu, Gua Mulu in Sarawak, and Kelantan.

In addition to the above, the Ministry of Health has on 25 November 2014, gazetted all Rest & Recreation (R&R) areas along major highways as no-smoking areas. Smoking is prohibited in any building, playground, or garden, which includes the range of 3 metres from the boundary of the place in R&R areas.

In line with its commitment as a responsible company, British American Tobacco Malaysia has duly complied with the above-mentioned regulations and is fully compliant with all other existing regulations enacted by the Government which govern the manufacturing, marketing, and sale of our products.

# Global Reporting Initiative (GRI) Indicators 2014

Over the years, British American Tobacco Malaysia has been lauded for exemplary disclosure of its economic, environmental, social and governance performance in our Annual Report. As part of our commitment to demonstrate accountability and transparency, we are once again incorporating key Global Reporting Initiative (GRI) Indicators in our 2014 Annual Report. This is the sixth year that the Company is continuing this initiative in line with its sustainability agenda to demonstrate its commitment in operating responsibly.

The GRI Indicators form an integral part of the GRI vision, whereby the GRI Reporting Guidelines are recommended for organisations to use as a basis for their annual reporting.

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

GRI Code	Issue Area	Response for 2014
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Direct economic value generated (Revenues): RM4,796 million
		Economic value distributed:-
		Operating costs: RM1,244 million
		Employee wages and benefits: RM145 million
		Payment to providers of capital: RM882 million
		Payment to government in the form of taxes: RM2,486 million
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Community investment: RM3 million
		Economic value retained: RM20 million
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	British American Tobacco Malaysia has continually implemented measures to reduce its business environment footprint by adopting a multi-pronged approach which encompassed changing employees' behaviour, investing in new technology, improving product designs and practicing voluntary carbon off-set through its Afforestation Programme located in FMU No.4, in Ulu Tungud Sabah.
EC3	Coverage of the organisation's defined benefit plan obligations.	In 2014, 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 salary more than RM5,000 and 13 percent for salary less than RM5,000. Altogether, British American Tobacco Malaysia contributed 16 percent or 17 percent to employees' EPF. Employees contribute 11 percent to EPF.

# Global Reporting Initiative (GRI) Indicators 2014

GRI Code	Issue Area	Response for 2014
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	British American Tobacco Malaysia procured from the most competitive supplier offering the highest product quality, regardless of whether it was a local or overseas supplier.
		British American Tobacco Malaysia practices the Business Enabler Survey Tool (BEST) to select its suppliers. The top 90 percent of vendors (by volume) were all surveyed using BEST, which covers management policies such as education and training, competency and technological enhancement, safety and regulatory compliances, business ethics and environment responsibility.
		The proportion of spending on locally-based suppliers in 2014 was 64 percent against 65 percent in 2013. However more than 98 percent of the imported materials are within Asia Pacific.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	<p>British American Tobacco Malaysia continued its mission to hire the most talented personnel, regardless of whether they were local or foreigners. The senior management, defined as the Leadership Team, consisted of 33 percent local hire in 2014.</p> <p>This is derived from the formula below:  <math>(2 \text{ local hires out of } 6 \text{ members}) \times 100 \text{ percent} = 33 \text{ percent}</math></p>
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Please refer to pages: 82 to 83 on the British American Tobacco Malaysia Foundation which encompass initiatives on helping the underprivileged, Foundation Scholarships and Employee Volunteerism.
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	A total of 21 British American Tobacco Malaysia Foundation Scholarship recipients completed their higher education in 2014 and were ready to join the highly skilled workforce.
		A total of 22 British American Tobacco Malaysia Foundation scholarship recipients graduated in 2013.
EN1	Materials used by weight or volume.	Total materials: 23,880 tonnes
		Non-renewable materials: 4,293 tonnes (Parts, fuels, cleaning materials, chemicals and processing aids)
		Direct materials: 19,587 tonnes (Leaf, wrapping, packaging, filter and flavouring)
		Normalised: 1.13 tonnes/million cigarette equivalent (1.45 for 2013)
		British American Tobacco Malaysia noted a reduction in materials used from 1.45 in 2013 to 1.13 in 2014. This reduction was due to improvements in effective management of waste generated.

GRI Code	Issue Area	Response for 2014	
EN3	Direct energy consumption by primary energy source.	Total: 225,428 Gigajoules	Overview
		Non-renewable: 225,428 Gigajoules	Performance
		(Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)	
EN3	Direct energy consumption by primary energy source.	Renewable: 0 Gigajoules	Leadership
		Normalised: 10.7 Gigajoules/million cigarette equivalent	
		A lower direct energy usage of -12.5 percent was recorded in 2014 primarily due to lower production volumes and better production planning initiatives such as Production Conformance To Plan (PTCP), which resulted in an improvement in production efficiency from 87 percent in 2013 to 91 percent in 2014.	Governance
EN4	Indirect energy consumption by primary source.	Total: 280,390 Gigajoules	Growth
		Non-renewable: Electricity - 280,390 Gigajoules	
		Normalised: 13.27 Gigajoules/million cigarette equivalent	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	British American Tobacco Malaysia initiatives:	Productivity
		1) Replacement of boiler to a version with higher output efficiency to reduce the number of boilers operating each day.	
		2) Replacement of two rotar spray units in the factory premises to air washers which are more energy saving.	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	3) Replacement of an old 11KV transformer to a version with higher efficiency.	Responsibility
		4) Replacement of 22 airconditioning units with ozone friendly refrigerant.	
		5) Replacement on scrubber equipment.	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Please refer to GRI G3 Reference EN6	Winning Organisation
EN8	Total water withdrawal by source.	Total: 177,117 cubic metres	Financial Statements
		Normalised: 8.38 cubic metres/million cigarette equivalent	
		British American Tobacco Malaysia recorded a 18.4 percent decrease in water index primarily due to lower production volume and also water conservation initiatives such as the replacement of leaky pipes, and the replacement of two aircon rotar spray units which improves water usage efficiency in the Secondary Manufacturing Department.	
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.	Other Information
		*These wetlands are included under the Ramsar Convention, which is an international treaty for the conservation and sustainable utilisation of Wetlands.	

## Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high bio-diversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN13	Habitats protected or restored.	<p>British American Tobacco Malaysia contributed to an afforestation programme in Forest Management Unit No. 4 located in Ulu Tungud, Sabah since 2002. Bringing the total hectareage planted to date to 6,467 hectares – the equivalent of 8,858 football fields*.</p> <p>*Size of 1 football field is approximately 0.73 hectares.</p> <p>The project partner for this afforestation programme was TSH Resources Berhad.</p>
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Please refer to pages: 88 to 89 on our Environment pillar.
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN16	Total direct and indirect green-house gas emissions by weight.	<p>Total: 27,686 tonnes of carbon dioxide</p> <p>Normalised: 1.31 tonne/million cigarette equivalent</p> <p>The total carbon dioxide captured consists of 8,898 tonnes of direct emission of carbon dioxide, there is a decrease of total carbon dioxide emission of 4,314 tonnes in 2014 due to improvement on the carbon dioxide index per kg of Dry Ice Expanded Tobacco (DIET) processed, lower volume and effective production planning.</p>
EN17	Other relevant indirect green-house gas emissions by weight.	<p>Total: 18,789 tonnes of carbon dioxide</p> <p>A decrease of 14.0 percent in indirect green-house gas emissions was recorded in 2014 as a result of a substantial reduction of air freight usage.</p>
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Please refer to GRI G3 Reference EN6.
EN19	Emissions of ozone-depleting substances by weight.	All British American Tobacco Malaysia air conditioning equipment are chlorofluorocarbon (CFC) free.

# Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014
EN21	Total water discharge by quality and destination.	<p>British American Tobacco Malaysia facilities discharged water through these routes:</p> <p>1. Public waterways (22,515 cubic metres) after water that was used in factory operations was treated at our Effluent Treatment Plant following stringent standards.</p>
EN22	Total weight of waste by type and disposal method.	<p>2012 : Hazardous Waste – 18 tonnes : Non-Hazardous Waste – 2,309 tonnes</p> <p>2013 : Hazardous Waste – 13 tonnes : Non-Hazardous Waste – 2,124 tonnes</p> <p>2014 : Hazardous Waste – 13 tonnes : Non-Hazardous Waste – 2,539 tonnes</p> <p>All our hazardous waste were 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 is recycled (e.g. paper, plastic and metal materials).</p>
EN23	Total number and volume of significant spills.	British American Tobacco Malaysia did not have any significant spills in 2014.
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	<p>Total: 13 tonnes (2013: 13 tonnes)</p> <p>All hazardous wastes were sent to Government approved site (Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan) for disposal.</p>
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	British American Tobacco Malaysia continues to treat water used in factory operations at our Effluent Treatment Plant which follows stringent standards.

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## Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	<p>British American Tobacco Malaysia's comprehensive environment, health and safety programme achieved improvements in minimising its environmental footprint during the years through the implementation of initiatives in these areas of process and practices:</p> <ol style="list-style-type: none"> <li>1. Replacement of 22 split air conditioning units with ozone friendly refrigerant in office premises with environmental control and high cooling efficiency.</li> <li>2. Replacement of boiler to a version with higher output efficiency to reduce the number of boilers operating each day.</li> <li>3. Replacement of two rotar spray units in the factory premises to air washers which are more energy saving.</li> <li>4. Replacement of an old 11KV transformer to a version with higher efficiency.</li> <li>5. Replacement of 22 airconditioning units with ozone friendly refrigerant.</li> <li>6. Replacement on scrubber equipment</li> </ol>
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Information not reported due to a lack of data systems needed to generate the required information. The development of the required data systems will be evaluated.
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	British American Tobacco was in full compliance with environmental laws and regulations.
EN29	Significant environmental impacts of transporting products and other goods and materials used 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.
		Total: RM3,214,996
		Below is the breakdown for total environmental protection expenditures and investments:
EN30	Total environmental protection expenditures and investments by type.	<p>Afforestation maintenance: RM451,500 (end as of September 2014)</p> <ol style="list-style-type: none"> <li>1. Scrubber replacement: RM730,000</li> <li>2. Split office airconditioning unit replacement (22 units): RM80,000</li> <li>3. Boiler replacement: RM761,000</li> <li>4. Rotar spray replacement in the factory (2 units): RM859,494</li> <li>5. 11KV Transformer replacement (2 units): RM333,002</li> </ol>

# Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014	
LA1	Total workforce by employment type, employment contract, and region.	Total Workforce: 845	Overview
		<b>Employment type</b>	Performance
		Permanent/Full-time: 809 <ul style="list-style-type: none"> <li>Management: 603</li> <li>Non-Management: 206</li> </ul>	
		Fixed Term/Apprentice: 36 <ul style="list-style-type: none"> <li>Technical Trainee/Technical Assistant/Production Associate: 32</li> <li>Temporary/Consultants/Contracts: 4</li> </ul>	Leadership
LA2	Total number and rate of employee turnover by age group, gender, and region.	British American Tobacco Malaysia's workforce broken down by regions: <ol style="list-style-type: none"> <li>North (Kedah, Pulau Pinang, Perak, Perlis) = 70</li> <li>South (Melaka, Johor) = 68</li> <li>East Coast (Pahang, Terengganu, Kelantan) = 41</li> <li>East Malaysia (Sabah, Sarawak) = 40</li> <li>Central (Kuala Lumpur, Selangor, Negeri Sembilan) = 626</li> </ol>	Governance
		Ethnicity: <ol style="list-style-type: none"> <li>Malay: 370</li> <li>Chinese: 356</li> <li>Indian: 83</li> <li>Others: 36</li> </ol>	Growth
		As at 31 December 2014:	
		The total number of employees who left employment in 2014 by age group: <ol style="list-style-type: none"> <li>less than 30 years old = 53</li> <li>30 – 50 years old = 79</li> <li>above 50 years old = 32</li> </ol>	Productivity
LA2	Total number and rate of employee turnover by age group, gender, and region.	The total number of employees who left employment in 2014 by gender: <ol style="list-style-type: none"> <li>Male = 120</li> <li>Female = 44</li> </ol>	Responsibility
		The total number of employees who left employment in 2014 by region: <ol style="list-style-type: none"> <li>East Coast = 7</li> <li>North = 3</li> <li>South = 8</li> <li>East Malaysia = 1</li> <li>Central = 145</li> </ol>	Winning Organisation
		Ethnicity: <ol style="list-style-type: none"> <li>Malay: 80</li> <li>Chinese: 61</li> <li>Indian: 18</li> <li>Others: 5</li> </ol>	Financial Statements
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## Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	<p>The following benefits were provided to British American Tobacco Malaysia's full-time management and non-management employees:</p> <ul style="list-style-type: none"> <li>a. Medical benefits</li> <li>b. Cigarette ration</li> <li>c. Free meals</li> <li>d. Annual, calamity, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, sports and pilgrimage leave</li> <li>e. Bonus</li> <li>f. Group Term Life Insurance Scheme</li> <li>g. Company vehicle and monthly cash allowance (depending on grade)</li> <li>h. Corporate club membership (depending on grade)</li> <li>i. Housing loan interest subsidy (depending on grade)</li> <li>j. Car loan interest subsidy (depending on grade)</li> </ul>
LA4	Percentage of employees covered by collective bargaining agreements.	<p>In October 2007, the Director General of the Trade Unions (DGTU) of the Ministry of Human Resources had decided that the in-house union, British American Tobacco Employees Union (BATEU) could only represent employees of the holding company, British American Tobacco (Malaysia) Berhad. This decision was upheld by the Courts. On 19<sup>th</sup> November 2014, the DGTU deregistered BATEU.</p> <p>On 18<sup>th</sup> December 2013, TIM granted recognition to the national union, National Union of Tobacco Industry Worker (NUTIW), to represent the non-management employees of TIM.</p> <p>The percentage of total employees covered by collective bargaining is 16 percent. As at 31 December 2014, all eligible employees amounting to 135 non-management staff were covered by the collective bargaining.</p> <p>A new Collective Agreement is currently being negotiated with NUTIW. The parties reached a deadlock, and the matter was referred to the Industrial Relations Department, Ministry of Human Resources in September 2014 as a trade dispute.</p>
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	<p>The minimum notice period specified in Article 61 of the Collective Agreement between British American Tobacco Malaysia and British American Tobacco Employees Union (BATEU), effective from 1 July 2004 to 30 June 2007 was followed in the separation exercise of the Operations employees.</p>
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	<p>100 percent of the total workforce was represented by a senior manager representing each function in our Corporate Environmental Health and Safety (EHS) Committee.</p> <p>Six representatives each (from management and non-management employees respectively) were members of the Petaling Jaya EHS Committee. This committee is headed by a chairman (Head of Production) and also includes representatives from Occupational Health, Security and an appointed Secretary (EHS Manager).</p>
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.	<p>In 2014, British American Tobacco Malaysia and its subsidiaries yet again achieved zero Lost Workday Cases (LWC) after clocking in a total of 4,391,736 man-hours without any workdays lost due to accidents, since 2012.</p> <p>To date, the Commercial Marketers and Distributors and Corporate Services achieved 3,086,225 man-hours without a Lost Workday Case since September 2011, whereas the Tobacco Importers and Manufacturers achieved 2,140,281 man-hours without a Lost Workday Case from August 2012.</p>

GRI Code	Issue Area	Response for 2014									
LA8	Education, training, counseling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	Assistance Programme								Performance	
		Education/ Training		Counselling		Prevention/ Risk Control		Treatment		Leadership	
		Programme recipients	Yes	No	Yes	No	Yes	No	Yes		No
		Workers	✓		✓		✓		✓		
		Workers' families		✓	✓		✓		✓		
		Community members		✓		✓		✓			
		For Workers:								Governance	
		Education/Training								Growth	
		a. Chemical Exposure									
		b. Ergonomics									
		c. Noise Conservation Programme									
		d. Ebola Awareness								Productivity	
		e. Cough Etiquettes and Importance of Hand Washing									
		f. Haze Awareness									
		g. First Aid/CPR Training									
		Counselling								Responsibility	
		a. Non Communicable Diseases – Shifting towards wellness and disease prevention									
		b. Sickness Absenteeism									
		c. Return to work									
		d. Overseas Travel									
		Prevention/Risk Control								Winning Organisation	
		a. Immunisations									
		b. Routine - Annual/Biennial Medical Examinations									
		c. National Strategic Plan - Early Detection of Non Communicable Diseases - Coronary Care/Hypertension/Diabetes/Gout									
		d. Statutory Medical Examinations								Financial Statements	
		e. Vaccinations against Hepatitis A, Hepatitis B, Tetanus Toxoid & Flu									
		f. Provision of hand sanitisers and face masks and notice of precautions for overseas travel									
		g. Chemical Hazardous Regulation Act Surveillance (CHRA)									
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## Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014
		<p>Treatment</p> <ul style="list-style-type: none"> <li>a. Medications for Daily Sickness Report</li> <li>b. Medications for Non Communicable diseases</li> <li>c. Investigations</li> <li>d. Referral to Specialists</li> <li>e. Compliance with medications</li> <li>f. Regular follow-ups</li> </ul> <p><b>For Workers' Families:</b></p> <p>Education/Training</p> <ul style="list-style-type: none"> <li>a. On adhoc basis</li> </ul> <p>Counselling</p> <ul style="list-style-type: none"> <li>a. On adhoc basis</li> <li>b. On Confidentiality basis</li> </ul> <p>Prevention/Risk Control</p> <ul style="list-style-type: none"> <li>a. On adhoc basis</li> </ul> <p>Treatment</p> <ul style="list-style-type: none"> <li>a. Clinic/Hospitalisation</li> <li>b. Medication</li> </ul>
LA9	Health and safety topics covered in formal agreements with trade unions.	<p>Environment, health and safety topics were covered in various articles contained in the Collective Agreement between British American Tobacco Malaysia Berhad and British American Tobacco Malaysia Employees Union (BATEU), effective from 1 July 2004 to 30 June 2007. ("Collective Agreement")</p> <p>Articles 20-23 cover employees maximum working hours, Article 27, 30-31 cover employees' leave entitlement and Article 40 covers employees' entitlement to appropriate personal protective equipment while at work. Article 54 states that the Company's working environment is to be in compliance with relevant regulations including providing for medical examination for employees.</p>
LA10	Average hours of training per year per employee by employee category.	<p>International and Regional trainings were provided to 501 employees and a total of 6,356 hours were invested. Local trainings were provided to 236 employees and a total of 2,880 hours were invested. Listed here are some of the trainings we have provided.</p> <p>Local training: 12.2 hours International and regional training: 12.68 hours</p>
LA12	Percentage of employees receiving regular performance and career development reviews.	<p>100 percent of employees, both management and non-management staff, received a formal performance appraisal and review during the reporting period.</p>

# Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014	
LA13	Composition of governance bodies and breakdown of employees per 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: Male = 75 percent (6 out of 8 Directors) Female = 25 percent (2 out of 8 Directors)	Performance
		The percentage of British American Tobacco Malaysia's Board of Directors by age groups: Under 30 years old = 0 percent 30-50 years old = 25 percent (2 out of 8 Directors) Over 50 years old = 75 percent (6 out of 8 Directors)	Leadership
		The percentage of employees in British American Tobacco Malaysia by gender: Male = 81 percent (683 out of 845 employees) Female = 19 percent (162 out of 845 employees)	Governance
		The percentage of employees in British American Tobacco Malaysia by age groups: Under 30 years old = 25 percent (213 out of 845 employees) 30-50 years old = 57 percent (485 out of 845 employees) Over 50 years old = 17 percent (147 out of 845 employees)	
		The ethnicity of our total employee workforce is as stated below: a. Malay: 370 b. Chinese: 356 c. Indian: 83 d. Others: 36	Growth
LA14	Ratio of basic salary of men to women by employee category.	Male and female employees of the same grade shared the same salary scale, but their starting salary differs based on talent, experience and skills set.  Male and female Management Trainees were paid equal basic salaries.	Productivity
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	British American Tobacco Malaysia's significant investments were with its suppliers. Our philosophy on supplier partnership was not just about procurement but how we could increase value in the supply chain. We use the Business Enabler Survey Tool (BEST) to select the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provision of education and training, regulatory compliances, business ethics and environment, health and safety responsibility. The top 90 percent of vendors (by volume) were all surveyed using BEST.	Responsibility
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Please refer to GRI G3 Reference HR1.	Winning Organisation
HR4	Total number of incidents of discrimination and actions taken.	There were no incidences of discrimination reported to British American Tobacco Malaysia.	Financial Statements
		We also have a grievance procedure under Article 5 of the Collective Agreement which continue to be implemented for non-management employees to escalate matters of discrimination to senior management.  In addition, our Standards of Business Conduct provides for a comprehensive whistleblowing procedure which enables any employee to raise any concern including that of discrimination. Our code of practice on sexual harassment protects employees from gender discrimination.	Other Information

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## Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014
HR5	Operations identified in which the right to exercise freedom of association or collective bargaining may be at significant risk, and actions taken to support these rights.	There were no significant risks in exercising freedom of association or collective bargaining in British American Tobacco Malaysia.
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour.	Please refer to GRI G3 Reference HR6.
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	There was no formalised training specifically on human rights issues provided to security personnel. The focus of their responsibilities was to ensure a safe and secure working environment for employees and the core need to treat every individual with respect in the execution of their duties.
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	<p>British American Tobacco Malaysia's Employment Principles builds on its commitment to good employment practices and workplace related human rights. It sets out a common approach to the development of policies and procedures, while recognising that we must take account of local labour laws and practices and the local political, economic and cultural context. Topics covered by our Employment Principles include:</p> <ul style="list-style-type: none"> <li>a. Equality of opportunity and non-discrimination.</li> <li>b. Internal communication and the free flow of ideas.</li> <li>c. Worker representation and freedom of association.</li> <li>d. Fairness at work and the unacceptability of harassment and bullying.</li> <li>e. Do not condone or employ child labour.</li> <li>f. Forced or bonded labour is completely unacceptable.</li> <li>g. Performance responsibility.</li> <li>h. Health, safety and environmental responsibility.</li> <li>i. Community contributions and skills development for employees and communities in markets where our companies operate.</li> <li>j. Personal development and learning.</li> <li>k. Reasonable working hours and family-friendly policies.</li> <li>l. Fair, clear and competitive remuneration and benefits.</li> </ul>
SO2	Percentage and total number of business units analysed for risks related to corruption.	Please refer to page 34 on Standards of Business Conduct Statement.

# Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014	Overview
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	<p>All employees have access to and are made aware of British American Tobacco Malaysia's Standards of Business Conduct (SOBC) via its intranet and employee on-boarding training, which includes detailed information about anti-corruption and bribery. All employees are also required to sign off an annual Declaration of Compliance to the SOBC.</p> <p>A further reinforcement message to all employees on SOBC compliance was issued to all employees in August 2014.</p> <p>The Company's SOBC was also revised in 2014 to include among others, a new section, Rules of Engagement to ensure transparency and integrity is maintained for all employee/external stakeholder engagements.</p>	Performance Leadership
SO4	Actions taken in response to incidents of corruption.	<p>There were no incidences of corruption reported to British American Tobacco Malaysia.</p> <p>As a responsible company, British American Tobacco Malaysia believes that we can contribute, through information and ideas to help regulators address the key issues surrounding our product.</p>	Governance
SO5	Public policy positions and participation in public policy development and lobbying.	<p>In 2014, we undertook the following:</p> <ul style="list-style-type: none"> <li>Supported the Royal Malaysian Customs in distributing information leaflets to retailers nationwide to raise awareness of the illegal cigarette trade. The leaflet includes information on the laws and penalties related to the illegal tobacco trade.</li> <li>Engaged with relevant Government law enforcement agencies on ways it could contribute to illegal cigarette trade reduction through presentations to various government agencies on the severity of the illegal cigarette trade in Malaysia, on an industry platform through the Confederation of Malaysian Tobacco Manufacturers.</li> <li>Continued to engage law enforcement agencies on carrying out more frequent raids and seizures and increase the penalties on those involved in the illegal cigarette trade. These sessions also facilitated feedback from law enforcement agencies on ways and means of contributing towards reduction in illegal cigarettes.</li> <li>Conducted workshops with the Session Court Judges and Magistrates via the platform of the Confederation of Malaysian Tobacco Manufacturers to increase awareness of rising illegal cigarette trade and lack of stringent penalties that contributes to the growth in illegal cigarettes.</li> </ul> <p>At a global level, these and other issues and our core positions with regards to public policy development can be found on <a href="http://www.bat.com">www.bat.com</a></p>	Growth Productivity Responsibility Winning Organisation
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# Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014																					
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	<p>British American Tobacco Malaysia has not been involved in any legal action for anti-competitive behaviour, anti-trust, and monopoly practices.</p> <p>British American Tobacco Malaysia’s Standard of Business Conduct (SOBC) embeds the principles of fair competition rules in conducting our business. In addition, British American Tobacco Malaysia’s Competition Guidelines which was rolled out company-wide on 18 June 2009 also ensures that our business activities are not in any manner anti-competitive and not in breach of the Competition Act 2011.</p>																					
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.																					
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	<p>Please refer to information on smoking and health which can be found on our website at <a href="http://www.bat.com">www.bat.com</a>. Information on tobacco ingredients can be found on <a href="http://www.bat-ingredients.com">www.bat-ingredients.com</a>.</p> <p>British American Tobacco Malaysia’s products were in full compliance with the Control of Tobacco Product Regulations 2004.</p>																					
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.																					
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	<table><tr><th></th><th colspan="2">2014</th></tr><tr><th></th><th>yes</th><th>no</th></tr><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></table>		2014			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
	2014																						
	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																					

# Global Reporting Initiative (GRI) Indicator 2014

GRI Code	Issue Area	Response for 2014
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 2014, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required new health warnings and further textual warnings and/or labelling requirements on every cigarette packet.
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	<p>The Control of Tobacco Product Regulations 2004 regulates the tobacco industry in terms of prohibition of tobacco product advertisement, regulation on the sale of tobacco products, labelling and packaging requirements among others.</p> <p>Compliance with the regulations was further enhanced by British American Tobacco Malaysia's adherence to the British American Tobacco International Marketing Principles (IMP) which provides a consistent and responsible approach to marketing across the Group. The Marketing Principles are our minimum standard and will be applied even when they are stricter than local laws.</p> <p>The IMP replaces the International Marketing Standards which were launched in 2001 and updated in 2007. The new Marketing Principles ensure our approach reflects developments in marketing, technology and changing regulations and stakeholder expectations.</p>
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.
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.
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.

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# Winning Organisation

## With the right people

We aim to maintain our reputation as a high-performance organisation, ensuring British American Tobacco Malaysia remains a great place to work to attract the best people to take us forward. With constant employee engagement, our goal is to mould and motivate a winning workforce.

We have cultivated a culture of ownership and entrepreneurship among our passionate employees, recognising long-serving employees and rewarding outstanding contribution to encourage winning behaviours.

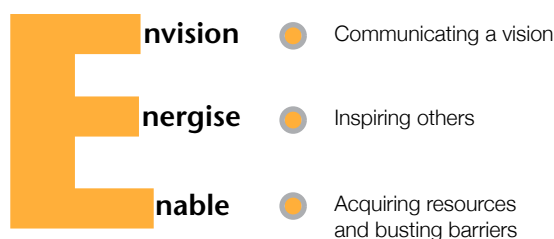


# Winning Organisation

## Great People, Great Teams, Great Place to Work

In 2014, British American Tobacco Malaysia saw great progress in nurturing a highly engaged workforce in the Company through the constant drive of strong leadership of our top 60 senior managers (called Leadership 60). We operate in a winning environment in which our leaders role model behaviours as passionate owners of the Company, and inspire our people to deliver outstanding results.

We will remain focused on our three E's of leadership (i.e. Envision, Energise, Enable) to develop great people, nurture great teams, and to be a great place to work.



### Key highlights in 2014

- Created two-way feedback culture among the Leadership team, Leadership 60 and the rest of the organisation.
- Recognised 45 recipients in the Long Service Awards.
- Recognised the contribution of over 135 outstanding employees through our employee recognition awards.
- Conducted international, regional, and local training for our employees.
- Held activities to promote employee wellbeing.

### RECOGNISING LONG SERVING EMPLOYEES

During the Company's Annual Dinner in November 2014, British American Tobacco Malaysia was pleased to present 45 long-serving employees with the Long Service Award in recognition of their contribution and commitment to the Company. Their spouses were also cordially invited to the annual dinner to celebrate this special occasion with them. Out of the total recipients, 24 were recipients for 10 years' service, 11 were for 20 years' service and 10 were for 30 years' service.

### REWARD OUTSTANDING CONTRIBUTION

Our bold and passionate people are the cornerstone of our success, despite facing a difficult and challenging operating environment. Outstanding employees are nominated by their leaders through a three-tiered employee recognition scheme to acknowledge remarkable achievements by individuals or teams in the face of unexpected challenges or opportunities, beyond the normal parameters of the current demanding work scope.

This reward scheme encourages employees to demonstrate desired leadership behaviour, to deliver exceptional work commitment, and to actively participate in cross-functional projects. The year 2014 has been a great journey for the Company with a total of 135 high achievers rewarded for their enterprising spirit and dedication to driving the Company's success.

### EMPLOYEE ENGAGEMENT: EMPLOYEE BENEFITS AND WELLBEING

Recognising the value that employees bring to the Company, British American Tobacco Malaysia strives to promote the overall wellbeing of our employees. Reward practices are constantly reviewed to remain competitive, which include loan interest subsidies, free meals, free company parking, medical coverage, dental and optical reimbursements, group life insurance coverage, and retirement benefits through additional Employee Provident Fund contribution, amongst others.

Numerous initiatives were rolled out to promote healthier lifestyle and work-life balance for our people. The Company and the British American Tobacco Malaysia Sports Club had organised activities for our employees as listed below:

- Recreational activities and competitions such as fishing, futsal, shooting, a golf tournament, and trekking up Mount Kinabalu amongst others.
- Family Day for employees and their family members at Sunway Lagoon.
- Intercompany games with British American Tobacco Singapore's Team.
- Treasure Hunt at the Lost World of Tambun, Perak.
- Fun Run and Walk at MAEPS Laman 2, Serdang, Kuala Lumpur.



# Winning Organisation

- Celebration feasts for festive occasions and employee appreciation.
- Annual Dinner and Dance at Connexion, Nexus Bangsar South, Kuala Lumpur.
- Baking and Yoga classes.

## STRENGTH FROM DIVERSITY

Diversity is a big part of British American Tobacco Malaysia's total people strategy and business ambition. The Company's current gender composition is 25 percent women at the top management team level and 33 percent at Board of Director level, which is above the representation of 24 percent women at top management and 8.6 percent at Management Board level in the recent TalentCorp - PWC Diversity in the Workplace Survey of public listed companies in 2013.

The *Women In Leadership program* (WIL) in British American Tobacco was launched as a long-term commitment to increase gender diversity among employees, and was given strong support at a global level. In November 2014, British American Tobacco Malaysia proudly hosted a face-to-face WIL workshop for female managers across Asia Pacific, focusing on topics such as *Developing Authentic Leadership, Presence & Gravitas, and Belief & Confidence*. This workshop provided the participants with the opportunity to network and learn about their strengths and unconscious bias. Unconscious bias applies to how we perceive other people. Unconsciously, we tend to prefer people who we can identify with; people who look like us, think like us and who come from similar backgrounds. In this workshop, the participants learnt that becoming aware of our own biases as well as others will help mitigate them in our workplace.

In addition to the WIL initiative, the Company continued to enhance office facilities and to promote a more comfortable working environment for our female employees. In full consideration of the welfare of our pregnant female employees, the Company had allocated special parking lots for expectant mothers located next to the office entrances to shorten the walking distance between parking lots and office area.



**WOMEN IN LEADERSHIP 2014**



## HIGH PERFORMANCE LEADERSHIP

One of the recipes to our success in staying as a winning organisation lies behind our culture of high performance leadership, which is honed from the way we attract, develop, and retain the next generation of leaders. These future leaders are empowered to deliver and take ownership of results.

### Talent Sourcing: Attracting and Recruiting Great Talent

The Company has always believed that our people are our strongest asset, as with great people, come great teams, which lead to an overall great place to work. Talent sourcing to fulfill business needs was a key focus for the Company in 2014.

In order to maintain the highest quality of our talent selection, we ensured that our hiring managers are upskilled in identifying great talent, and that our recruitment process is robust. We also made certain to have access to profiles of talented candidates.

A pool of 20 senior managers across the Company were sent to attend the *License to Hire Excellence Program* to enhance their skills in scouting for and attracting talent through effective questioning and assessment of capabilities. These skills were honed to help in hiring for cultural fit and future potential. We are also pleased to inform that 26 hiring managers had attended the *Interviewing and Assessment Skills Training* and are now trained in accordance to the British American Tobacco p.l.c Group's standards. We are confident that the assessment standards amongst all hiring managers are now better aligned and we are clear on how to best represent the Company as an employer of choice.

In terms of the recruitment process, there have also been continuous improvement efforts to ensure a robust recruitment strategy and process is in place. Improvements were carried out to enhance the efforts outlined below:

- Phone Screening.
- Cognitive tests for Management Trainees.
- English proficiency and logical reasoning for Territory Executives.
- Face-to-face interviews with HR representative and line managers.
- Assessment Centres for Management Trainees and positions for Grade 35 and above.
- Final interviews with Functional Directors.

*WIL participants comprised of female managers from around the Asia Pacific region.*

In 2014, while we were still working closely with recruitment agencies, we had observed a shift from our reliance on recruitment agencies to our direct recruitment model, which leverages off dedicated acquisition resources and proactive sourcing from cost effective channels. Some key initiatives of the direct recruitment model that the Company capitalised on are:

- **Employee Referral Programs (ERP)**

It takes talent to recognise another talent. We strongly believe that our people understand our culture best and are well-placed to spot potential talent who are a good fit for the organisation's culture. This initiative indirectly boosts our employer branding as our people are advocating our corporate brand to the public. The employee referral program is a straightforward process with minimal paper trail, which encourages current employees to refer potential talent for available roles. The ERP channel boasted 24 successful hires in 2014.

- **Jobs@BAT**

Our global e-recruitment portal provides our employees and also jobseekers with a transparent view of job opportunities across all end markets. This platform enables interested candidates, as well as internal employees from other British American Tobacco entities in Klang Valley, which are British American Tobacco Aspac Service Centre Sdn. Bhd. and the British American Tobacco Group Service Delivery (Kuala Lumpur) to conveniently submit candidates' profiles for due consideration. This portal not only improves talent attraction but also provides candidates with a view of potential future career and development opportunities in the Company.

- **Sourcing channels**

We have also leveraged on sourcing channels such as LinkedIn, Jobstreet, and Graduan to increase our visibility, broadcast available positions within the Company, and to obtain better access to candidates' profiles.

These strategies that we implemented have shown favourable recruitment results, as we met internal manpower demand by successfully recruiting for the positions outlined below:

- 28 management employees.
- 4 Management Trainees.
- 29 Territory Executives.
- 3 non-management employees.
- 3 contract employees.

## LEARNING & ORGANISATIONAL DEVELOPMENT

### Corporate Onboarding relaunched

In 2014, the Company conducted a relaunch of its two day Corporate Onboarding program. It covered presentations from all functions to provide new employees a topline understanding of what each function does and how they work together to sustain the business. The onboarding was catered for management as well as non-management employees to learn more about the Company. Approximately 30 new employees in 2014 were nominated to attend the onboarding programme and invitations were extended to employees in British American Tobacco Aspac Service Centre and the Regional Product Center as well. In order to complete our new employees' onboarding experience, a networking lunch with the Leadership Team and a full factory visit around the Primary and Secondary Manufacturing Departments were also incorporated into the agenda. Our employees in British American Tobacco Malaysia headquarters were also exposed to the retail side of the business, guided by Territory Executives. They were able to observe the sales and distribution of our products and obtain market insights.

The overall feedback obtained from participants regarding this Corporate Onboarding session was very positive.

*Overall Evaluation for Day 1 - 48% of our participants rated Day 1 Good and 51% of them rated Excellent*

*Overall Evaluation for Day 2 - 36% of our participants rated Day 2 Good and 62% of them rated Excellent*

Moving forward, our Corporate Onboarding sessions will be conducted every quarter and we are looking to enhance the programme by including representation from British American Tobacco Aspac Service Centre, British American Tobacco Group Service Delivery, and the Regional Product Centre.

### Teambuilding

The Operations Department held a function-wide teambuilding initiative for all their employees. The teambuilding sessions were piloted at the start of the year with management employees of a certain job grade. The teambuilding spanned across two days with the purpose of enhancing participants' awareness in terms of their professional roles and leadership responsibilities within the organisation. Around 40 management employees were involved and 840 hours were invested in this initiative.

# Winning Organisation

The sessions garnered positive feedback and follow-up action steps were taken to include other employees from various job grades in subsequent teambuilding courses. This provided opportunities to employees from different departments within Operations to network, understand each other's roles within the function better, as well as to address any interpersonal issues affecting team functioning. Six different sessions were organised to cater for 280 employees and 4,480 hours was invested.

## Organisational Effectiveness: Investing in our people through continuous talent development

Our employees are always urged to take ownership for their talent development through open communication with their line manager during ongoing performance and development evaluations. Our talent development revolves around the 70:20:10 Agile Learning Model whereby 70 percent of development is driven through learning on-the-job, 20 percent through learning from peers and other fellow colleagues, whilst 10 percent is through classroom trainings, webinars, and other channels.

We have also launched a Broadbased Feedback which was targeted at senior managers who are part of the Leadership 60 (L60) group. This runs parallel with our initiative of creating a Legacy of Leaders by allowing the L60 group to obtain constructive feedback from nominated peers and colleagues with regard to their leadership behaviours and impact on others. Functional Directors were responsible for collating and conveying the feedback to the recipient.

The Company had also heavily invested in the development of employees by providing necessary training to hone the skills needed for them to perform and continue contributing to our evolving business. International and regional training were provided to 501 employees and a total of 6,356 hours were invested. Local training sessions were provided to 236 employees and a total of 2,880 hours were invested.

Listed here are some of the training we have provided:

Leadership and Professional Skills Training		Technical Training
<ul style="list-style-type: none"> <li>• Leading Self</li> <li>• Leading Teams</li> <li>• Leading Managers</li> <li>• Women in Leadership</li> <li>• Building a Highly Productive Winning Team</li> <li>• The Malaysian Institute of Chartered Secretaries and Administrators Annual Conference Category Management Workshop</li> <li>• HR and Corporate Networking Events</li> <li>• Mandatory Accreditation Programme for Directors of Public Listed Companies</li> </ul>	<ul style="list-style-type: none"> <li>• License to Hire Excellence Program</li> <li>• Presentation Skills</li> <li>• Presenting with Impact</li> <li>• Facilitation Skills</li> <li>• Product Knowledge Foundation</li> <li>• Negotiation Skills</li> <li>• Interviewing &amp; Assessment Skills</li> <li>• Simplified Strategic Planning</li> <li>• Human Capital Breakfast Talk</li> <li>• Effective Business Writing Skills Workshop</li> <li>• Are You in Control?</li> </ul>	<ul style="list-style-type: none"> <li>• POSITIVE Program</li> <li>• Employment Laws for Non-HR Manager</li> <li>• Occupational First Aid and CPR Training</li> <li>• Microsoft Office Project-Foundation</li> <li>• Microsoft Office Project-Intermediate</li> <li>• How to Prepare Payroll?</li> <li>• Conference on Occupational, Safety, and Health 2014</li> <li>• Minitab Public Training-Level 1</li> <li>• Employers' Responsibilities Towards Workers Workshop</li> <li>• ISO9001 : 2008 Process Based Audit</li> <li>• Basic Radiation Safety Training</li> <li>• Data Protection Conference 2014</li> <li>• Behavioural Based Forklift Safety Operations</li> <li>• In-House Customised MS Excel Training</li> <li>• MECA Industrial Relations Convention 2014</li> <li>• A Comprehensive Understanding of GST in Malaysia</li> <li>• Why? What? How?: New Mechanism for Import Duty &amp; Sales Tax Exemption</li> <li>• Are You Ready for GST?</li> <li>• Goods &amp; Services Tax (GST) Its Impact on Employee Benefit</li> <li>• Drawing Up your HR Policy &amp; Handbook</li> <li>• ISO9001 : 2008 Quality Management Representative (QMR)</li> <li>• MS Powerpoint 2010 Advance</li> <li>• Corporate Internal Investigation Masterclass</li> <li>• Indirect Procurement</li> <li>• Defensive Driving</li> <li>• Certified Environmental Professional in the Operation of Industrial Effluent Treatment Systems</li> <li>• Shipping and Malaysia</li> <li>• Customs Warehouse and Distribution: Bottlenecks, Wastage, and Demand Management</li> </ul>

## EMPLOYEE ENGAGEMENT: **YOUR VOICE** SURVEY 2014

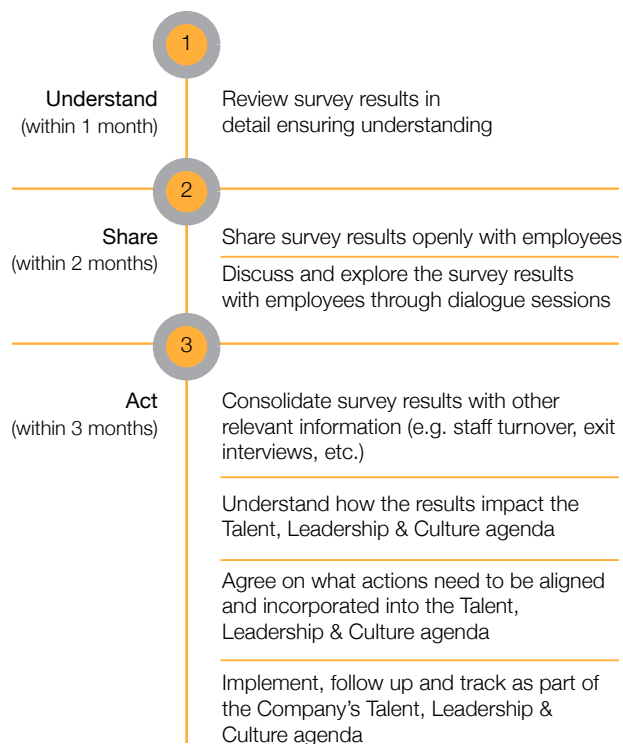
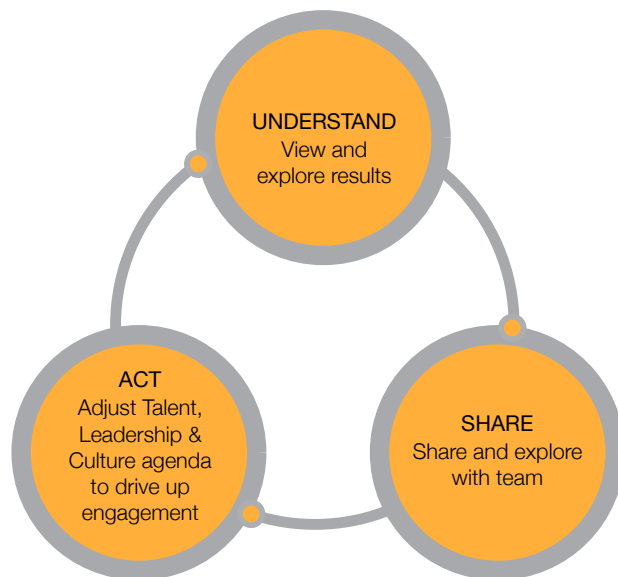
*Your Voice* is British American Tobacco's global employee opinion survey that is conducted every two years. The improved version is shorter, simpler, and more relevant to all employees. The responses of the survey is managed by a third party to ensure confidentiality is kept and it is not a purely statistical exercise as we strive to ensure real action and positive changes are carried out.

The key objectives of the *Your Voice* survey are:

- To provide employees with the **opportunity to provide constructive feedback** on their experiences working in the Company in order for management to create a more conducive work environment.
- To provide the Company with a **deeper understanding of what motivates** our people to go the extra mile, and to stay and build their career with the Company.
- To help the Company focus **efforts and spend** on what will **significantly drive a high performance culture** among our people.

We have taken an assertive and proactive approach through multiple *Your Voice* Roadshows to communicate clearly to employees the purpose and importance of participating in the survey. Employees were briefed on ways to interpret and understand questions better for an accurate depiction of their sentiments. We believed that the roadshows drove more employees to take a clearer stand as the percentage of neutral answers decreased as compared to 2012 results, which indicated that employees were able to provide more concrete responses to the survey.

## Your Voice Survey Action Plans



# Winning Organisation

Results obtained showed that we had 98 percent employee participation in the Malaysia Area.

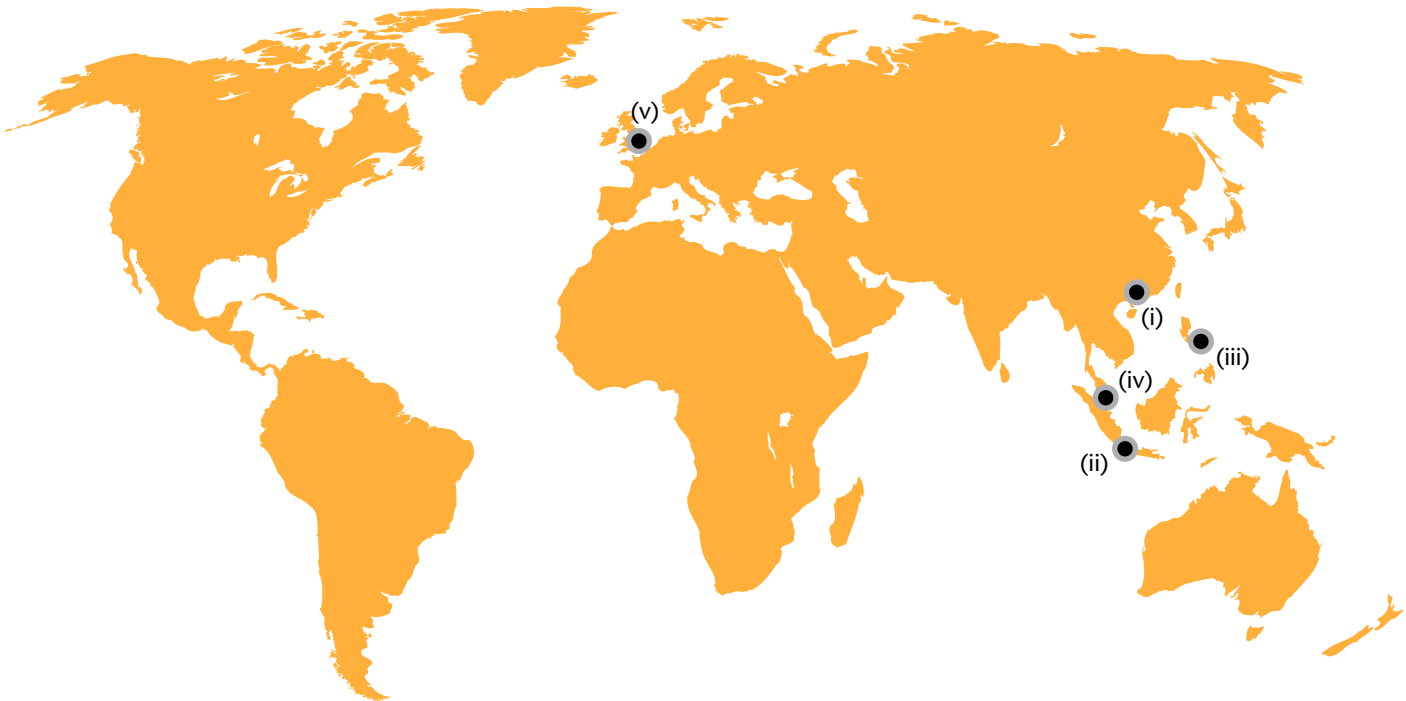
To dive in further into understanding the details, we drilled into the data of each unit by function and manually created a heat map to determine a clearer overall understanding of our employees’ sentiments.

There were some areas for improvement. However, there was an overall increase in favourable responses in comparison to the previous survey. British American Tobacco Malaysia is excited about the favorable results and will continue to analyse the data further to understand and act on the feedback given in the best interest of our employees.

## DEVELOPING OUR TALENT ACROSS THE GLOBE

British American Tobacco Malaysia is proud of our Malaysian talents who are currently contributing in various operating centers around the globe.

- i) HONG KONG  
General Manager of Global Travel Retail Asia Pacific, Marketing
- ii) INDONESIA  
President Director, Export Leaf  
Head of Supply Chain  
Head of Corporate and Regulatory Affairs  
Route to Market Development Manager
- iii) PHILIPPINES  
Route to Market Deployment Manager  
Head of Marketing, Philippines, Marketing
- iv) SINGAPORE  
Head of Singapore Manufacturing  
Head of Trade Marketing & Distribution, Marketing
- v) UNITED KINGDOM  
TaO BI Business Analyst



# Financial Statements

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# DIRECTORS' REPORT

The Directors are pleased to submit their annual report to the members together with the audited financial statements of the Group and Company for the financial year ended 31 December 2014.

## PRINCIPAL ACTIVITIES

The Company provides 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 principal activities of the subsidiaries are as disclosed in Note 13 to the financial statements.

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

## FINANCIAL RESULT

	<b>Group RM'000</b>	<b>Company RM'000</b>
Profit before tax	1,218,797	958,287
(Tax expense)/tax credit	(316,766)	15,160
Profit for the financial year	902,031	973,447

## DIVIDENDS

The dividends paid or declared by the Company since 31 December 2013 were as follows:

In respect of the financial year ended 31 December 2013, as shown in the Directors' report of that year:

	<b>RM'000</b>
Fourth interim dividend of 78.0 sen per share, tax exempt under the single-tier system, paid on 27 March 2014	222,713

In respect of the financial year ended 31 December 2014:

First interim dividend of 75.0 sen per share, tax exempt under the single-tier system, paid on 28 May 2014	214,148
Second interim dividend of 78.0 sen per share, tax exempt under the single-tier system, paid on 29 August 2014	222,713
Third interim dividend of 78.0 sen per share, tax exempt under the single-tier system, paid on 27 November 2014	222,713
	882,287

# DIRECTORS' REPORT

## DIVIDENDS (CONTINUED)

The Directors declared a fourth interim dividend of 78.0 sen per share at the Board of Directors' meeting on 16 February 2015 amounting to RM222,713,400 in respect of the financial year ended 31 December 2014 which will be paid on 26 March 2015 to shareholders registered in the Company's Register of Members at the close of business on 4 March 2015. These financial statements do not reflect the fourth interim dividend which will be accounted for in the financial year ending 31 December 2015.

The Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2014.

## RESERVES AND PROVISIONS

All material transfers to and from reserves and provisions during the financial year are shown in the financial statements.

## DIRECTORS

The Directors who held office during the period since the date of the last report are as follows:

Tan Sri Mohamad Salim Bin Fateh Din (Chairman)

Stefano Cline

Dato' Ahmad Johari bin Tun Abdul Razak

(Resigned with effect 3 March 2014)

Pablo Daniel Sconfianza

(Appointed on 1 May 2014)

Andreas Michael Thompson

(Resigned with effect 20 June 2014)

Dato' Chan Choon Ngai

James Richard Suttie

Datuk Oh Chong Peng

Datuk Zainun Aishah Binti Ahmad

Lee Oi Kuan

In accordance with Article 103 of the Company's Articles of Association, Pablo Daniel Sconfianza will retire from the Board at the forthcoming Annual General Meeting and being eligible, has offered himself for re-election.

In accordance with Article 97(1) and (2) of the Company's Articles of Association, Tan Sri Mohamad Salim Bin Fateh Din and James Richard Suttie will retire by rotation from the Board at the forthcoming Annual General Meeting and being eligible, have offered themselves for re-election.

Datuk Oh Chong Peng who served as an independent Non-Executive Director of the Company for a cumulative term of more than nine years, will seek for re-appointment and re-election to continue to act as an Independent Non-Executive Director of the Company. The Board recommends that Datuk Oh Chong Peng be re-elected as an Independent Non-Executive Director of the Company and to hold office until the conclusion of the next Annual General Meeting.

# DIRECTORS' REPORT

## DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate pursuant to requirements under the Companies Act, 1965, other than as may arise from equity-settled share-based compensation plans offered by British American Tobacco p.l.c (British American Tobacco p.l.c is regarded by the Directors to be the ultimate holding company) as disclosed in Note 31 to the financial statements.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than the benefits shown in Note 4 to the financial statements) 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, other than by virtue of transactions entered into in the ordinary course of business as disclosed in Note 28 to the financial statements.

## DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares and share options in the Company and its related corporations are as follows:

Number of ordinary shares of 50 sen each in the Company				
	At 1.1.2014/ Date of appointment	Bought	Sold	At 31.12.2014
<u>The Company</u>				
Shareholdings in the name of the Director:				
Datuk Oh Chong Peng	1,000	–	–	1,000
James Richard Suttie	1,500	–	–	1,500
Dato' Chan Choon Ngai	1,000	–	–	1,000
Shareholdings in which the Director is deemed to have an interest:				
Dato' Chan Choon Ngai	6,000	–	–	6,000

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Number of ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.2014/ Date of appointment	Bought/ Granted	Sold	At 31.12.2014
<u>Ultimate Holding Company</u>				
<u>– British American Tobacco p.l.c</u>				
Shareholdings in the name of the Director:				
James Richard Suttie	7,154	–	–	7,154
Andreas Michael Thompson	2,816	21,885	(24,477)	224
Lee Oi Kuan	8,554	14,419	(3,918)	19,055

Number of ordinary shares of 25p each in British American Tobacco p.l.c				
At 1.1.2014/ Date of appointment	Awarded	Vested	At 31.12.2014	
<u>Ultimate Holding Company</u> – <u>British American Tobacco p.l.c</u>				
Deferred Share Bonus Scheme, Sharesave & International Share Reward Scheme:				
Shareholdings in the name of the Director:				
Andreas Michael Thompson	5,335	1,963	(7,062)	236
Lee Oi Kuan	5,445	1,693	(2,363)	4,775
Stefano Clini	534	3,133	–	3,667
Pablo Daniel Sconfianza	3,366	–	–	3,366

Overview

Performance

Leadership

Governance

Growth

Productivity

Responsibility

Winning  
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# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Number of options in ordinary shares of 25p each in British American Tobacco p.l.c					
	At 1.1.2014/ Date of appointment	Granted	Exercised	Lapsed	At 31.12.2014
<u>Ultimate Holding Company</u>					
<u>– British American Tobacco p.l.c</u>					
Shareholdings in the name of the Director:					
Andreas Michael Thompson					
LTIP – Nil (27 March 2019)	6,982	–	(6,982)	–	–
LTIP – Nil (25 March 2020)	4,511	–	(4,511)	–	–
LTIP – Nil (25 March 2021)	5,228	–	(2,729)	(2,499)	–
LTIP – Nil (28 March 2022)	4,067	–	–	(4,067)	–
LTIP – Nil (22 March 2023)	3,873	–	–	(3,873)	–
LTIP – Nil (28 March 2024)	–	5,770	(345)	(5,425)	–
Lee Oi Kuan					
LTIP – Nil (27 March 2019)	5,443	–	(5,443)	–	–
LTIP – Nil (25 March 2020)	3,393	–	(3,393)	–	–
LTIP – Nil (25 March 2021)	4,377	–	(2,284)	(2,093)	–
LTIP – Nil (28 March 2022)	3,524	–	–	–	3,524
LTIP – Nil (22 March 2023)	3,356	–	–	–	3,356
LTIP – Nil (28 March 2024)	–	4,720	–	–	4,720
Stefano Clini					
LTIP – Nil (22 March 2023)	21,611	–	–	–	21,611
LTIP – Nil (28 March 2024)	–	12,154	–	–	12,154

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Number of options in ordinary shares of 25p each in British American Tobacco p.l.c					
At 1.1.2014/ Date of appointment	Granted	Exercised	Lapsed	At 31.12.2014	
Ultimate Holding Company – British American Tobacco p.l.c					
Shareholdings in the name of the Director:					
Pablo Daniel Sconfianza					
LTIP – Nil (28 March 2022)	958	–	–	–	958
LTIP – Nil (22 March 2023)	914	–	–	–	914
LTIP – Nil (28 March 2024)	2,094	–	–	–	2,094

Some of the shares and options in the ultimate holding company held by Directors arose as a result of the Directors' participation in the employee share schemes offered by British American Tobacco p.l.c (British American Tobacco p.l.c indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent equity interest in the Company and is regarded by the Directors to be the Company's ultimate holding company). Further details on the employee share schemes offered by British American Tobacco p.l.c are contained in Note 31 to the financial statements.

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

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

- to ascertain that 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
- to ensure that 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:

- 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 inadequate to any substantial extent; or
- which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.



# DIRECTORS' REPORT

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

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

- (a) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liability of any other person.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements of the Group or of the Company misleading.

In the opinion of the Directors:

- (a) the results of the Group and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

## ULTIMATE HOLDING COMPANY

The Directors regard British American Tobacco p.l.c, which is incorporated in England and Wales, to be the ultimate holding company of the Company.

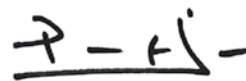
## AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 16 February 2015.



**STEFANO CLINI**  
MANAGING DIRECTOR



**PABLO DANIEL SCONFIANZA**  
FINANCE DIRECTOR

# Statement by Directors

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

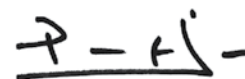
We, Stefano Clini and Pablo Daniel Sconfianza, being two of the Directors of British American Tobacco (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 126 to 195 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and of the results and cash flows of the Group and of the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965.

The supplementary information set out on page 196 have been prepared, in all material respects, in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with a resolution dated 16 February 2015.



**STEFANO CLINI**  
MANAGING DIRECTOR

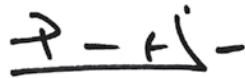


**PABLO DANIEL SCONFIANZA**  
FINANCE DIRECTOR

# Statutory Declaration

pursuant to Section 169(16) of the Companies Act, 1965

I, Pablo Daniel Sconfianza, 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 126 to 195 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

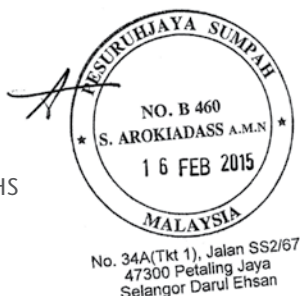


**PABLO DANIEL SCONFIANZA**  
FINANCE DIRECTOR

Subscribed and solemnly declared by the above named Pablo Daniel Sconfianza at Petaling Jaya in the state of Selangor on 16 February 2015.

Before me,

COMMISSIONER FOR OATHS  
Petaling Jaya



# Independent Auditors' Report

to the members of British American Tobacco (Malaysia) Berhad  
(Incorporated in Malaysia) (Company No. 4372-M)

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of British American Tobacco (Malaysia) Berhad on pages 126 to 195 which comprise the balance sheets as at 31 December 2014 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 32.

### Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the balance sheet of the Group and of the Company as of 31 December 2014 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

# Independent **Auditors' Report**

to the members of British American Tobacco (Malaysia) Berhad  
(Incorporated in Malaysia) (Company No. 4372-M)

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out on page 196 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**PRICEWATERHOUSECOOPERS**

(No. AF: 1146)

Chartered Accountants

**LOH LAY CHOON**

(No. 2497/03/16 (J))

Chartered Accountant

Kuala Lumpur  
16 February 2015

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# Income Statements

for the financial year ended 31 December 2014

		Group		Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revenue	2	<b>4,795,991</b>	4,517,222	<b>1,053,733</b>	878,608
Cost of sales		<b>(3,084,147)</b>	(2,995,331)	–	–
Gross profit		<b>1,711,844</b>	1,521,891	<b>1,053,733</b>	878,608
Other operating income		<b>3,489</b>	1,990	<b>5,333</b>	34,882
Distribution and marketing costs		<b>(329,015)</b>	(259,095)	–	–
Administrative expenses		<b>(149,555)</b>	(123,355)	<b>(74,024)</b>	(13,332)
Other operating expenses		<b>(2,385)</b>	(15,334)	<b>(533)</b>	(270)
Profit from operations	3	<b>1,234,378</b>	1,126,097	<b>984,509</b>	899,888
Finance cost - interest expense		<b>(15,581)</b>	(20,698)	<b>(26,222)</b>	(17,289)
Profit before tax		<b>1,218,797</b>	1,105,399	<b>958,287</b>	882,599
(Tax expense)/Tax credit	6	<b>(316,766)</b>	(281,959)	<b>15,160</b>	(5,208)
Profit for the financial year		<b>902,031</b>	823,440	<b>973,447</b>	877,391
Profit attributable to:					
Owners of the Company		<b>902,031</b>	823,440	<b>973,447</b>	877,391
Earnings per share (sen)	7	<b>315.9</b>	288.4	<b>340.9</b>	307.3

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.

# Statements of Comprehensive Income

for the financial year ended 31 December 2014

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
Profit for the financial year		<b>902,031</b>	823,440	<b>973,447</b>	877,391
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
– Defined benefit plan actuarial gain	25	–	1,801	–	148
– Deferred tax on defined benefit plan actuarial gain/(loss)	14	<b>485</b>	(450)	–	(37)
Items that may be subsequently reclassified to profit or loss					
– Changes in fair value of cash flow hedges		<b>(5,855)</b>	1,308	–	–
– Deferred tax on fair value changes on cash flow hedges	14	<b>1,464</b>	(327)	–	–
Total other comprehensive income for the financial year, net of tax		<b>(3,906)</b>	2,332	–	111
Total comprehensive income for the financial year		<b>898,125</b>	825,772	<b>973,447</b>	877,502
Total comprehensive income for the financial year attributable to:					
Owners of the Company		<b>898,125</b>	825,772	<b>973,447</b>	877,502

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.



# Balance Sheets

as at 31 December 2014

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
<b>NON CURRENT ASSETS</b>					
Property, plant and equipment	9	<b>325,385</b>	380,736	<b>6,195</b>	7,687
Investment property	10	–	–	–	–
Computer software	11	<b>1,034</b>	1,970	<b>645</b>	1,488
Goodwill	12	<b>411,618</b>	411,618	–	–
Subsidiaries	13	–	–	<b>973,395</b>	973,389
Deferred tax assets	14	<b>25,736</b>	10,806	<b>16,439</b>	677
		<b>763,773</b>	805,130	<b>996,674</b>	983,241
<b>CURRENT ASSETS</b>					
Assets held for sale	16	<b>4,540</b>	4,605	<b>4,374</b>	4,374
Inventories	17	<b>263,296</b>	293,979	–	–
Receivables	18	<b>236,011</b>	200,469	<b>29,723</b>	4,823
Loan to a subsidiary	15	–	–	–	80,000
Derivative financial instruments	23	<b>1,522</b>	7,286	–	–
Tax recoverable		<b>449</b>	6,871	<b>243</b>	481
Cash and bank balances	19	<b>14,469</b>	59,596	<b>1,547</b>	43,076
		<b>520,287</b>	572,806	<b>35,887</b>	132,754
<b>CURRENT LIABILITIES</b>					
Payables	20	<b>268,300</b>	232,172	<b>562,152</b>	497,191
Deferred income	21	<b>3,304</b>	3,304	–	–
Derivative financial instruments	23	<b>6,155</b>	3,622	–	–
Current tax liabilities		<b>74,512</b>	76,720	–	–
Borrowings (interest bearing)	22	<b>360,000</b>	510,000	–	250,000
Bank overdraft	19	<b>10,445</b>	–	<b>10,445</b>	–
		<b>722,716</b>	825,818	<b>572,597</b>	747,191
<b>NET CURRENT LIABILITIES</b>		<b>(202,429)</b>	(253,012)	<b>(536,710)</b>	(614,437)
		<b>561,344</b>	552,118	<b>459,964</b>	368,804

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.

**Balance Sheets** (continued)  
as at 31 December 2014

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
<b>CAPITAL AND RESERVES</b>					
Share capital	24	<b>142,765</b>	142,765	<b>142,765</b>	142,765
Cash flow hedge reserve		<b>(2,885)</b>	1,506	–	–
Retained earnings		<b>384,290</b>	364,061	<b>317,199</b>	226,039
<b>SHAREHOLDERS' FUNDS</b>		<b>524,170</b>	508,332	<b>459,964</b>	368,804
<b>NON CURRENT LIABILITIES</b>					
Deferred income	21	<b>3,019</b>	6,324	–	–
Post employment benefit obligations	25	–	–	–	–
Deferred tax liabilities	14	<b>34,155</b>	37,462	–	–
		<b>561,344</b>	552,118	<b>459,964</b>	368,804

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.

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# Consolidated Statement of Changes in Equity

for the financial year ended 31 December 2014

		Issued and fully paid ordinary shares of 50 sen each					
	Note	Number of shares '000	Nominal value RM'000	Cash flow hedge reserve RM'000	Share- based payment reserve RM'000	Retained earnings RM'000	Total attributable to owners RM'000
At 1 January 2014		285,530	142,765	1,506	–	364,061	508,332
Profit for the financial year 31 December 2014		–	–	–	–	902,031	902,031
Other comprehensive income:							
– changes in fair value of cash flow hedges	23	–	–	(5,855)	–	–	(5,855)
– defined benefit plan actuarial gain	25	–	–	–	–	–	–
– deferred tax on fair value changes on cash flow hedges	14	–	–	1,464	–	–	1,464
– deferred tax on defined benefit plan	14	–	–	–	–	485	485
Total comprehensive income		–	–	(4,391)	–	902,516	898,125
Transaction with owners:							
Expense arising from equity-settled share-based payment transactions	31	–	–	–	4,830	–	4,830
Recharge of share-based payment	31	–	–	–	(4,830)	–	(4,830)
Dividend for financial year ended 31 December 2013							
– fourth interim	8	–	–	–	–	(222,713)	(222,713)
Dividends for financial year ended 31 December 2014							
– first interim	8	–	–	–	–	(214,148)	(214,148)
– second interim	8	–	–	–	–	(222,713)	(222,713)
– third interim	8	–	–	–	–	(222,713)	(222,713)
Total transaction with owners		–	–	–	–	(882,287)	(882,287)
At 31 December 2014		285,530	142,765	(2,885)	–	384,290	524,170

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.

# Consolidated Statement of **Changes in Equity**

for the financial year ended 31 December 2014

Issued and fully paid ordinary shares of 50 sen each						
Note	Number of shares '000	Nominal value RM'000	Cash flow hedge reserve RM'000	Share- based payment reserve RM'000	Retained earnings RM'000	Total attributable to owners RM'000
At 1 January 2013	285,530	142,765	525	–	341,606	484,896
Profit for the financial year 31 December 2013	–	–	–	–	823,440	823,440
Other comprehensive income:						
– changes in fair value of cash flow hedges	23	–	1,308	–	–	1,308
– defined benefit plan actuarial gain	25	–	–	–	1,801	1,801
– deferred tax on fair value changes on cash flow hedges	14	–	(327)	–	–	(327)
– deferred tax on defined benefit plan	14	–	–	–	(450)	(450)
Total comprehensive income	–	–	981	–	824,791	825,772
Transaction with owners:						
Expense arising from equity-settled share-based payment transactions	31	–	–	3,475	–	3,475
Recharge of share-based payment	31	–	–	(3,475)	–	(3,475)
Dividend for financial year ended 31 December 2012						
– fourth interim	8	–	–	–	(219,858)	(219,858)
Dividends for financial year ended 31 December 2013						
– first interim	8	–	–	–	(194,160)	(194,160)
– second interim	8	–	–	–	(194,160)	(194,160)
– third interim	8	–	–	–	(194,158)	(194,158)
Total transaction with owners	–	–	–	–	(802,336)	(802,336)
At 31 December 2013	285,530	142,765	1,506	–	364,061	508,332

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.

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# Company Statement of Changes in Equity

for the financial year ended 31 December 2014

		Issued and fully paid ordinary shares of 50 sen each		Share- based payment reserve RM'000	Retained earnings RM'000	Total attributable to owners RM'000
Note	Number of shares '000	Nominal value RM'000				
At 1 January 2014		285,530	142,765	–	226,039	368,804
Profit for the financial year ended 31 December 2014		–	–	–	973,447	973,447
Other comprehensive income:						
– changes in fair value of cash flow hedges	23	–	–	–	–	–
– defined benefit plan actuarial loss	25	–	–	–	–	–
– deferred tax on fair value changes on cash flow hedges	14	–	–	–	–	–
– deferred tax on defined benefit plan	14	–	–	–	–	–
Total comprehensive income		–	–	–	973,447	973,447
Transaction with owners:						
Expense arising from equity-settled share-based payment transactions		31	–	–	2,792	–
Recharge of share-based payment		31	–	–	(2,792)	–
Dividend for financial year ended 31 December 2013						
– fourth interim	8	–	–	–	(222,713)	(222,713)
Dividends for financial year ended 31 December 2014						
– first interim	8	–	–	–	(214,148)	(214,148)
– second interim	8	–	–	–	(222,713)	(222,713)
– third interim	8	–	–	–	(222,713)	(222,713)
Total transaction with owners		–	–	–	(882,287)	(882,287)
At 31 December 2014		285,530	142,765	–	317,199	459,964

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.

# Company Statement of **Changes in Equity**

for the financial year ended 31 December 2014

Issued and fully paid ordinary shares of 50 sen each					
Note	Number of shares '000	Nominal value RM'000	Share- based payment reserve RM'000	Retained earnings RM'000	Total attributable to owners RM'000
At 1 January 2013	285,530	142,765	–	150,873	293,638
Profit for the financial year ended 31 December 2013	–	–	–	877,391	877,391
Other comprehensive income:					
– defined benefit plan actuarial gain	25	–	–	148	148
– deferred tax on defined benefit plan	14	–	–	(37)	(37)
Total comprehensive income	–	–	–	877,502	877,502
Transaction with owners:					
Expense arising from equity-settled share-based payment transactions	31	–	–	1,634	1,634
Recharge of share-based payment	31	–	–	(1,634)	(1,634)
Dividend for financial year ended 31 December 2012					
– fourth interim	8	–	–	(219,858)	(219,858)
Dividends for financial year ended 31 December 2013					
– first interim	8	–	–	(194,160)	(194,160)
– second interim	8	–	–	(194,160)	(194,160)
– third interim	8	–	–	(194,158)	(194,158)
Total transaction with owners	–	–	–	(802,336)	(802,336)
At 31 December 2013	285,530	142,765	–	226,039	368,804

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.

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# Statements of Cash Flows

for the financial year ended 31 December 2014

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
<b>OPERATING ACTIVITIES</b>					
Cash receipts from customer and fellow subsidiaries		<b>4,760,449</b>	4,512,472	<b>11,510</b>	33,597
Cash paid to suppliers, employees and fellow subsidiaries		<b>(3,453,454)</b>	(3,407,769)	<b>(98,327)</b>	(54,146)
Dividends received from subsidiaries		–	–	<b>1,047,262</b>	870,000
Cash from operations	26	<b>1,306,995</b>	1,104,703	<b>960,445</b>	849,451
Income tax paid		<b>(328,840)</b>	(287,069)	<b>(364)</b>	(709)
Net cash flow from operating activities		<b>978,155</b>	817,634	<b>960,081</b>	848,742
<b>INVESTING ACTIVITIES</b>					
Property, plant and equipment – additions		<b>(25,309)</b>	(35,319)	<b>(2,567)</b>	(1,325)
– disposals		<b>37,026</b>	9,780	<b>1,365</b>	187
Assets held for sale – disposals		–	1,250	–	–
Investment properties – disposals		–	200	–	–
Computer software – additions		<b>(4)</b>	(484)	–	–
Repayment from a subsidiary		–	–	<b>80,000</b>	–
Interest income received		<b>2,428</b>	1,178	<b>5,162</b>	5,040
Net cash flow from/(used in) investing activities		<b>14,141</b>	(23,395)	<b>83,960</b>	3,902

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.



**Statements of Cash Flows** (continued)  
for the financial year ended 31 December 2014

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
<b>FINANCING ACTIVITIES</b>					
Dividends paid to shareholders		<b>(882,287)</b>	(802,336)	<b>(882,287)</b>	(802,336)
Interest expense paid		<b>(15,581)</b>	(20,698)	<b>(26,222)</b>	(29,058)
Proceeds from revolving credit		<b>100,000</b>	10,000	–	–
Repayment of Medium Term Notes		<b>(250,000)</b>	–	<b>(250,000)</b>	–
Proceeds from subsidiary for cash pooling		–	–	<b>62,494</b>	–
Net cash flow used in financing activities		<b>(1,047,868)</b>	(813,034)	<b>(1,096,015)</b>	(831,394)
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>					
		<b>(55,572)</b>	(18,795)	<b>(51,974)</b>	21,250
<b>CASH AND CASH EQUIVALENTS AS AT 1 JANUARY</b>					
		<b>59,596</b>	78,391	<b>43,076</b>	21,826
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>					
	19	<b>4,024</b>	59,596	<b>(8,898)</b>	43,076

The accounting policies on pages 136 to 149 and the notes on pages 150 to 195 form an integral part of these financial statements.

# Summary of Significant Accounting Policies

for the financial year ended 31 December 2014

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# Summary of **Significant Accounting Policies** for the financial year ended 31 December 2014

## A. BASIS OF PREPARATION

The financial statements of the Group and Company have been prepared in accordance with the provisions of the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under the historical cost convention unless otherwise indicated in the significant accounting policies as set out in Note 32.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Group and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 32.

The Group has applied the standards, amendments to standards and interpretations in financial year 2014.

- Amendment to MFRS 132, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.
- Amendments to MFRS 136, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units ('CGUs') which had been included in MFRS 136 by the issuance of MFRS 13.
- Amendment to MFRS 139, 'Financial instruments: Recognition and measurement', on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under MFRS 139 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the Group financial statements as a result.

The Group will apply the new standards, amendments to standards and interpretations in the following period:

### (i) **Financial year beginning on/after 1 January 2017**

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces MFRS 118 'Revenue' and MFRS 11 'Construction contracts' and related interpretations.

# Summary of **Significant Accounting Policies**

for the financial year ended 31 December 2014

## **A. BASIS OF PREPARATION (CONTINUED)**

### **(ii) Financial year beginning on/after 1 January 2018**

MFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of MFRS 9 was issued in July 2014. It replaces the guidance in MFRS 139 that relates to the classification and measurement of financial instruments. MFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in MFRS 139. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. MFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under MFRS 139.

Unless otherwise disclosed, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Group and of the Company in the year of initial application.

## **B. BASIS OF CONSOLIDATION**

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

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

The Group applies the acquisition method to account for business combinations. 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 and 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.

# Summary of **Significant Accounting Policies** for the financial year ended 31 December 2014

## C. REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue earned from the sale of the Group's product is recognised upon passing of title to the customer, which generally coincides with their delivery and acceptance and after eliminating sales within the Group. Revenue from sale of semi finished goods, cigarettes, pipe tobaccos and cigars is presented at the invoiced value of goods sold, including all government duties and excluding sales taxes and trade discounts.

Other revenue earned by the Group and Company are recognised on the following basis:

- Dividend income is recognised when the right to receive payment is established.
- Revenue from services rendered is recognised as and when the services are performed.
- Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

## D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are initially stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and Company and the costs of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Freehold land is not depreciated as it has an indefinite life. Leasehold land classified as finance lease is amortised in equal installments over the period of the respective leases that range from 15 to 45 years.

Depreciation on capital work in progress commences when the assets are ready for their intended use. Depreciation is provided to their residual values on all other property, plant and equipment on a straight line basis over their estimated useful lives, which 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

Small value items are fully depreciated in the year of purchase.

## Summary of **Significant Accounting Policies**

for the financial year ended 31 December 2014

### **D. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. If the residual value of an asset increases to an amount equal or greater than the asset's carrying amount, the asset's depreciation charge is nil unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the asset values will be performed. The impairment loss is charged to income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in the income statement.

### **E. INVESTMENT PROPERTY**

Investment properties, comprising principally of a building, are held for long term rental yields or for capital appreciation or both, and are not occupied by the Group.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs if the investment property meets the definition of qualifying asset.

After initial recognition, investment property is stated at cost less any accumulated depreciation and impairment losses. Investment property is depreciated on the straight line basis to allocate the cost to their residual values over their estimated useful lives of 35 to 40 years.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Gains and losses on disposals are determined by comparing net disposal proceeds with the carrying amount and are included in the income statement.

Property is subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss is charged to income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus.

# Summary of **Significant Accounting Policies** for the financial year ended 31 December 2014

## F. LEASES

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.

### Accounting by Lessee

#### (i) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight line basis over the lease period. Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in income statement when incurred.

#### (ii) Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

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

## G. ASSETS HELD FOR SALE

Property, plant and equipment and investment property 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 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.



# Summary of **Significant Accounting Policies**

for the financial year ended 31 December 2014

## **H. INTANGIBLE ASSETS**

### **(i) Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is assessed based on single cash generating units ('CGUs'), that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell.

### **(ii) Computer Software**

Costs that are directly associated with identifiable and unique computer software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, and are not integral to other property, plant and equipment are recognised as intangible assets. These costs include the software development employee costs and an appropriate portion of relevant overheads. The computer software development costs recognised as assets are amortised upon completion of the computer software products on a straight line basis over their estimated useful lives of three years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

## **I. INVESTMENTS IN SUBSIDIARIES**

In the Company's separate financial statements, investments in subsidiaries is carried at cost less accumulated impairment losses.

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

## **J. INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads and gains/losses on qualifying cash flow hedges for purchases of raw materials. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges for purchases of raw materials.

# Summary of **Significant Accounting Policies** for the financial year ended 31 December 2014

## **K. RECEIVABLES**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

## **L. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short term, highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are shown in current liabilities.

## **M. EMPLOYEE BENEFITS**

### **(i) Short Term Benefits**

Wages, salaries, bonuses and other staff related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees. A provision is made for the estimated liability for employee entitlements to annual leave up to the reporting date. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

### **(ii) Defined Contribution Plan**

The Group's contributions to defined contribution plans are charged to income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### **(iii) Defined Benefit Plan**

The Group operated a defined benefit plan for employees who joined the Group prior to 1 January 2006, the assets of which are held in a separate trustee-administered fund. This fund is funded by payments from the relevant Group companies. The Group's retirement benefit obligation is determined based on a biennial actuarial valuation (with annual updates) where the amount of the benefit that eligible employees have earned in return for their service in the current and prior years is estimated.

The defined benefit liability recognised in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets, together with adjustments for unrecognised past service cost. The Group determines the present value of the defined benefit obligation and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

The defined benefit obligation, calculated using the projected unit credit method, is determined by independent actuaries, by discounting the estimated future cash outflows using market yields at the end of the reporting period on investment grade bonds which have currency and terms to maturity approximating the terms of the related liability.

# Summary of **Significant Accounting Policies**

for the financial year ended 31 December 2014

## **M. EMPLOYEE BENEFITS (CONTINUED)**

### **(iii) Defined Benefit Plan (continued)**

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in retained earnings in other comprehensive income in the period in which they arise. The actuarial gains and losses are not subsequently reclassified to income statement in subsequent period.

Past service costs are recognised immediately in income statement, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

The Board has approved the dissolution of British American Tobacco Malaysia Retirement Scheme as at 30 September 2013 and settled the retirement benefits up to 30 September 2013 by the way of transfer to Employees Provident Fund account of the members.

### **(iv) Termination Benefits**

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

### **(v) Share-based Payments**

A number of employees of the Group participate in equity-settled share-based compensation plans offered by British American Tobacco p.l.c (British American Tobacco p.l.c indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent equity interest in the Company and is regarded by the Directors to be the Company's ultimate holding company).

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

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

# Summary of **Significant Accounting Policies** for the financial year ended 31 December 2014

## **N. PAYABLES**

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

## **O. PROVISIONS**

Provisions are recognised when:

- (i) the Group has a present legal or constructive obligation as a result of past events; and
- (ii) it is probable that an outflow of resources will be required to settle the obligation; and
- (iii) a reliable estimate of the amount can be made.

## **P. DEFERRED INCOME**

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

## **Q. TAXATION**

Current tax expense is determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits. Tax expense is the aggregate amount included in the determination of profit for the period in respect of current tax and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets, provisions for pensions and other post retirement benefits, allowance for doubtful debts and tax losses and unutilised capital allowances. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax is determined using tax rates enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

# Summary of **Significant Accounting Policies**

for the financial year ended 31 December 2014

## **R. FOREIGN CURRENCIES**

### **(i) Functional and presentation currency**

The financial statements are presented in Ringgit Malaysia ('RM'), which is the Group and the Company's functional and presentation currency.

### **(ii) Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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'.

### **(iii) Foreign entities**

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

### **(iv) Closing rates**

The principal closing rates used in translation of foreign currency amounts were as follows:

<b>Foreign Currency</b>	<b>2014</b>	<b>2013</b>
1 US Dollar	<b>3.4964</b>	3.2755
1 Pound Sterling	<b>5.4519</b>	5.4250
1 Euro	<b>4.2309</b>	4.5135

## **S. FINANCIAL ASSETS**

### **(i) Classification**

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'receivables' and 'cash and bank balances' in the balance sheet.

# Summary of **Significant Accounting Policies** for the financial year ended 31 December 2014

## **S. FINANCIAL ASSETS (CONTINUED)**

### **(ii) Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

### **(iii) Subsequent measurement - Impairment of financial assets**

#### **Assets carried at amortised cost**

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If 'loans and receivables' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

### **(iv) De-recognition**

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

# Summary of **Significant Accounting Policies**

for the financial year ended 31 December 2014

## **T. 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.

## **U. BORROWINGS**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method, except for borrowing costs incurred for the construction of any qualifying asset.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. All other borrowing costs are recognised in income statement in the period in which they are incurred.

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

## **V. SHARE CAPITAL**

Ordinary shares are classified as equity.

## **W. DIVIDENDS**

Interim dividends are recognised as a liability in the period in which they are declared. Final dividends are recognised in the period approval of members is obtained.

## **X. 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.



# Summary of **Significant Accounting Policies** for the financial year ended 31 December 2014

## Y. **DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives in the Group that qualify for hedge accounting are designated as cash flow hedge.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 23. Movements on the hedging reserve are shown in other comprehensive income. The full fair value of a hedging derivative is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

### **Cash Flow Hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in income statements within 'other gains/(losses) – net'.

Amounts accumulated in equity are reclassified to the income statements in the periods when the hedged item affects the income statement. When the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventories or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statements. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statements within 'other gains/(losses) – net'.

# Notes to the Financial Statements

## 1. GENERAL INFORMATION

The Company provides 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 Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

The Directors regard British American Tobacco p.l.c, which is incorporated in England and Wales, to be its ultimate holding company.

The address of the registered office and principal place of business of the Company is as follows:

Virginia Park, Jalan Universiti  
46200 Petaling Jaya  
Selangor Darul Ehsan

## 2. REVENUE

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Sale of semi finished goods, cigarettes, pipe tobaccos and cigars	<b>4,795,991</b>	4,517,222	–	–
Dividend income from unquoted subsidiaries	–	–	<b>1,047,262</b>	870,000
Management fee received from subsidiaries	–	–	<b>2,802</b>	4,883
Fee for usage of property, plant and equipment received from subsidiaries	–	–	<b>3,669</b>	3,725
	<b>4,795,991</b>	4,517,222	<b>1,053,733</b>	878,608

# Notes to the Financial Statements

## 3. PROFIT FROM OPERATIONS

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Profit from operations is arrived at:				
After charging:				
Raw materials and consumables used	502,996	632,117	–	–
Excise duties	2,051,599	1,926,524	–	–
Auditors' remuneration:				
– statutory audit	400	400	225	225
– non-audit fees	157	–	157	–
Property, plant and equipment:				
– depreciation (Note 9)	44,107	56,121	2,563	3,958
– loss on disposal	–	91	245	183
Investment property:				
– depreciation (Note 10)	–	4	–	–
Computer software:				
– amortisation (Note 11)	940	1,315	729	1,313
Rental of land and buildings	7,520	5,346	–	–
Inventories written off	546	5,813	–	–
Net foreign exchange loss	–	–	472	257
Allowance for doubtful debts written off/(back)	221	(1,215)	–	–
Interest expense	15,581	20,698	26,222	17,289
Staff costs (Note 5)	144,726	117,718	32,212	22,815
And crediting:				
Gain on disposal:				
– investment property	–	70	–	–
– assets held for sale	–	833	–	–
– property, plant and equipment	473	–	–	–
Net foreign exchange gain	2,929	4,051	–	–
Interest income on loan to subsidiary	–	–	3,120	5,040
Interest income on deposits	2,428	1,178	2,042	842

## Notes to the **Financial Statements**

### 4. **DIRECTORS' REMUNERATION**

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Fees	<b>762</b>	845	<b>762</b>	845
Other emoluments	<b>13,219</b>	16,298	<b>13,219</b>	14,505
	<b>13,981</b>	17,143	<b>13,981</b>	15,350

The estimated monetary value of benefits in kind provided to Directors of the Group and Company during the financial year amounted to RM6,410,963 (2013: RM5,795,917) and RM6,410,963 (2013: RM5,795,917) respectively.

Included within other emoluments are share-based payments amounting to RM1,348,642 (2013: RM1,264,214) which were made to certain Directors of the Group and Company (during their employment with the Group) by way of their participation in employee share schemes (Note 31) offered by British American Tobacco p.l.c.

Details of the movements of certain Directors' equity-settled share-based payments arrangements during the financial year ended 2014, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows, representing costs incurred by the Group and Company during the tenure of the Directors' service with the Group and Company.

<b>Executive Directors</b>	<b>At 1.1.2014</b>	<b>Awarded in 2014</b>	<b>Vested in 2014</b>	<b>Other movements*</b>	<b>At 31.12.2014</b>
Deferred Share Bonus Scheme	<b>10,515</b>	<b>6,640</b>	<b>(9,314)</b>	<b>3,130</b>	<b>10,971</b>
International Share Reward Scheme	<b>265</b>	<b>149</b>	<b>(111)</b>	<b>236</b>	<b>539</b>
	<b>10,780</b>	<b>6,789</b>	<b>(9,425)</b>	<b>3,366</b>	<b>11,510</b>

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

# Notes to the Financial Statements

## 4. DIRECTORS' REMUNERATION (CONTINUED)

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

Grant price	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.2014	Granted in 2014	Exercised in 2014	Other movements*	At 31.12.2014
£ 15.79	12,425	–	(12,425)	–	–
£ 22.58	7,904	–	(7,904)	–	–
£ 23.77	9,605	–	(5,013)	(4,592)	–
£ 32.08	7,591	–	–	(3,109)	4,482
£ 32.58	–	22,644	(345)	(3,331)	18,968
£ 35.05	28,840	–	–	(2,959)	25,881
	66,365	22,644	(25,687)	(13,991)	49,331

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

## 5. STAFF COSTS

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Wages, salaries and bonuses	96,932	82,962	23,424	14,193
Defined contribution plan	14,815	14,610	1,766	3,002
Voluntary redundancy package	8,054	4,832	1,299	1,517
Other staff related expenses	24,925	15,314	5,723	4,103
	144,726	117,718	32,212	22,815

The Group voluntarily provide 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 4 to the financial statements.

Voluntary redundancy package is a result of factory rightsizing in 2014 and restructuring of leaf operation in 2013.

Staff costs recharged by the Company to the subsidiaries amounted to RM17,614,462 (2013: RM19,581,806).

## Notes to the Financial Statements

### 6. TAX EXPENSE/(TAX CREDIT)

The tax charge on the profit for the financial year consists of the following:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>In respect of current year</u>				
Current tax				
– Malaysian income tax	<b>321,287</b>	269,945	<b>660</b>	646
Deferred tax (Note 14 (i))	<b>(16,288)</b>	10,451	<b>(15,762)</b>	4,562
<u>In respect of prior years</u>				
Under/(over) provision in respect of prior years				
– Malaysian income tax	<b>11,767</b>	1,563	<b>(58)</b>	–
	<b>316,766</b>	281,959	<b>(15,160)</b>	5,208

The average effective tax rates of the Group and Company are reconciled to the statutory tax rate as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Statutory tax rate	<b>25</b>	25	<b>25</b>	25
Expenses not deductible for tax purposes	–	–	<b>1</b>	–
Income not subject to tax	–	–	<b>(27)</b>	(25)
Under provision in respect of prior years	<b>1</b>	–	–	–
Average effective tax rate	<b>26</b>	25	<b>(1)</b>	–

# Notes to the Financial Statements

## 7. EARNINGS PER SHARE

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

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Profit for the financial year (RM'000)	<b>902,031</b>	823,440	<b>973,447</b>	877,391
Number of ordinary shares of 50 sen each in issue ('000)	<b>285,530</b>	285,530	<b>285,530</b>	285,530
Basic earnings per share (sen)	<b>315.9</b>	288.4	<b>340.9</b>	307.3

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

## 8. DIVIDENDS

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

	<b>Group and Company</b>					
	<b>Gross</b>	<b>2014</b>	<b>Amount</b>	<b>Gross</b>	<b>2013</b>	<b>Amount</b>
	<b>per share</b>	<b>Net</b>	<b>of dividend</b>	<b>per share</b>	<b>Net</b>	<b>of dividend</b>
	<b>sen</b>	<b>per share</b>	<b>RM'000</b>	<b>sen</b>	<b>per share</b>	<b>RM'000</b>
First interim dividend single-tier, tax exempt	<b>75.0</b>	<b>75.0</b>	<b>214,148</b>	68.0	68.0	194,160
Second interim dividend single-tier, tax exempt	<b>78.0</b>	<b>78.0</b>	<b>222,713</b>	68.0	68.0	194,160
Third interim dividend single-tier, tax exempt	<b>78.0</b>	<b>78.0</b>	<b>222,713</b>	68.0	68.0	194,158
Fourth interim dividend single-tier, tax exempt	<b>78.0</b>	<b>78.0</b>	<b>222,713</b>	78.0	78.0	222,713
	<b>309.0</b>	<b>309.0</b>	<b>882,287</b>	282.0	282.0	805,191

The first, second and third single-tier, tax exempt 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 single-tier, tax exempt interim dividend of 78.0 sen per share at the Board of Directors' meeting on 16 February 2015 amounting to RM222,713,400, in respect of the financial year ended 31 December 2014 which will be paid on 26 March 2015 to shareholders registered in the Company's Register of Members at the close of business on 4 March 2015. These financial statements do not reflect the fourth single-tier, tax exempt interim dividend which will be accounted for in the financial year ending 31 December 2015.

The Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2014.



## Notes to the Financial Statements

### 9. PROPERTY, PLANT AND EQUIPMENT

	Land and 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
<u>Group</u>						
Net book value at 1 January 2013	73,511	288,301	4,834	16,402	32,966	416,014
Additions	–	1,780	1,833	7,886	23,820	35,319
Disposals	(480)	(4,213)	339	(5,517)	–	(9,871)
Depreciation charge	(2,708)	(41,573)	(6,666)	(5,174)	–	(56,121)
Reclassifications	2,322	25,127	1,261	–	(28,710)	–
Transfer to assets held for sale	(4,401)	(118)	(20)	(66)	–	(4,605)
Net book value at 31 December 2013	68,244	269,304	1,581	13,531	28,076	380,736
Additions	–	6,913	3,344	6,073	8,979	25,309
Disposals	(923)	(17,427)	(33)	(4,512)	(13,658)	(36,553)
Depreciation charge	(2,982)	(33,214)	(4,270)	(3,641)	–	(44,107)
Reclassifications	–	15,202	357	–	(15,559)	–
Net book value at 31 December 2014	<b>64,339</b>	<b>240,778</b>	<b>979</b>	<b>11,451</b>	<b>7,838</b>	<b>325,385</b>
At 31 December 2013						
Cost	145,751	563,177	164,545	30,204	28,076	931,753
Accumulated depreciation and impairment	(77,507)	(293,873)	(162,964)	(16,673)	–	(551,017)
Net book value	68,244	269,304	1,581	13,531	28,076	380,736
At 31 December 2014						
Cost	<b>144,726</b>	<b>536,081</b>	<b>163,453</b>	<b>23,639</b>	<b>7,838</b>	<b>875,737</b>
Accumulated depreciation and impairment	<b>(80,387)</b>	<b>(295,303)</b>	<b>(162,474)</b>	<b>(12,188)</b>	<b>–</b>	<b>(550,352)</b>
Net book value	<b>64,339</b>	<b>240,778</b>	<b>979</b>	<b>11,451</b>	<b>7,838</b>	<b>325,385</b>

# Notes to the Financial Statements

## 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Total land and buildings RM'000
<u>Group</u>				
Net book value at 1 January 2013	105	17,601	55,805	73,511
Disposal	–	–	(480)	(480)
Depreciation charge	–	(368)	(2,340)	(2,708)
Reclassifications	–	–	2,322	2,322
Transfer to assets held for sale	–	(558)	(3,843)	(4,401)
Net book value at 31 December 2013	105	16,675	51,464	68,244
Disposal	–	–	(923)	(923)
Depreciation charge	–	(604)	(2,378)	(2,982)
Net book value at 31 December 2014	<b>105</b>	<b>16,071</b>	<b>48,163</b>	<b>64,339</b>
At 31 December 2013				
Cost	105	26,520	119,126	145,751
Accumulated depreciation and impairment	–	(9,845)	(67,662)	(77,507)
Net book value	105	16,675	51,464	68,244
At 31 December 2014				
Cost	<b>105</b>	<b>26,520</b>	<b>118,101</b>	<b>144,726</b>
Accumulated depreciation and impairment	–	<b>(10,449)</b>	<b>(69,938)</b>	<b>(80,387)</b>
Net book value	<b>105</b>	<b>16,071</b>	<b>48,163</b>	<b>64,339</b>

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### 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings RM'000	Machinery and equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
<u>Company</u>					
Net book value at 1 January 2013	6,106	717	5,736	2,505	15,064
Additions	–	–	701	624	1,325
Disposals	–	–	–	(370)	(370)
Depreciation charge	(256)	(43)	(3,033)	(626)	(3,958)
Transfer to assets held for sale	(4,374)	–	–	–	(4,374)
Net book value at 31 December 2013	1,476	674	3,404	2,133	7,687
Additions	–	–	992	1,575	2,567
Disposals	–	–	(29)	(1,181)	(1,210)
Depreciation charge	(256)	(49)	(2,085)	(173)	(2,563)
Transfer to subsidiary	–	–	(286)	–	(286)
Net book value at 31 December 2014	<b>1,220</b>	<b>625</b>	<b>1,996</b>	<b>2,354</b>	<b>6,195</b>
At 31 December 2013					
Cost	1,857	1,213	21,157	4,945	29,172
Accumulated depreciation	(381)	(539)	(17,753)	(2,812)	(21,485)
Net book value	1,476	674	3,404	2,133	7,687
At 31 December 2014					
Cost	<b>1,857</b>	<b>1,213</b>	<b>16,704</b>	<b>3,199</b>	<b>22,973</b>
Accumulated depreciation	<b>(637)</b>	<b>(588)</b>	<b>(14,708)</b>	<b>(845)</b>	<b>(16,778)</b>
Net book value	<b>1,220</b>	<b>625</b>	<b>1,996</b>	<b>2,354</b>	<b>6,195</b>

# Notes to the Financial Statements

## 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Total land and buildings RM'000
<u>Company</u>				
Net book value at 1 January 2013	105	925	5,076	6,106
Depreciation charge	–	(21)	(235)	(256)
Transfer to assets held for sale	–	(557)	(3,817)	(4,374)
Net book value at 31 December 2013	105	347	1,024	1,476
Depreciation charge	–	(21)	(235)	(256)
Net book value at 31 December 2014	<b>105</b>	<b>326</b>	<b>789</b>	<b>1,220</b>
At 31 December 2013				
Cost	105	434	1,318	1,857
Accumulated depreciation	–	(87)	(294)	(381)
Net book value	105	347	1,024	1,476
At 31 December 2014				
Cost	<b>105</b>	<b>434</b>	<b>1,318</b>	<b>1,857</b>
Accumulated depreciation	–	<b>(108)</b>	<b>(529)</b>	<b>(637)</b>
Net book value	<b>105</b>	<b>326</b>	<b>789</b>	<b>1,220</b>

## Notes to the Financial Statements

### 10. INVESTMENT PROPERTY

	<b>Group and Company</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Net book value at 1 January	–	134
Disposal	–	(130)
Depreciation	–	(4)
Net book value at 31 December	–	–
Cost	–	–
Accumulated depreciation	–	–
Net book value at 31 December	–	–
Fair value of investment property	–	–

### 11. COMPUTER SOFTWARE

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net book value at 1 January	<b>1,970</b>	2,801	<b>1,488</b>	2,801
Additions	<b>4</b>	484	–	–
Amortisation charge	<b>(940)</b>	(1,315)	<b>(729)</b>	(1,313)
Transfer to subsidiary	–	–	<b>(114)</b>	–
Net book value at 31 December	<b>1,034</b>	1,970	<b>645</b>	1,488
Cost	<b>37,332</b>	37,328	<b>36,730</b>	36,844
Accumulated amortisation and impairment	<b>(36,298)</b>	(35,358)	<b>(36,085)</b>	(35,356)
Net book value at 31 December	<b>1,034</b>	1,970	<b>645</b>	1,488

# Notes to the Financial Statements

## 12. GOODWILL

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Carrying amount at 31 December	<b>411,618</b>	411,618

Goodwill arose from the acquisition of the business of Malaysian Tobacco Company Berhad, which represents the cash generating units, and represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the net assets of the subsidiary companies (i.e. Commercial Marketers and Distributors Sdn. Bhd. for the marketing business and Tobacco Blenders and Manufacturers Sdn. Bhd. for the tobacco manufacturing business) acquired on 2 November 1999, the date of acquisition.

The carrying amount of goodwill is reviewed for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculations. The key assumptions for the recoverable amount of all units are management's current estimates of net cash flows over a period of five years (2013: five years) based on historical growth rate, taking into account industry developments and at the discount rate of 8.3 percent (2013: 9.1 percent). Based on the assessment, the recoverable amount exceeded the carrying amount of the goodwill. Accordingly, no impairment charges were recognised in 2014 (2013: nil). Any reasonable change in the key assumptions used will not result in any significant change to the recoverable amount.

## 13. SUBSIDIARIES

	<b>Company</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted investments, at cost	<b>975,262</b>	975,256
Impairment losses	<b>(1,867)</b>	(1,867)
	<b>973,395</b>	973,389

The reduction in the cost of investments in the subsidiaries is due to the capital reduction in Rothmans Brands Sdn. Bhd.

On 21 August 2014, the entire issued and paid-up share capital of Commercial Marketers and Distributors Sdn. Bhd. ('CMD') which comprise of 73,906,000 ordinary shares of RM1.00 each was transferred from Commercial Importers and Distributors Sdn. Bhd. ('CID') to the Company for a cash consideration of RM1.00 only ('Internal Share Transfer').

## Notes to the **Financial Statements**

### 13. SUBSIDIARIES (CONTINUED)

The Internal Share Transfer is part of the measure to streamline the corporate structure of the Group. CMD is currently a wholly-owned subsidiary of CID which in turn is a wholly-owned subsidiary of the Company. Upon completion of the Internal Share Transfer, CMD will become a wholly-owned subsidiary held directly by the Company.

The subsidiaries, all of which are wholly-owned, are as follows:

#### **Incorporated in Malaysia**

<u>Operating</u>	<u>Principal activities</u>
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

<u>Non-operating</u>	<u>Principal activities</u>
Commercial Importers and Distributors Sdn. Bhd.	Dormant
The Leaf Tobacco Development Corporation of Malaya Sdn. Berhad	Dormant
Tobacco Blenders and Manufacturers Sdn. Bhd.	Dormant

#### **Incorporated in Negara Brunei Darussalam**

Commercial Marketers and Distributors Sdn. Bhd.	Dormant
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# Notes to the Financial Statements

## 14. DEFERRED TAX

The amounts below have been reconciled to the income statements and statement of changes in equity is as follows:

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
<u>Deferred tax assets</u>					
At 1 January		<b>10,806</b>	21,089	<b>677</b>	5,276
Credited/(Charged) to income statements	14 (i)	<b>14,303</b>	(10,358)	<b>15,762</b>	(4,562)
Credited/(Charged) to statements of comprehensive income	14 (ii)	<b>627</b>	75	–	(37)
At 31 December		<b>25,736</b>	10,806	<b>16,439</b>	677
Represented by:					
Property, plant and equipment		<b>8,086</b>	3,693	<b>5,940</b>	53
Tax losses		<b>8,726</b>	372	<b>8,726</b>	372
Provisions		<b>15,883</b>	10,832	<b>2,495</b>	217
Actuarial loss on retirement benefit scheme		–	35	–	35
Cash flow hedge		<b>4,437</b>	–	–	–
Deferred tax assets (before offsetting)		<b>37,132</b>	14,932	<b>17,161</b>	677
Offsetting		<b>(11,396)</b>	(4,126)	<b>(722)</b>	–
Deferred tax assets (after offsetting)		<b>25,736</b>	10,806	<b>16,439</b>	677
<u>Deferred tax liabilities</u>					
At 1 January		<b>37,462</b>	36,517	–	–
(Credited)/Charged to income statements	14 (i)	<b>(1,985)</b>	93	–	–
(Credited)/Charged to statements of comprehensive income	14 (ii)	<b>(1,322)</b>	852	–	–
At 31 December		<b>34,155</b>	37,462	–	–

## Notes to the Financial Statements

### 14. DEFERRED TAX (CONTINUED)

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Deferred tax liabilities</u> (continued)				
Represented by:				
Property, plant and equipment	<b>41,433</b>	39,919	<b>722</b>	–
Accruals	<b>644</b>	683	–	–
Actuarial loss on retirement benefit scheme	–	485	–	–
Cash flow hedge	<b>3,474</b>	501	–	–
Deferred tax liabilities (before offsetting)	<b>45,551</b>	41,588	<b>722</b>	–
Offsetting	<b>(11,396)</b>	(4,126)	<b>(722)</b>	–
Deferred tax liabilities (after offsetting)	<b>34,155</b>	37,462	–	–

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

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Deferred tax assets:</u>				
– Deferred tax assets to be recovered after more than 12 months	<b>15,278</b>	3,286	<b>14,666</b>	420
– Deferred tax assets to be recovered within 12 months	<b>10,458</b>	7,520	<b>1,773</b>	257
	<b>25,736</b>	10,806	<b>16,439</b>	677
<u>Deferred tax liabilities:</u>				
– Deferred tax liabilities to be recovered after more than 12 months	<b>28,955</b>	35,269	–	–
– Deferred tax liabilities to be recovered within 12 months	<b>5,200</b>	2,193	–	–
	<b>34,155</b>	37,462	–	–
Deferred tax (liabilities)/assets (net)	<b>(8,419)</b>	(26,656)	<b>16,439</b>	677

# Notes to the Financial Statements

## 14. DEFERRED TAX (CONTINUED)

	Note	Group		Company	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
<b>(i) Credited/(Charged) to income statements:</b>					
Credited/(Charged) in respect of deferred tax assets		<b>14,303</b>	(10,358)	<b>15,762</b>	(4,562)
Credited/(Charged) in respect of deferred tax liabilities		<b>1,985</b>	(93)	–	–
Net credit/(charge) to income statements	6	<b>16,288</b>	(10,451)	<b>15,762</b>	(4,562)
<b>(ii) Credited/(Charged) to statements of comprehensive income:</b>					
Credited/(Charged) in respect of deferred tax assets		<b>627</b>	75	–	(37)
Credited/(Charged) in respect of deferred tax liabilities		<b>1,322</b>	(852)	–	–
Net credit/(charge) to statements of comprehensive income		<b>1,949</b>	(777)	–	(37)

## 15. LOAN TO A SUBSIDIARY

On 17 August 2009, the Company issued a five-year RM80,000,000 unsecured loan to its subsidiary, Commercial Marketers and Distributors Sdn. Bhd. bearing interest of 6.3 percent per annum receivable semi-annually. The loan was repaid in full on schedule in 2014.

## 16. ASSETS HELD FOR SALE

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 January	<b>4,605</b>	417	<b>4,374</b>	–
Transfer (to)/from property, plant and equipment (Note 9)	<b>(65)</b>	4,605	–	4,374
Disposed during the year	–	(417)	–	–
At 31 December	<b>4,540</b>	4,605	<b>4,374</b>	4,374

The transfer from property, plant and equipment to assets held for sale relates to restructuring of The Leaf Tobacco Development Corporation of Malaya Sdn. Berhad and leaf operation. The sale is expected to be completed by March 2015.

## Notes to the Financial Statements

### 17. INVENTORIES

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Raw materials	<b>156,260</b>	159,123
Work-in-progress	<b>18,822</b>	24,253
Finished goods	<b>77,992</b>	99,090
Consumable stores	<b>10,222</b>	11,513
	<b>263,296</b>	293,979

### 18. RECEIVABLES

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Trade receivables	<b>154,836</b>	118,380	–	–
Allowance for doubtful debts	<b>(273)</b>	(506)	–	–
Trade receivables (net)	<b>154,563</b>	117,874	–	–
Amounts due from fellow subsidiaries*	<b>48,152</b>	42,253	<b>29,489</b>	4,474
Prepayments	<b>31,327</b>	37,930	<b>19</b>	76
Other receivables	<b>770</b>	1,147	<b>20</b>	27
Deposits	<b>1,199</b>	1,265	<b>195</b>	246
	<b>81,448</b>	82,595	<b>29,723</b>	4,823
Total receivables	<b>236,011</b>	200,469	<b>29,723</b>	4,823

Prepayments of the Group mainly relating to leaf purchases from a fellow subsidiary in the current financial year of RM30,484,000 (2013: RM37,022,000).

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

**18. RECEIVABLES (CONTINUED)****(a) Related party balances**

As of 31 December 2014, the Group's amounts due from fellow subsidiaries amounting to RM1,997,000 (2013: RM8,269,000) were overdue. The aging of these receivables are as follows:

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Past due within 1 month	<b>458</b>	740
Past due more than 1 month but within 1 year	<b>1,539</b>	7,529
	<b>1,997</b>	8,269

The Group's amounts due from fellow subsidiaries arose mainly from export sales which have a credit term of 30 to 60 days (2013: 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.

Amounts due from fellow subsidiaries of the Group are mainly denominated in US Dollars. All other receivables of the Group and Company are mainly denominated in Ringgit Malaysia.

The currency profile of amounts due from fellow subsidiaries is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
US Dollar	<b>47,475</b>	41,658	<b>176</b>	236
Others	—	130	—	—
	<b>47,475</b>	41,788	<b>176</b>	236

# Notes to the **Financial Statements**

## 18. RECEIVABLES (CONTINUED)

### (b) Trade receivables

Credit terms of trade receivables range from 1 to 60 days (2013: 1 to 60 days).

As of 31 December 2014, the Group's trade receivables amounting to RM5,664,000 (2013: RM3,567,000) were overdue. The amount of provisions was RM273,000 (2013: RM506,000). The aging of these receivables is as follows:

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
1 to 2 months*	<b>5,524</b>	3,090
Over 6 months	<b>140</b>	477
	<b>5,664</b>	3,567

\* Trade receivables amounting to RM5,524,000 (2013: RM3,090,000) were past due but not impaired as based on past experience, management believes these balances are fully recoverable.

Movements of the allowance for doubtful debts during the year are as follows:

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	<b>506</b>	4,551
Provision for receivables impairment	<b>273</b>	28
Receivables written (off)/back during the year	<b>(454)</b>	21
Unused amounts reversed	<b>(52)</b>	(4,094)
At 31 December	<b>273</b>	506

# Notes to the Financial Statements

## 18. RECEIVABLES (CONTINUED)

### (b) Trade receivables (continued)

The creation and release of provision for impaired trade receivables have been included in 'distribution and marketing costs' in the income statements. The other classes within receivables do not contain impaired assets.

Approximately 46 percent (2013: 47 percent) of the Group's trade receivables are derived from its sales to seven (2013: seven) 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.

The maximum exposure to credit risk at the reporting date is the total carrying value of receivables disclosed above. The Group does not hold any collateral as security.

The currency profile of trade receivables is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
US Dollar	<b>3,673</b>	1,733	–	–

All other amounts within receivables are mostly denominated in Ringgit Malaysia.

## 19. CASH AND BANK BALANCES

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and bank balances	<b>14,469</b>	59,596	<b>1,547</b>	43,076
Bank overdrafts used for cash management purposes	<b>(10,445)</b>	–	<b>(10,445)</b>	–
	<b>4,024</b>	59,596	<b>(8,898)</b>	43,076

The currency profile of cash and bank balances is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
– US Dollar	<b>3,298</b>	12,989	<b>370</b>	2,357
– Pound Sterling	<b>2,887</b>	1,230	<b>1,161</b>	26
– Euro	<b>491</b>	128	–	–
– Brunei Dollar	–	801	–	–
	<b>6,676</b>	15,148	<b>1,531</b>	2,383



## Notes to the Financial Statements

### 20. PAYABLES

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Trade payables	90,442	70,322	–	–
Trade accruals	68,320	68,578	–	–
Amounts due to subsidiaries	–	–	535,014	472,520
Amounts due to fellow subsidiaries	38,829	36,197	2,153	7,519
Other payables	70,709	57,075	24,985	17,152
	<b>268,300</b>	<b>232,172</b>	<b>562,152</b>	<b>497,191</b>

Other payables comprised the following:

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Accruals for employee expenses	30,566	14,900	10,103	2,106
Accruals for administrative expenses	30,462	32,454	8,614	9,206
Provision for employee expenses	8,643	8,537	5,230	4,656
Other non-operating creditors	1,038	1,184	1,038	1,184
	<b>70,709</b>	<b>57,075</b>	<b>24,985</b>	<b>17,152</b>

#### (a) Related party balances

The Group's amounts due to fellow subsidiaries are repayable within credit terms of 30 to 60 days (2013: 30 to 60 days). These amounts are unsecured and interest free.

The currency profile of amounts due to fellow subsidiaries is as follows:

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
US Dollar	8,695	1,745	–	307
Pound Sterling	5,181	5,775	673	1,155
Euro	1,332	3,300	–	–
Others	–	20	–	–
	<b>15,208</b>	<b>10,840</b>	<b>673</b>	<b>1,462</b>

## 20. PAYABLES (CONTINUED)

### (b) Trade payables

Credit terms of trade payables and suppliers of property, plant and equipment granted to the Group vary from no credit to 120 days (2013: no credit to 120 days).

The currency profile of trade payables is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
US Dollar	<b>1,104</b>	1,642	—	—
Pound Sterling	<b>48</b>	398	—	—
Euro	<b>1,694</b>	1,128	—	—
Others	<b>156</b>	1,794	—	—
	<b>3,002</b>	4,962	—	—

All other amounts within payables are mostly denominated in Ringgit Malaysia.

## 21. 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. This income to the Group is recognised over the five-year period on a straight line basis.

## Notes to the Financial Statements

### 22. BORROWINGS (INTEREST BEARING)

(a) The Group's borrowings as at 31 December 2014 are as follows:

(i) RM360,000,000 revolving credit with tenure ranging from two weeks to three months.

(b) (i) Maturity of the Group and Company's borrowings is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Total borrowings</u>				
Medium Term Notes	–	250,000	–	250,000
Revolving credit	<b>360,000</b>	260,000	–	–

Maturity of borrowings:

Within one year	<b>360,000</b>	510,000	–	250,000
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The Company fully redeemed the entire RM250 million Medium Term Notes ('MTN') 2009/2014 with a coupon rate of 4.48 percent per annum on 15 August 2014, which was previously issued on 17 August 2009. With the said redemption, the Company would not have any outstanding MTN and hence, the entire MTN Programme was duly terminated.

(ii) Classification of the Group and Company's borrowings is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Unsecured</u>				
Current:				
Medium Term Notes	–	250,000	–	250,000
Revolving credit	<b>360,000</b>	260,000	–	–

(c) The Group and Company's borrowings are denominated in Ringgit Malaysia.

(d) The fair value of borrowings are detailed in Note 30(b).

**23. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Forward foreign exchange contracts – cash flow hedges	<b>1,522</b>	<b>6,155</b>	<b>–</b>	<b>–</b>

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Forward foreign exchange contracts – cash flow hedges	<b>7,286</b>	<b>3,622</b>	<b>–</b>	<b>–</b>

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

The ineffective portion recognised in the profit or loss that arose from cash flow hedges amounted to a loss of RM782,479 (2013: RM74,926).

The Group's cash flow hedges are principally net exposure in the respective foreign currencies of sales receipts from fellow subsidiaries and future payment for leaf, wrapping materials, machinery and services over the next 12 months. The timing of expected cash flows in respect of derivatives designated as cash flow hedges is expected to be comparable to the timing of when the hedged item will affect the income statement, which are expected to occur at various dates during the next 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. This is generally within 12 months from the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2014 were as follows:

<b>Hedged item</b>	<b>Currency</b>	<b>RM'000 equivalent</b>	<b>Average contracted rate</b>
<u>2014</u>			
<u>Group</u>			
Currency to be received over the next 12 months USD 20,100,000	US Dollar	66,416	1 USD = RM3.3043
Currency to be paid over the next 12 months GBP 2,000,000	Pound Sterling	10,888	1 GBP = RM5.4440

## Notes to the **Financial Statements**

### 23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

<b>Hedged item</b>	<b>Currency</b>	<b>RM'000 equivalent</b>	<b>Average contracted rate</b>
<u>2013</u>			
<u>Group</u>			
Currency to be received over the next 12 months USD 16,300,000	US Dollar	54,218	1 USD = RM3.3262
Currency to be paid over the next 12 months GBP 8,090,000	Pound Sterling	41,040	1 GBP = RM5.0729
EUR 80,000	Euro	335	1 EUR = RM4.1875

### 24. SHARE CAPITAL

	<b>Group and Company</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Authorised:		
770,000,000 ordinary shares of 50 sen each	<b>385,000</b>	385,000
Issued and fully paid:		
285,530,000 ordinary shares of 50 sen each	<b>142,765</b>	142,765

### 25. POST EMPLOYMENT BENEFIT OBLIGATIONS

#### **Defined Benefit Plan**

The Group closed the defined benefit plan for its eligible employees in Malaysia (who joined the Group prior to 1 January 2006) as at 30 September 2013, the assets of which were held in a separate trustee administered fund. The Company and certain subsidiaries in the Group made contributions to the British American Tobacco Malaysia Retirement Scheme, a tax approved fund independent of the Group.

## 25. POST EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

### Defined Benefit Plan (continued)

The amounts recognised in the balance sheet are determined as follows:

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Present value of defined benefit obligations	–	–	–	–
Fair value of plan assets	–	–	–	–
Status of funded plan	–	–	–	–
Net liability	–	–	–	–
Analysed as:				
Non-current	–	–	–	–
	–	–	–	–

The amounts recognised in the income statement under other operating expenses are as follows:

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Current service cost	–	383	–	126
Interest cost	–	395	–	157
Expected return on plan assets	–	(83)	–	(16)
Loss/(gain) on curtailment & settlement	–	1,359	–	(99)
Total, included within staff cost	–	2,054	–	168

## Notes to the Financial Statements

### 25. POST EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

#### Defined Benefit Plan (continued)

Movements in defined benefit obligations were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January	–	5,115	–	2,793
Charge for the year	–	2,054	–	168
Contributions paid	–	(155)	–	(82)
Benefits paid	–	(5,213)	–	(5,213)
Transfer from subsidiary	–	–	–	2,482
Actuarial gain recognised	–	(1,801)	–	(148)
At 31 December	–	–	–	–

Changes in the present value of defined benefit obligations were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January	–	12,085	–	6,129
Service cost	–	383	–	126
Interest cost	–	395	–	157
Benefits paid	–	(5,997)	–	(5,190)
Loss/(gain) on curtailment & settlement	–	1,359	–	(99)
Actuarial gain due to actual experience	–	(1,897)	–	(136)
Settlement	–	(6,328)	–	(987)
At 31 December	–	–	–	–

Defined benefit obligations expected to be payable in the next year

–	–	–	–
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# Notes to the Financial Statements

## 25. POST EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

### Defined Benefit Plan (continued)

Changes in the fair value of plan assets were as follows:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 January	–	6,970	–	3,336
Expected return on plan assets	–	83	–	16
Contributions by employer	–	155	–	82
Benefits paid	–	(943)	–	(137)
Assets transferred to a subsidiary	–	–	–	(2,322)
Actuarial gain on plan assets	–	63	–	12
Settlement	–	(6,328)	–	(987)
At 31 December	–	–	–	–
Contribution payable in the next year	–	–	–	–

The developments of actuarial gains and losses as at 31 December were as follows:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Actuarial loss from prior year	–	698	–	252
Actuarial gain recognised in year	–	(1,801)	–	(148)
Cumulative actuarial (gain)/loss recognised	–	(1,103)	–	104

Principal actuarial assumptions used at the balance sheet date in respect of the Group and the Company's defined benefit plan were as follows:

	2014 %	2013 %
Discount rate	–	6.0
Expected return on plan assets	–	3.0
Expected rate of salary increases	–	6.0

# Notes to the Financial Statements

## 26. CASH FROM OPERATIONS

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Profit for the financial year	<b>902,031</b>	823,440	<b>973,447</b>	877,391
Adjustments for:				
Defined benefit plan charge	–	2,054	–	168
Interest income	<b>(2,428)</b>	(1,178)	<b>(5,162)</b>	(842)
Property, plant and equipment				
– depreciation	<b>44,107</b>	56,121	<b>2,563</b>	3,958
– (gain)/loss on disposal	<b>(473)</b>	91	<b>245</b>	183
Investment property				
– depreciation	–	4	–	–
– gain on disposal	–	(70)	–	–
Computer software				
– amortisation	<b>940</b>	1,315	<b>729</b>	1,313
Assets held for sale				
– gain on disposal	–	(833)	–	–
Allowance for doubtful debts written off/(back)	<b>221</b>	(1,215)	–	–
Inventories written off	<b>546</b>	5,813	–	–
Interest expense	<b>15,581</b>	20,698	<b>26,222</b>	17,289
Tax expense/(credit)	<b>316,766</b>	281,959	<b>(15,160)</b>	5,208
Changes in working capital:				
– inventories	<b>30,136</b>	12,425	–	–
– receivables	<b>(35,319)</b>	1,146	<b>(24,900)</b>	34,439
– payables	<b>34,887</b>	(97,067)	<b>2,461</b>	(89,656)
Cash from operations	<b>1,306,995</b>	1,104,703	<b>960,445</b>	849,451

## 27. CAPITAL COMMITMENTS AND CONTINGENT LIABILITY

### (a) Capital Commitments

Commitments for capital expenditure not provided for in the financial statements is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Property, plant and equipment:				
– Authorised and contracted for	–	1,246	–	–
– Authorised but not contracted for	<b>5,587</b>	35	<b>644</b>	35
	<b>5,587</b>	1,281	<b>644</b>	35

### (b) Contingent Liability

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 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 from the Royal Malaysian Customs. The Group stands firm in its position that there is a challengeable case which is supported by external legal opinion on the matter. Accordingly, the Group is now pursuing this matter through a judicial review filed on the 12 August 2014 in the Kuala Lumpur High Court. The High Court granted a full stay pending the ultimate decision of the case. The hearing date for the Judicial Review application would most likely to be in 2<sup>nd</sup> Quarter 2015.

As such, with respect to this matter, no provision for this demand has been made to the 2014 results. Should a liability crystallise the estimated value as at 31 December 2014 is RM22.3 million (2013: RM10.2 million).

# Notes to the **Financial Statements**

## 28. SIGNIFICANT RELATED PARTY DISCLOSURES

In the normal course of business, the Group and Company undertakes on agreed terms and prices, transactions with its related companies. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions. The related party transactions listed below were carried out on terms and conditions negotiated and agreed between the parties.

The Group and Company's transactions are with member corporations of British American Tobacco p.l.c (British American Tobacco p.l.c indirectly through British American Tobacco Holdings (Malaysia) B.V., owns 50 percent equity interest in the Company and is regarded to be the Company's ultimate holding company).

### (a) **Group's transactions**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(i) Sale of goods</b>		
Sale of cigarettes and tobacco products to:		
– British-American Tobacco Company (HK) Ltd.	<b>24,613</b>	11,313
– Rothmans Far East B.V.	–	7,162
– Rothmans (Far East) B.V. - Louisville	<b>1,549</b>	7,585
– Rothmans Far East B.V. c/o Louisville Corporate Services	–	261
– British American Tobacco Marketing (Singapore) Pte. Ltd.	<b>47,596</b>	45,302
– B.A.T. China Ltd.	<b>10,081</b>	10,454
– British American Tobacco International Ltd.	<b>61,416</b>	55,649
– British American Tobacco Korea Manufacturing Co. Ltd.	<b>36,782</b>	41,929
– British American Tobacco Taiwan	<b>36,850</b>	25,847
– BATUS Japan, Inc.	<b>50,684</b>	110,446
– British American Tobacco (New Zealand) Ltd.	<b>11,724</b>	6,493
– British American Tobacco (Australia) Ltd.	<b>12,638</b>	93,135
– BAT Australia Manufacturing	<b>97,052</b>	44,309
– British American Tobacco Papua New Guinea	<b>24,841</b>	17,300
– Solomon Islands Tobacco	<b>7,880</b>	7,006
– British American Tobacco Samoa	<b>2,446</b>	5,164
– BAT Supply Chain WE Ltd	<b>228</b>	–
– BAT Fiji Central Manufacturing	<b>747</b>	835
– PT Bentoel Prima	<b>17,966</b>	11,764
– Ceylon Tobacco Company Ltd	<b>102</b>	282
– British American Tobacco Phillipines Ltd.	<b>27,164</b>	53,888
	<b>472,359</b>	556,124

**28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)****(a) Group's transactions (continued)**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(ii) Purchase of goods</b>		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
– British American Tobacco Marketing (Singapore) Pte. Ltd.	<b>30,354</b>	26,816
– B.A.T. (GLP) Limited	<b>295,844</b>	187,690
– PT Export Leaf Indonesia	<b>45,529</b>	49,525
– British American Tobacco South Africa Pte. Ltd.	<b>5</b>	–
– PT Bentoel Prima	<b>–</b>	83
– BAT Theodorus Niemeyer B.V.	<b>517</b>	316
– PT Perusahaan Dagang dan Industri Tresno	<b>293</b>	1,934
– British American Tobacco Korea Manufacturing Co. Ltd.	<b>660</b>	483
– Ceylon Tobacco Co. Ltd	<b>138</b>	–
– BAT Supply Chain WE Ltd	<b>4,055</b>	14,149
	<b>377,395</b>	280,996
<b>(iii) Procurement of services</b>		
Procurement of information technology services from:		
– British American Shared Services Ltd	<b>34,253</b>	33,584
– BAT GSD (KL) Sdn. Bhd.	<b>–</b>	508
	<b>34,253</b>	34,092

# Notes to the **Financial Statements**

## 28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

### (a) Group's transactions (continued)

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(iv) Technical and advisory (includes share-based payment charges)</b>		
Payment for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	<b>44,984</b>	32,860
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	<b>9,718</b>	14,166
– British American Tobacco (Singapore) Pte. Ltd.	–	555
– British American Tobacco Asia Pacific Region Ltd.	–	1,202
– British American Tobacco (Holdings) Ltd	<b>4,873</b>	3,084
– British American Tobacco Marketing (Singapore) Pte. Ltd.	<b>9,528</b>	10,360
– BAT Asia Pacific Region Ltd	–	254
– BAT (U.K. & Export) Ltd.	<b>20</b>	–
	<b>69,123</b>	62,481

### (v) Royalties

Royalties paid/payable to:

– British American Tobacco (Holdings) Ltd*	<b>116,837</b>	107,838
– Dunhill Tobacco of London Ltd.*	<b>2,800</b>	2,915
– Benson & Hedges (Overseas) Limited*	<b>4,215</b>	4,270
– The American-Cigarette Company (Overseas) Ltd.*	<b>8,080</b>	4,925
– Turmac Tobacco Company B.V.*	<b>63</b>	–
– B.A.T. China Limited**	<b>46</b>	–
– The House of Edgeworth Inc.	<b>47</b>	–
– St. Regis Tobacco Corporation Ltd.	–	285
	<b>132,088</b>	120,233

\* Payments in respect of royalty agreements with these entities were made through B.A.T. International Finance p.l.c

\*\* Payments in respect of royalty agreement with this entity were made to CTBAT International Limited

**28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)****(a) Group's transactions (continued)**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(vi) Sale and purchase of equipment</b>		
(Sale)/purchase of equipment (to)/from:		
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	–	(4,666)
– British American Tobacco Bangladesh Company Limited, Bangladesh, Asia Pacific	<b>(9,338)</b>	–
– British American Tobacco (Australasia Holdings) Ltd.	<b>(8,125)</b>	–
– British American Tobacco Polska S.A.	<b>2,148</b>	–
– British American Tobacco Korea	<b>(2,678)</b>	(1,332)
	<b>(17,993)</b>	(5,998)
<b>(vii) Provision of technical and advisory support services to:</b>		
– B.A.T. China Ltd.	–	36
– British American Tobacco - Vinataba (JV) Ltd.	–	21
– British-American Tobacco Company (HK) Ltd.	–	70
– British American Tobacco Cambodia Ltd.	–	38
– British American Tobacco Services Limited, Taiwan Branch	–	170
– British American Tobacco (Vietnam) Ltd.	–	72
– British American Tobacco (Singapore) Pte. Ltd.	<b>983</b>	717
– British American Tobacco Marketing (Singapore) Pte. Ltd.	–	902
– British American Tobacco Japan, Ltd.	–	59
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	–	88
– British American Tobacco International Ltd.	–	6
– British American Tobacco Papua New Guinea	–	6
	<b>983</b>	2,185

# Notes to the Financial Statements

## 28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

### (b) Company's transactions

	Company	
	2014	2013
	RM'000	RM'000
<b>(i) Management fee</b>		
Management fee received from:		
– Commercial Marketers and Distributors Sdn. Bhd.	2,233	4,152
– Tobacco Importers and Manufactures Sdn. Bhd.	569	731
	<b>2,802</b>	<b>4,883</b>
<b>(ii) Fee for usage of property, plant and equipment</b>		
Fee for usage of property, plant and equipment received from:		
– Commercial Marketers and Distributors Sdn. Bhd.	2,491	2,529
– Tobacco Importers and Manufactures Sdn. Bhd.	1,178	1,196
	<b>3,669</b>	<b>3,725</b>
<b>(iii) Procurement of services*</b>		
Procurement of information technology services from:		
– British American Shared Services Ltd	8,327	6,958
– B.A.T. (U.K. & Export) Ltd.	–	507
	<b>8,327</b>	<b>7,465</b>
<b>(iv) Technical and advisory (includes share-based payment charges)*</b>		
Payment of fees for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	1,129	3,064
– British American Tobacco ASPAC Services Centre Sdn. Bhd.	8,157	7,480
– British American Tobacco (Holdings) Ltd.	2,808	1,450
– British American Tobacco (Singapore) Pte. Ltd.	983	555
– B.A.T. (U.K. & Export) Ltd.	20	–
	<b>13,097</b>	<b>12,549</b>
<b>(v) Interest income</b>		
Interest income from loan to a subsidiary:		
– Commercial Marketers and Distributors Sdn. Bhd.	3,120	5,040



# Notes to the Financial Statements

## 28. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

### (b) Company's transactions (continued)

#### (vi) Interest expense

Interest expense on cash pooling:		
– Commercial Marketers and Distributors Sdn. Bhd.	<b>19,435</b>	6,158

Key management personnel of the Group and Company are the Directors of which their compensation has been disclosed in Note 4 of the financial statements.

The above transactions have been entered into on terms and conditions that were negotiated among the related parties.

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

## 29. SEGMENT REPORTING

The Company is domiciled in Malaysia. The revenue from external customers in Malaysia is RM4,310,260,000 (2013: RM3,972,494,000), and the total revenue from external customers and fellow subsidiaries from other countries is RM485,731,000 (2013: RM545,856,000). The Group does not have any non-current assets that are located in countries other than Malaysia. There are also no revenue arising from transactions with a single external customer that comprises 10 percent or more of the Group's revenue for the years ended 31 December 2014 and 31 December 2013.

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

## 30. FINANCIAL RISK MANAGEMENT

### (a) Financial Risk Factors

The Group and Company are exposed to financial risks arising from its business activities; mainly interest rate risks, price risk, currency exchange risks, credit risks and liquidity and cash flow risks. These risks are managed by the Group at Group level.

Straightforward derivative financial instruments are utilised by the Group to lower funding costs, to alter interest rate exposures or to achieve greater certainty of future costs. These instruments are entered into in accordance with objectives and policies approved by the Board of Directors that expressly forbid speculative transactions.

The policy restricts the use of derivative instruments to forward foreign exchange contracts, foreign currency and interest rate swaps, forward rate agreements, currency options and caps. In addition to policies, guidelines and exposure limits, a system of delegated authority limits and extensive independent reporting covers all major areas of the Group's treasury activities.

# Notes to the **Financial Statements**

## **30. FINANCIAL RISK MANAGEMENT (CONTINUED)**

### **(a) Financial Risk Factors (continued)**

#### **(i) Interest Rate Risk Management**

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 both fixed and floating rate borrowings as disclosed in Note 22, 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.

#### **(ii) Currency Exchange Risk Management**

The Group is subject to currency exchange risk as a result of its purchases of certain raw materials, equipment and services in foreign currencies. The Group's primary currency exchange risk exposures are to the US dollar, Euro and British pound. The currency profile of the assets and liabilities of the Group are disclosed in the respective notes to the financial statements.

The objectives of the Group's foreign exchange policies are to allow the Group to manage exposures that arise from trading activities effectively within a framework of controls that does not expose the Group to unnecessary foreign exchange risks. The Group enters into forward foreign exchange contracts to hedge 50 percent to 100 percent of its exposure on foreign currency sales and payables and on cash flows to be used in anticipated transactions denominated in foreign currencies for the subsequent 12 months.

The Group considers a 10 percent strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 10 percent increase or decrease of functional currency against non-functional currencies would not result in significant changes in the Group's pre-tax profit.

#### **(iii) Price Risk Management**

The Group is exposed to price risk relating to leaf purchases, which are included in raw materials disclosed in Note 17. The Group reviews sourcing strategies as and when required, to manage any adverse exposures.

The Group considers a 10 percent change in prices of leaf purchases a possible change. The impact is calculated with reference to the leaf purchases made during the year held as at the year end, unless this is unrepresentative of the position during the year. A 10 percent increase or decrease in leaf purchases would not result in significant changes in pre-tax profit.

## 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Financial Risk Factors (continued)

#### (iii) Price Risk Management (continued)

The Group operates under increasingly stringent regulatory regimes in accordance with the relevant regulations governing sale and manufacture of tobacco products. Such regulations are developed and driven by the Framework Convention of Tobacco Control. The overall trend of high and increasing levels of excise and taxes, including introduction of new taxes could impact the volumes of the legal industry whilst fuelling illicit trade. The Group has in place strategies to ensure that regulations developed on governing tobacco products are sensible and enforceable, as well as contingency plans to manage the impact of significant excise changes.

#### (iv) Credit Risk Management

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.

Approximately 46 percent of the Group's trade receivables are derived from its sales to seven 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 age analysis of trade receivables is disclosed in Note 18.

#### (v) Liquidity and Cash Flow Risks

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 convertible investments 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 the 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.

# Notes to the Financial Statements

## 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Financial Risk Factors (continued)

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

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Maturity of borrowings:				
– Within 1 year	<b>361,641</b>	514,466	–	254,142
Payables within 1 year	<b>268,300</b>	232,172	<b>562,152</b>	497,191
Derivative financial instruments:				
– Within 1 year	<b>6,155</b>	3,622	–	–

### (b) Fair Value Estimation

The fair value measurement hierarchy for financial instruments stated in the balance sheets are as follows:

- Level 1: Quoted price (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Group measures its forward foreign exchange contracts (cash flow hedges) at fair values, as disclosed in Note 23. The fair values of forward foreign exchange contracts are determined based on the quoted market price of similar derivatives, as they are not traded on an active market. These derivatives are classified as Level 2 financial instruments in accordance with MFRS 13.

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

### (c) Capital Management

The Group defines capital as net debt and equity. Net debt is calculated as total borrowings (including 'current borrowings' as shown in the balance sheets) 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 capital structure to reduce the cost of capital.

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.

## 31. SHARE-BASED PAYMENTS

The Group operates a number of British American Tobacco p.l.c share-based payment arrangements of which the two principal ones are:

### Long-Term Incentive Plan ('LTIP')

Nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. Payout is subject to performance conditions based on earnings per share relative to inflation (50 percent of grant) and total shareholder return (25 percent of grant) and net turnover (25 percent of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to a comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled LTIPs are granted in March each year.

Prior to 2014, payout was subject to performance conditions based on earnings per share relative to inflation (50 percent of grant) and total shareholder return, combining the share price and dividend performance of the Company by reference to two comparator groups (50 percent of grant).

### Deferred Share Bonus Scheme ('DSBS')

Free ordinary shares released three years from date of grant and may be subject to forfeit if participant leaves employment before the end of the three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled grants are granted in March each year.

The Group also has a number of other arrangements which are not material for the Group and these are as follows:

### Share Option Scheme ('ESOS')

Options exercisable three years from date of grant with a contractual life of ten years, subject to earnings per share performance condition relative to inflation. Participants are not entitled to receive dividends in the period prior to the exercise of the options. The granting of options under this scheme ceased with the last grant made in March 2004 and final outstanding awards must be exercised by March 2014. The awards were both equity and cash-settled.

### 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:

	2014 Equity-settled in RM'000	2013 Equity-settled in RM'000
Group		
LTIP (note a)	1,822	1,619
DSBS (note b)	2,970	1,829
Other Schemes (note c)	38	27
Total recognised in the income statement	4,830	3,475

# Notes to the Financial Statements

## 31. SHARE-BASED PAYMENTS (CONTINUED)

	2014 Equity- settled in RM'000	2013 Equity- settled in RM'000
<u>Company</u>		
LTIP (note a)	1,299	933
DSBS (note b)	1,455	673
Other Schemes (note c)	38	28
Total recognised in the income statement	2,792	1,634

### (a) Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2014 and 31 December 2013, were as follows:

	2014 Equity- settled Number of options in thousands	2013 Equity- settled Number of options in thousands
<u>Group</u>		
Outstanding at start of financial year	82	105
Granted during the period	32	14
Exercised during the period	(44)	(20)
Forfeited during the period	(26)	(17)
Outstanding at end of financial year	44	82
Exercisable at end of financial year	3	39

The weighted average British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was £34.82 (2013: £34.50) for equity-settled options.

The outstanding shares for the year ended 31 December 2014 had a weighted average contractual life of 8.33 years (2013: 6.74 years) for the equity-settled scheme.

**31. SHARE-BASED PAYMENTS (CONTINUED)****(a) Long-Term Incentive Plan (continued)**

	<b>2014 Equity- settled Number of options in thousands</b>	<b>2013 Equity- settled Number of options in thousands</b>
<u>Company</u>		
Outstanding at start of financial year	<b>52</b>	80
Granted during the period	<b>24</b>	8
Exercised during the period	<b>(29)</b>	(20)
Forfeited during the period	<b>(22)</b>	(16)
Outstanding at end of financial year	<b>25</b>	52
Exercisable at end of financial year	<b>1</b>	24

The weighted average British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was £34.80 (2013: £34.50) for equity-settled options.

The outstanding shares for the year ended 31 December 2014 had a weighted average contractual life of 8.68 years (2013: 6.78 years) for the equity-settled scheme.

# Notes to the **Financial Statements**

## **31. SHARE-BASED PAYMENTS (CONTINUED)**

### **(b) Deferred Share Bonus Scheme**

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2014 and 31 December 2013, were as follows:

	<b>2014 Equity- settled Number of options in thousands</b>	<b>2013 Equity- settled Number of options in thousands</b>
<u>Group</u>		
Outstanding at start of financial year	<b>43</b>	57
Granted during the period	<b>17</b>	11
Exercised during the period	<b>(32)</b>	(24)
Forfeited during the period	<b>(1)</b>	(1)
Outstanding at end of financial year	<b>27</b>	43
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 £33.69 (2013: £33.83) for equity-settled options.

The outstanding shares for the year ended 31 December 2014 had a weighted average contractual life of 1.39 years (2013: 1.03 years) for the equity-settled scheme.



**31. SHARE-BASED PAYMENTS (CONTINUED)****(b) Deferred Share Bonus Scheme (continued)**

	<b>2014 Equity- settled Number of options in thousands</b>	<b>2013 Equity- settled Number of options in thousands</b>
<u>Company</u>		
Outstanding at start of financial year	<b>19</b>	36
Granted during the period	<b>9</b>	4
Exercised during the period	<b>(18)</b>	(21)
Outstanding at end of financial year	<b>10</b>	19
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 £34.03 (2013: £33.60) for equity-settled options.

The outstanding shares for the year ended 31 December 2014 had a weighted average contractual life of 1.5 years (2013: 0.96 years) for the equity-settled scheme.

**(c) Other Schemes****ESOS**Group

The number of outstanding equity-settled options at the end of the year were nil (2013: 9,709).

Company

The ESOS scheme was last awarded in 2004 and the final outstanding awards must be exercised by March 2014. The number of outstanding equity-settled options at the end of the year were nil (2013: 2,538).

# Notes to the Financial Statements

## 31. SHARE-BASED PAYMENTS (CONTINUED)

### (c) Other Schemes (continued)

#### SRS and ISRS

##### Group

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 823 (2013: 1,634).

##### Company

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 303 (2013: 575).

#### 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

	<b>2014</b>		<b>2013</b>	
	<b>LTIP</b>	<b>DSBS</b>	<b>LTIP</b>	<b>DSBS</b>
Expected volatility (%)	<b>18</b>	<b>18</b>	25	25
Average expected term to exercise (years)	<b>3.5</b>	<b>3.0</b>	3.5	3.0
Risk-free rate (%)	<b>1.2</b>	<b>0.9</b>	0.4	0.3
Expected dividend yield (%)	<b>4.2</b>	<b>4.2</b>	3.8	3.8
Share price at date of grant (£)	<b>32.60</b>	<b>32.60</b>	35.05	35.05
Fair value grant date (£)	<b>17.72</b>	<b>19.55</b>	23.69	31.23

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:

	<b>2014</b>	<b>2013</b>
	<b>%</b>	<b>%</b>
<u>Group and Company</u>		
Average share price volatility FTSE 100 comparator group*	–	37
Average share price volatility FMCG comparator group	<b>20</b>	26
Average correlation FTSE 100 comparator group*	–	37
Average correlation FMCG comparator group	<b>31</b>	37

\* Not applicable due to assumptions revised in the current financial year 2014.

## 31. SHARE-BASED PAYMENTS (CONTINUED)

### (c) Other Schemes (continued)

The expected British American Tobacco p.l.c share price volatility was determined taking account of the return index, (the share price index plus the dividend reinvested) over a five year period. The respective FMCG and FTSE 100 share price volatility and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This payout calculation is based on expectations published in analysts' forecasts.

## 32. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

### (i) Income Taxes

Current tax expense is determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits. Significant estimation is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### (ii) Deferred Tax

Deferred tax assets and liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax is disclosed in Note 14.

### (iii) Depreciation of Machinery and Equipment

Machinery and equipment are depreciated on a straight line basis over their estimated useful lives. The Group estimates the useful lives of these machinery and equipment to be within 10 to 14 years. Changes in the expected level of usage and technological developments may result in the change of economic useful lives and the residual values of these assets, effecting a revision of future depreciation charges.

# Supplementary Information

Pursuant to Bursa Malaysia Securities Berhad Listing Requirements

## REALISED AND UNREALISED PROFIT/(LOSS)

The following analysis of realised and unrealised retained profits/(accumulated losses) at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries				
– Realised profits	<b>522,090</b>	523,415	<b>301,168</b>	225,362
– Unrealised (loss)/profits	<b>(6,529)</b>	(27,770)	<b>16,031</b>	677
Less: Consolidation adjustments	<b>(131,271)</b>	(131,584)	–	–
Total retained profits	<b>384,290</b>	364,061	<b>317,199</b>	226,039

The unrealised portion within unappropriated profits (retained earnings) for the Group as at 31 December 2014 predominantly relates to net deferred tax liability of RM8,419,000 (2013: RM26,656,000).

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

The unrealised portion within unappropriated profits (retained earnings) for the Company as at 31 December 2014 predominantly relates to net deferred tax asset of RM16,439,000 (2013: RM 677,000).

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

# Analysis of Shareholdings

As at 28 February 2015

## SHARE CAPITAL

Authorised Share Capital : RM385,000,000 comprising 770,000,000 ordinary shares of RM0.50 each  
 Issued and Fully Paid-Up Share Capital : RM142,765,000 comprising 285,530,000 ordinary shares of RM0.50 each  
 Voting Right : One vote per ordinary share

## DISTRIBUTION OF SHAREHOLDINGS

Size of shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of issued shares
1 – 99	704	14.725	9,716	0.003
100 – 1,000	2,263	47.333	984,831	0.345
1,001 – 10,000	1,171	24.493	4,565,505	1.599
10,001 – 100,000	474	9.914	14,877,921	5.211
100,001 – 14,276,499 (*)	167	3.493	101,463,425	35.535
14,276,500 AND ABOVE (**)	2	0.042	163,628,602	57.307
<b>Total</b>	<b>4,781</b>	<b>100.00</b>	<b>285,530,000</b>	<b>100.000</b>

### Notes:

- \* Less than 5% of Issued Shares  
 \*\* 5% and above of Issued Shares

## DIRECTORS' DIRECT INTERESTS IN SHARES IN THE COMPANY

Name	Number of shares held	% of issued shares
Datuk Oh Chong Peng	1,000	0.00*
James Richard Suttie	1,500	0.00*
Dato' Chan Choon Ngai	1,000	0.00*

## DIRECTORS' INDIRECT INTERESTS IN SHARES IN THE COMPANY

Name	Number of shares held	% of issued shares
Dato' Chan Choon Ngai	6,000	0.00*

### Note:

- \* Less than 0.01%

# Analysis of **Shareholdings**

## **SUBSTANTIAL SHAREHOLDERS BASED ON THE REGISTER OF SUBSTANTIAL SHAREHOLDERS**

<b>Name</b>	<b>Direct</b>		<b>Indirect</b>	
	<b>Number of shares held</b>	<b>% of issues shares</b>	<b>Number of shares held</b>	<b>% of issues shares</b>
British American Tobacco Holdings (Malaysia) B.V.	142,765,000 <sup>1</sup>	50.000	-	-
Mitsubishi UFJ Financial Group	-	-	15,400,236	5.3936
Employees Provident Fund Board	22,506,002	7.8822	-	-
Aberdeen Asset Management PLC and its subsidiaries	14,492,220	5.0755	-	-

<sup>1</sup> Deemed interested in shares of British American Tobacco (Malaysia) Berhad by virtue of Section 6A of the Companies Act, 1965.

## **TOP THIRTY (30) SECURITIES ACCOUNT HOLDERS**

(without aggregating the securities from different securities accounts belonging to the same person)

<b>No</b>	<b>Name</b>	<b>Number of Shares Held</b>	<b>% of issued shares</b>
1	BRITISH AMERICAN TOBACCO HOLDINGS (MALAYSIA) B.V.	142,765,000	50.000
2	CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD	20,863,602	7.306
3	DB (MALAYSIA) NOMINEE (ASING) SDN BHD - SSBT FUND 4545 FOR LAZARD EMERGING MARKETS PORTFOLIO	5,703,000	1.997
4	HSBC NOMINEES (ASING) SDN BHD - EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	4,585,163	1.605
5	HSBC NOMINEES (ASING) SDN BHD - BNP PARIBAS SECS SVS LUX FOR ABERDEEN GLOBAL	4,172,420	1.461
6	CARTABAN NOMINEES (ASING) SDN BHD - EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	4,012,515	1.405
7	AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM MALAYSIA	4,000,000	1.400
8	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD - GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	3,801,100	1.331
9	AMANAHRAYA TRUSTEES BERHAD - SKIM AMANAH SAHAM BUMIPUTERA	3,422,200	1.198
10	HSBC NOMINEES (ASING) SDN BHD - BBH AND CO BOSTON FOR MATTHEWS ASIAN GROWTH AND INCOME FUND	3,368,900	1.179
11	HSBC NOMINEES (ASING) SDN BHD - EXEMPT AN FOR THE BANK OF NEW YORK MELLON (MELLON ACCT)	3,093,041	1.083
12	HSBC NOMINEES (ASING) SDN BHD - BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	2,676,087	0.937
13	CARTABAN NOMINEES (ASING) SDN BHD - GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	2,380,700	0.833

## Analysis of Shareholdings

				Overview
				.....
				Performance
14	HSBC NOMINEES (ASING) SDN BHD - BNYM SA/NV FOR MIURRAY INTERNATIONAL TRUST PLC	1,900,000	0.665	.....
15	HSBC NOMINEES (ASING) SDN BHD - BNP PARIBAS SECS SVS PARIS FOR ABERDEEN ASIA PACIFIC EQUITY FUND	1,750,900	0.613	.....
				Leadership
16	CARTABAN NOMINEES (TEMPATAN) SDN BHD - EXEMPT AN FOR EASTSPRING INVESTMENTS BERHAD	1,504,400	0.526	.....
17	CARTABAN NOMINEES (ASING) SDN BHD - RBC INVESTOR SERVICES BANK FOR VONTOBEL FUND - EMERGING MARKETS EQUITY	1,462,590	0.512	.....
				Governance
18	CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EXEMPT AN FOR AIA BHD.	1,255,200	0.439	.....
19	HSBC NOMINEES (ASING) SDN BHD - EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (JPMELAB AIF APG)	1,106,700	0.387	.....
				Growth
20	CARTABAN NOMINEES (ASING) SDN BHD - EXEMPT AN FOR RBC INVESTOR SERVICES TRUST (CLIENTS ACCOUNT)	1,032,535	0.361	.....
21	CITIGROUP NOMINEES (ASING) SDN BHD - CBHK FOR KUWAIT INVESTMENT AUTHORITY (FUND 221)	1,027,000	0.359	.....
22	DB (MALAYSIA) NOMINEE (ASING) SDN BHD - STATE STREET AUSTRALIA FUND 7FAF FOR MONETARY AUTHORITY OF SINGAPORE	1,027,000	0.359	.....
				Productivity
23	AMANAHRAYA TRUSTEES BERHAD - AS 1MALAYSIA	894,300	0.313	.....
24	HSBC NOMINEES (ASING) SDN BHD - EXEMPT AN FOR BNP PARIBAS SECURITIES SERVICES (JERSEY GBP)	889,800	0.311	.....
				Responsibility
25	DB (MALAYSIA) NOMINEE (ASING) SDN BHD - SSBT FUND IBES FOR LAZARD/INVESTORS BANK COLLECTIVE TRUST	862,000	0.301	.....
26	CITIGROUP NOMINEES (ASING) SDN BHD - CBLDN FOR KUWAIT INVESTMENT AUTHORITY	824,400	0.288	.....
27	CITIGROUP NOMINEES (ASING) SDN BHD - GOLDMAN SACHS INTERNATIONAL	792,955	0.277	.....
				Winning Organisation
28	HSBC NOMINEES (ASING) SDN BHD - HSBC BK PLC FOR ABU DHABI INVESTMENT AUTHORITY (AGUS)	764,007	0.267	.....
29	HSBC NOMINEES (ASING) SDN BHD - TNTC FOR VONTOBEL INVESTMENT TRUST	756,658	0.265	.....
				Financial Statements
30	HSBC NOMINEES (ASING) SDN BHD - PICTET AND CIE (EUROPE) FOR PICTET GLOBAL SELECTION FUND – GLOBAL HIGH YIELD EMERGING EQUITIES FUND	748,800	0.262	.....
<b>Total</b>		<b>223,442,973</b>	<b>78.255</b>	.....

# Particulars of Properties

The properties held by the Group and Company at 28 February 2015 are as follows:

Location	Date of purchase/ last Revaluation	Usage	Approx. age of building (years)	Land/Built-up area (square metres)	Net Book Value RM'000
<b>Freehold</b>					
No. 36A, Jalan Lengkok Canning, Ipoh Garden, Ipoh, Perak	30.11.1989	shop and office	26	143.07	72
No. A79, Jalan Telok Sisek, Kuantan, Pahang	28.4.1994	shop and office	23	110.59	201
<b>Leasehold</b>					
Lots 122 and 124, Jalan Universiti, Petaling Jaya, Selangor (99 year leases expiring on 8.4.2062 and 29.9.2060 respectively)	30.9.1961	factory, office and store	53	46,905.44	57,484
No. 2, Jalan Foochow, Kuching, Sarawak (999 year lease expiring 31.12.2923)	3.10.1991	shop and office	25	156.10	151
No. 120, Jalan Semangat, Petaling Jaya, Selangor (99 year lease expiring 12.7.2061)	24.5.1993	office and store	39	6,119.00	4,457
Lot 1, Block A Hong Tong Centre, Miles 4, Penampang, Kota Kinabalu, Sabah (99 year lease expiring 31.12.2080)	30.9.1999	shop and office	21	136.56	371
No. 8, Jalan Melaka Raya 13, Taman Melaka Raya, Melaka (99 year lease expiring 7.7.2093)	30.3.1996	shop and office	20	143.00	262



# Corporate Directory

## Principal Offices

**British American Tobacco (Malaysia) Berhad** (Company No. 4372-M)

## Head Office

Virginia Park  
Jalan Universiti  
46200 Petaling Jaya  
Selangor Darul Ehsan  
Tel : +60 (3) 7956 6899/7491 7100  
Fax : +60 (3) 7955 8416

## Factory

**Tobacco Importers and Manufacturers Sdn. Berhad** (Company No. 4414-U)

Virginia Park  
Jalan Universiti  
46200 Petaling Jaya  
Selangor Darul Ehsan  
Tel : +60 (3) 7956 6899/7491 7100  
Fax : +60 (3) 7955 8416

**Commercial Marketers and Distributors Sdn. Bhd.** (Company No. 42316-T)

Virginia Park  
Jalan Universiti  
46200 Petaling Jaya  
Selangor Darul Ehsan  
Tel : +60 (3) 7956 6899/7491 7100  
Fax : +60 (3) 7955 8416

## Branch Offices

**Pulau Pinang**  
No. 50 Weld Quay  
10300 Penang  
Tel : +60 (4) 261 8840  
Fax : +60 (4) 261 8799

## Ipoh

No. 120 Jalan Silibin  
30000 Ipoh  
Perak  
Tel : +60 (5) 528 7680/528 7689  
Fax : +60 (5) 528 7684

## Kuala Lumpur

Unit No. BB1-1, Jalan Shamelin Niaga 2  
Shamelin Heights Business Park  
Taman Shamelin Perkasa  
56100 Kuala Lumpur  
Tel : +60 (3) 9200 8371  
Fax : +60 (3) 9200 8370

## Selangor

No 3, Jalan Industri PBP 3  
Taman Perindustrian  
Pusat Bandar Puchong  
47100 Puchong  
Selangor  
Tel : +60 (3) 5891 9888  
Fax : +60 (3) 5891 9882

## Melaka

12 Jalan Abadi 3  
Taman Malim Jaya  
75250 Melaka  
Tel : +60 (6) 337 6593/336 5435  
Fax : +60 (6) 335 6449

## Johor Bahru

No 4, Jalan Asas  
Larkin Industrial Estate  
80350 Johor Bahru  
Johor  
Tel : +60 (7) 232 0412  
Fax : +60 (7) 238 6208

## Kuantan

PT64561, Jalan IM 3/15  
Kawasan Perindustrian Ringan  
Bandar Indera Mahkota  
25200 Kuantan  
Pahang  
Tel : +60 (9) 517 8373/517 7831  
Fax : +60 (9) 517 7484

## Kota Bharu

Lot PT 1453 & 1454, 1<sup>st</sup> 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 L180-101/100  
Block A, HSK Industrial Centre  
Jalan Bundusan, Mile 5, Off Jalan  
Penampang  
89500 Kota Kinabalu  
Sabah  
Tel : +60 (88) 722628/722629  
Fax : +60 (88) 722630

## Kuching

Lot 1329 Jalan Mersawa  
Pending Industrial Estate  
93450 Kuching  
Sarawak  
Tel : +60 (82) 481 884/481 886

Overview

Performance

Leadership

Governance

Growth

Productivity

Responsibility

Winning Organisation

Financial Statements

Other Information

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Fifty-Fourth Annual General Meeting of British American Tobacco (Malaysia) Berhad (the “Company”) will be held at Ballroom 1, 1<sup>st</sup> Floor, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Monday, 27 April 2015 at 11.00 a.m. for the following purposes:

## AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2014 and the Reports of the Directors and Auditors thereon.

### Ordinary Resolution 1

2. To re-elect the following Directors who retire by rotation in accordance with Articles 97(1) and (2) of the Company’s Articles of Association:

(a) Tan Sri Mohamad Salim bin Fateh Din

### Ordinary Resolution 2

(b) James Richard Suttie

### Ordinary Resolution 3

3. To re-elect Pablo Daniel Sconfianza who retires in accordance with Article 103 of the Company’s Articles of Association.

### Ordinary Resolution 4

4. To consider and, if thought fit, to pass the following Ordinary Resolution pursuant to Section 129(6) of the Companies Act, 1965:-

“THAT Datuk Oh Chong Peng, a Director who retires pursuant to Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting.”

### Ordinary Resolution 5

5. To re-elect Datuk Oh Chong Peng who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company.

### Ordinary Resolution 6

6. To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ending 31 December 2015 and to authorise the Directors to fix their remuneration.

### Ordinary Resolution 7

## AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following as Ordinary Resolution:

7. **PROPOSED RENEWAL OF SHAREHOLDERS’ MANDATE FOR THE COMPANY AND ITS SUBSIDIARIES TO ENTER INTO RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE WITH RELATED PARTIES.**

### (“PROPOSED RENEWAL OF THE RECURRENT RPTS MANDATE”)

### Ordinary Resolution 8

“THAT, the Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 2 April 2015) granted by the shareholders of the Company pursuant to Paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad authorising the Company and/or its subsidiaries (“British American Tobacco Malaysia Group”) to enter into recurrent related party transactions of a revenue or trading nature (“Recurrent RPTs”) with Related Parties (as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad) as set out in Paragraph 2.2 and Appendix II of the Circular to Shareholders dated 2 April 2015 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,

# Notice of **Annual General Meeting**

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 143(1) of the Companies Act, 1965 (but must not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); 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."

- 8. To transact any other business of the Company of which due notice has been received.

**By Order of the Board**



**DAVID CHIAM JOY YEOW**  
LS0009734  
Secretary

Petaling Jaya  
2 April 2015

# Notice of **Annual General Meeting**

## **Notes:**

1. Only Members whose names appear in the Record of Depositors as at 17 April 2015 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his/her behalf.
  2. A proxy need not be a Member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
  3. 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.
  4. 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.
  5. 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.
  6. 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.
  7. The original Form of Proxy must be duly executed and deposited at the Registrar of the Company at Tricor Investor Services Sdn Bhd, Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the Meeting or any adjourned meeting thereof.
8. **Registration of Members/Proxies**
- Registration of Members/Proxies attending the Meeting will commence at 9.00 a.m. on the day of the meeting and will close at 11.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration.
9. **Explanatory Note on Special Business**
- Recurrent Related Party Transactions Mandate**
- Proposed Ordinary Resolution 8, if passed, will enable British American Tobacco Malaysia Group to enter into any of the recurrent related party transactions of a revenue or trading nature which are necessary for the British American Tobacco Malaysia Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.
- Further information on the Proposed Renewal of the Recurrent RPTs Mandate is set out in the Circular to Shareholders dated 2 April 2015, which is despatched together with the Company's 2014 Abridged Annual Report.

# Administrative Details for British American Tobacco Malaysia's Fifty-fourth Annual General Meeting

**Date : Monday, 27 April 2015**

**Time : 11.00 a.m.**

**Place : Ballroom 1, 1<sup>st</sup> Floor, Sime Darby Convention Centre,  
1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur**

## REGISTRATION

1. Registration will start at 9.00 a.m. at the entrance of Ballroom 1, 1<sup>st</sup> Floor, Sime Darby Convention Centre and will close at **11.00 a.m. sharp**.
2. Please read the signage to ascertain which registration table you should approach to register yourself for the Annual General Meeting and join the queue accordingly.
3. Please produce your original Identity Card (IC) to the registration staff for verification. Please make sure you collect your IC thereafter.
4. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
5. Once you have signed in, you will be given a wristband which allows you entrance to Ballroom 1. The wristband has to be worn during the whole duration of the Annual General Meeting. There will be no replacement in the event that you lose or misplace the wristband.
6. After registration, please leave the registration area immediately and proceed to Ballroom 1.
7. You are not allowed to register on behalf of another person even with the original IC of the other person.
8. The registration counter only handles verification and registration. You may proceed to the Help Desk for any other clarification or queries.

## REFRESHMENT

9. There will be no food served before and after the meeting. Member/Proxies will be served with morning tea and coffee only.

## ENTITLEMENT TO ATTEND AND VOTE

10. Only Members whose names appear in the Record of Depositors as at **5.00 p.m. on 17 April 2015** (General Meeting Record of Depositors) shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time.

## PROXY

11. 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 Annual General Meeting.
12. 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.
13. To appoint a proxy, the original Form of Proxy which is attached together with the Company's Abridged Annual Report 2014 must be completed and signed, sent and delivered to the Company's Registrar, Tricor Investor Services Sdn. Bhd. at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by 25 April 2015 at 11.00 a.m..
14. 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.

# Administrative Details for **British American Tobacco Malaysia's Fifty-fourth Annual General Meeting**

## REVOCATION OF PROXY

15. If you wish to appoint a proxy, please note that a proxy may be revoked by :-
- i. attendance of the appointer at the Annual General Meeting and exercising his/her voting rights at the Annual General Meeting personally will automatically revoke the proxy;
  - ii. notice of revocation of the Form of Proxy or the authority served by 25 April 2015 at 11.00 a.m.;
  - iii. appointing new proxy by depositing a new Form of Proxy in favour of another person by 25 April 2015 at 11.00 a.m.; and
  - iv. transfer of shares by the appointer.

## CORPORATE MEMBER

16. Any corporate member who wishes to appoint a representative instead of a proxy to attend this Annual General Meeting should lodge the certificate of appointment under the seal of the corporation, at the office of the Company's Share Registrar, Tricor Investor Services Sdn. Bhd. at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by 25 April 2015 at 11.00 a.m.

## ANNUAL REPORT 2014

17. The Annual Report 2014 is available on Bursa Malaysia's website at [www.bursamalaysia.com](http://www.bursamalaysia.com) under Company Announcements and also at the British American Tobacco Malaysia's website at [www.batmalaysia.com](http://www.batmalaysia.com).

## OTHER MEETING DETAILS

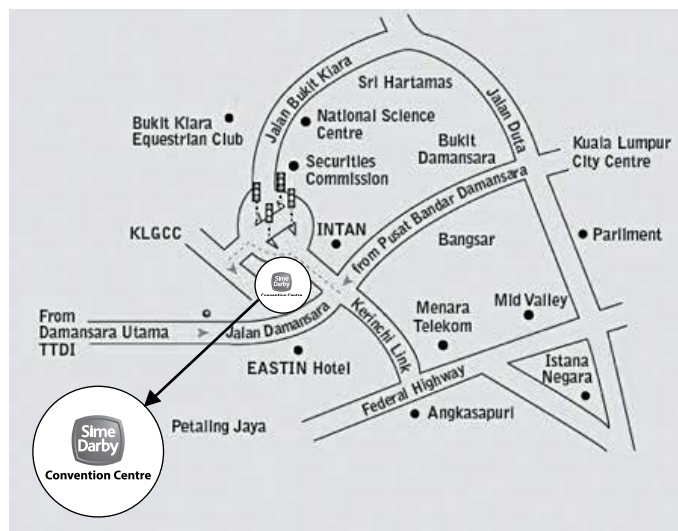
18. Free WIFI is available at the Sime Darby Convention Centre for the convenience of Members/Proxies.
19. Indoor and outdoor parking is freely available at the Sime Darby Convention Centre (subject to availability).
20. A medical doctor is available on standby for any medical emergency. Please refer to the Help Desk should any assistance be required.

## ENQUIRY

21. If you have general queries prior to the meeting, please contact the British American Tobacco Malaysia Legal and Secretarial Department at 603 - 74917100 or the following person during office hours :

Name : Ms. Lim Lay Kiow  
Share Registrar : Tricor Investor Services Sdn. Bhd.  
Telephone number : 603 2264 3883

## LOCATION MAP TO SIME DARBY CONVENTION CENTRE



# Form of Proxy



**BRITISH AMERICAN  
TOBACCO  
MALAYSIA**

CDS Account No.

## BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

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

I/We \_\_\_\_\_ (NRIC/Passport/Co. No.: \_\_\_\_\_)  
(Name as per NRIC/Passport/Certificate of Incorporation in Capital Letters)

of \_\_\_\_\_  
(Full Address)

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint \_\_\_\_\_

\_\_\_\_\_ (NRIC/Passport No.: \_\_\_\_\_)  
(Name as per NRIC/Passport in Capital Letters)

of \_\_\_\_\_  
(Full Address)

and/or failing him/her \_\_\_\_\_ (NRIC/Passport No.: \_\_\_\_\_)  
(Name as per NRIC/Passport in Capital Letters)

of \_\_\_\_\_ or failing him/her, the Chairman  
(Full Address)

of the Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fifty-Fourth Annual General Meeting of the Company, to be held at Ballroom 1, 1<sup>st</sup> Floor, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Monday, 27 April 2015 at 11.00 a.m., and at any adjournment thereof.

My/our proxy/proxies shall vote as follows :

*(Please indicate with an "X" in the spaces provided below how you wish your votes to be cast on the resolutions specified in the notice of meeting. If you do not do so, your proxy/proxies will vote or abstain as he/she may think fit)*

Resolutions		For	Against
Ordinary Resolution 1	To receive the Audited Financial Statements for the financial year ended 31 December 2014 and the Reports of the Directors and Auditors thereon.		
Ordinary Resolution 2	Re-election of Tan Sri Mohamad Salim bin Fateh Din who retires by rotation in accordance with Articles 97(1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 3	Re-election of James Richard Suttie who retires by rotation in accordance with Articles 97(1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 4	Re-election of Pablo Daniel Sconfianza who retires in accordance with Article 103 of the Company's Articles of Association.		
Ordinary Resolution 5	Re-appointment of Datuk Oh Chong Peng who retires pursuant to Section 129 of the Companies Act, 1965.		
Ordinary Resolution 6	Re-election Datuk Oh Chong Peng who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company.		
Ordinary Resolution 7	Re-appointment of Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ending 31 December 2015 and authorisation to Directors to fix their remuneration.		
Ordinary Resolution 8	Proposed Renewal of Shareholders' Mandate for the Company and its Subsidiaries to enter into Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties.		

Dated this ..... day of ..... 2015

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

Signature(s) of Member(s)/Common Seal

	No. of Shares	Percentage
Proxy 1		
Proxy 2		
TOTAL		100

**Notes:**

1. Only Members whose names appear in the Record of Depositors as at 17 April 2015 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his/her behalf.
2. A proxy need not be a Member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. 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.
4. 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.
5. 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.
6. 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.
7. The original Form of Proxy must be duly executed and deposited at the Registrar of the Company at Tricor Investor Services Sdn Bhd, Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the meeting or any adjourned meeting thereof.
8. **Registration of Members/Proxies**  
Registration of Members/Proxies attending the meeting will commence at 9.00 a.m. on the day of the meeting and will close at 11.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration.
9. **Explanatory Note on Special Business**  
**Recurrent Related Party Transactions Mandate**  
Proposed Ordinary Resolution 8, if passed, will enable British American Tobacco Malaysia Group to enter into any of the recurrent related party transactions of a revenue or trading nature which are necessary for the British American Tobacco Malaysia Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Further information on the Proposed Renewal of the Recurrent RPTs Mandate is set out in the Circular to Shareholders dated 2 April 2015, which is despatched together with the Company's 2014 Abridged Annual Report.

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affix  
postage  
stamp

**The Share Registrar**  
**Tricor Investor Services Sdn Bhd**  
(Company No. 118401-V)  
Level 17, The Garden North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur, Malaysia

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**BRITISH AMERICAN  
TOBACCO**  
MALAYSIA

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