



BRITISH AMERICAN
TOBACCO
MALAYSIA

THE
BAT
WAY

ANNUAL REPORT 2015



Productivity



Growth



Leadership



Responsibility



**Winning
Organisation**



OUR VISION

Our vision and enhanced *BAT Way* strategy guides us 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 and which has been embedded across our business to help create long-term value for our shareholders and a wide group of stakeholders.

The vision and *The BAT Way* 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 *The BAT Way* strategy will enable us to respond even more rapidly to the opportunities and challenges we believe are important to a 21st 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.

55th ANNUAL GENERAL MEETING

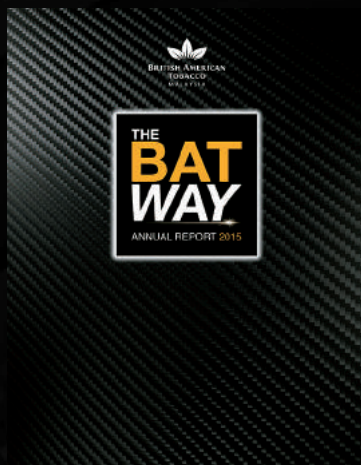
of British American
Tobacco (Malaysia) Berhad

DATE :
Monday, 25 April 2016

TIME :
10.00a.m.

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

AGM HELPDESK :
David Chiam Joy Yeow
Tel : +60 (3)74917324
Fax : +60 (3)74913772
Email : david_chiam@bat.com



THE BAT WAY

British American Tobacco Malaysia continues to evolve to meet the growing challenges of the industry and the changing expectations of our customers, delivering quality products that satisfies consumer needs through *The BAT Way*. We are committed to being the best, maintaining a culture of continuous improvement and enhancement to ensure our business remains effective and competitive to secure the future of our company, our consumers, our shareholders and our stakeholders.

OVERVIEW OF BRITISH AMERICAN TOBACCO MALAYSIA

OVER

100 YEARS OF
HISTORY IN
MALAYSIA

318.7
SEN



EARNINGS PER SHARE

752



EMPLOYEES ACROSS THE NATION

62.1%

MARKET SHARE

TOP



MARKET CAPITALISATION IN
BURSA MALAYSIA

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RESULTS AT A GLANCE

REVENUE

RM 4,582 MIL

PROFIT BEFORE TAX

RM 1,231 MIL

NET PROFIT

RM 910 MIL

SHAREHOLDERS' FUND

RM 547 MIL

NET RETURNS ON SHAREHOLDERS' FUND

166%

NET DIVIDEND PER SHARE

312 SEN



PRODUCTIVITY

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CHAIRMAN'S LETTER

**TAN SRI MOHAMAD SALIM
BIN FATEH DIN**



Dear Shareholders,

As we continue to advance into a new century of operations in Malaysia, we face an accession of challenges arising from the shifting business landscape at home and abroad. Adjustments need to be made and new strategies to be applied to maneuver our way within a more demanding business environment. We embraced the challenges by moving forward, confronting change head-on and remaining committed towards delivering long-term value to our shareholders, our people, and our wider group of stakeholders.

On behalf of the Board of Directors, I present the Group's Annual Report and Financial Statements for the financial year ended 31 December 2015.



312 SEN
NET DIVIDEND PER SHARE FOR
THE FINANCIAL YEAR.



+0.9
PERCENTAGE POINTS GROWTH IN
MARKET SHARE COMPARED TO
PREVIOUS YEAR.



PERFORMANCE REVIEW

British American Tobacco Malaysia registered a reduction of revenue of 4.5 percent and gross profit of 2.2 percent when compared to 2014. Key drivers of this performance were the steep decline in both domestic and export contract manufacturing volumes and inflationary increases in costs.

However, despite inflationary pressure, operating expenses were 8.7 percent lower when compared to 2014. This was largely attributed to the Group's continuous efforts in driving further efficiencies in its expenditures and overhead costs. In addition, the Group's other operating income recorded an increase of RM1.7 million in 2015, mainly due to gains from the disposal of assets.

As a result, despite the significant volume loss, the Group managed to record a marginal 0.5 percent increase in profit from operations and a 1.0 percent increase in profit before tax.

In terms of market share, British American Tobacco Malaysia closed the year with 62.1 percent share of market, witnessing a rise of 0.9 percentage points versus the same period in 2014, mainly driven by the remarkable performance of PETER STUYVESANT within the Aspirational Premium segment.

DIVIDENDS

The Board of Directors has recommended a fourth interim dividend of 78 sen per share, making the total net dividend declared for the financial year to be 312 sen per share. This represents an increase of 1.0 percent over 2014 in line with the Group's commitment in returning value to its shareholders.

OUTLOOK FOR 2016

The Group continues to remain concerned as legal volumes continue to suffer from the rampant illegal cigarette trade in the country as a consequence of the steep excise increase in September 2013 and unprecedented excise increase in November 2015. Illegal cigarette trade incidence remains as high as 36.9 percent.

Nonetheless, we would like to take this opportunity to commend the Royal Malaysian Customs and other law enforcement agencies for the great work they are doing to help address the high incidence of illegal cigarette trade and we hope that they will continue to enhance their enforcement efforts and press for much steeper penalties. The recovery of the legal market will very much depend on how effectively the illegal cigarette trade is addressed through these enforcement efforts.

Our priorities and game plan for 2016 will remain the same, which is to invest where it matters to strengthen our portfolio and drive further cost efficiencies to deliver shareholder value.

LEADERSHIP

In June 2015, the Group bid farewell to Mr Joel Solomon, who decided to leave to pursue other interests and welcomed Mr Gavin Ong as the new Operations Director of British American Tobacco Malaysia. Mr Gavin Ong brings with him significant experience and knowledge from his various operation roles in other British American Tobacco markets.

APPRECIATION

Finally, on behalf of the Board of Directors, I wish to thank our senior management team and employees throughout British American Tobacco Malaysia for their tremendous efforts, passion and resilience in delivering greater value for our shareholders and stakeholders especially in such a difficult and demanding environment.

I too 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 British American Tobacco Malaysia. I wish also to record my thanks to my fellow Directors for their advice and support.

TAN SRI MOHAMAD SALIM BIN FATEH DIN
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

STEFANO CLINI
MANAGING DIRECTOR



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.

Within this MD&A section, shareholders will be given an overview of the business and operations, a financial review of 2015 and the Group's expectations on the business going into 2016.

2015 PERFORMANCE OVERVIEW

The operating environment in 2015 was far tougher in terms of business challenges in comparison to previous years. The escalating illegal cigarette trade was the main challenge faced by the legal tobacco industry. One in three cigarettes in Malaysia is illegal which puts the illegal cigarette trade incidence at a high 36.9 percent¹, a 3.2 percentage point increase from 2014.

The implementation of the Goods and Services Tax (GST) in April 2015 constricted consumers' disposable income and in November 2015, the Government imposed an unprecedented excise increase of 40 percent. As a consequence, legal volumes went down and continue to suffer.

In line with the adverse challenges faced, the Group's financial performance was deeply affected by a domestic volume contraction of 13.5 percent in the face of falling legal consumption in 2015 versus 2014, which resulted in a 4.5 percent reduction of revenue for 2015.

Furthermore, despite managing to record a RM6 million increase in profit from operations, the overall additional productivity savings and the tax driven price increases during 2015 could only partially mitigate the overall impact of the loss in volumes, the inflationary costs increases and escalating cost pressures due to lower production volumes.

2015 saw our leading brand, DUNHILL, reaching new heights amongst consumers with the exceptional milestone of hitting the highest ever market share



of 47.9 percent in October 2015. On the Aspirational Premium front, PETER STUYVESANT continued its trajectory upwards with a gain of 1.3 percentage points making it the fastest growing brand in Malaysia. Despite the pressure following the excise-led price increase in November 2015, the Group managed to close the year at 62.1 percent corporate market share.

In light of the pressing situation of illegal cigarettes, we remain encouraged by the relentless enforcement efforts undertaken by various enforcement agencies, in particular the Royal Malaysian Customs. With the onset of game changing strategies such as Ops Outlet and Ops Pacak initiated by the Royal Malaysian Customs and the Anti Illicit Goods Campaign launched by Sandakan Municipal Council, errant retailers are continuously warned not to partake in the illegal cigarette trade for quick profits. We hope that with further intensified enforcement, coupled with stronger deterrent penalties, and widespread public awareness, the infestation of illegal cigarettes could be further diminished.

Overall, despite the incredibly tough year, it was a commendable performance for the Group in 2015, resulting in another year of good returns for shareholders.

BUSINESS & OPERATIONS

PRODUCTS AND SERVICES

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

Our portfolio of leading brands include DUNHILL, PALL MALL, PETER STUYVESANT, BENSON & HEDGES and KENT, amongst others. Presently, we employ 752 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 Group, 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 30 percent of our primary manufacturing (leaf processing) and 38 percent of our secondary manufacturing (cigarette making) were used in 2015 for contract manufacturing.

¹ 2015 Illicit Cigarette Study (ICS) commissioned by the Confederation of Malaysian Tobacco Manufacturers



MANAGEMENT DISCUSSION AND ANALYSIS



OPERATING FACILITIES

The Group is headquartered in Section 19, Petaling Jaya, Selangor Darul Ehsan, 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, our Petaling Jaya site 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 region.

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, 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





Peninsular Malaysia
distribution points



East Malaysia distribution
points

Total Retailers : approximately

75,000



British American Tobacco Malaysia Cigarette Distribution Nationwide and Retailers

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.

CORPORATE STRUCTURE

The corporate structure of British American Tobacco Malaysia as at 31 December 2015:



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

MANAGEMENT DISCUSSION AND ANALYSIS

OBJECTIVES & STRATEGIES

We share British American Tobacco p.l.c'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 high 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 62.1 percent market share, and ranks amongst the top 25 companies on Bursa Malaysia Securities Berhad in

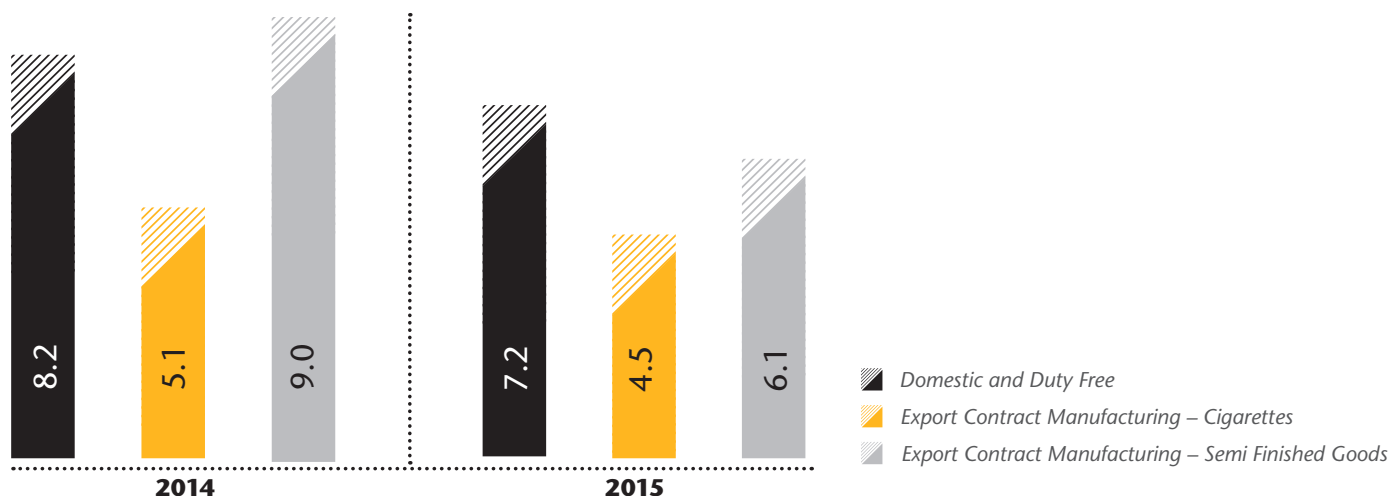
terms of market capitalisation. We aim to maintain our leadership in the industry through increasing our share of the tobacco business and better satisfying consumer demands compared to our competitors. In meeting these goals, we ensure that we market responsibly, and in a manner sensitive to our environment. 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.



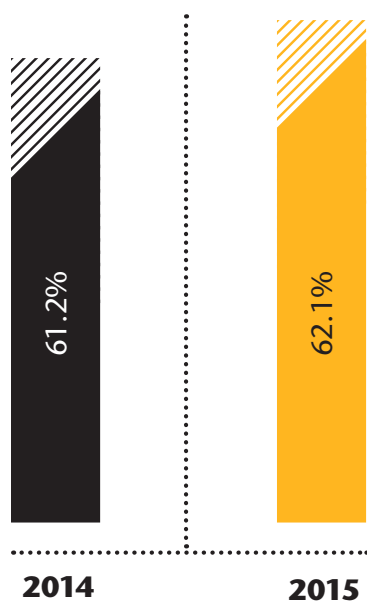
REVIEW OF NON-FINANCIAL PERFORMANCE INDICATORS

Contract Manufacturing volumes for export business saw a steep decline in 2015, resulting in a total reduction (cigarette and non-cigarettes) of 24.8 percent versus 2014. This was largely attributed to lower demand from the Australian, South Korean, Philippines and Taiwan markets.

Sales Volume (billion sticks)



Corporate Share of Market in Malaysia



Within the Malaysia legal domestic market, the Group recorded a market share growth of 0.9 percentage points in 2015 to achieve a full year market share of 62.1 percent.

DUNHILL, the flagship brand of the Group, capped the year with a strong performance despite the challenging operating environment. It maintained its market leadership with a market share of 46.9 percent, witnessing a marginal decline of 0.1 percentage points when compared to full year 2014.

Within the Aspirational Premium segment, the group witnessed a growth of 1.3 percentage points compared to full year 2014, strongly driven by PETER STUYVESANT which continued to show gains in share of market, reaching a 6.4 percent share of market in December 2015. PALL MALL remained stable, holding a market share of 4.5 percent.

Despite the tough environment in 2015, the Group remained focused on our strategies and priorities in continuously strengthening our brand portfolio. This is evident with the Group pushing the envelope in areas of new product innovation and differentiated offerings with Malaysia's first unique Zest capsule in DUNHILL Zest, DUNHILL Mix which features two different capsules, a charcoal filter for PETER STUYVESANT Neo and the introduction of Premium Plus brand SHUANG XI adding to British American Tobacco Malaysia's already impressive portfolio.

REVIEW OF FINANCIAL RESULTS



PABLO DANIEL SCONFIANZA
FINANCE DIRECTOR

PROFIT FROM OPERATIONS

+0.5%

1,240 MIL | 2014 : 1,234 MIL

EARNINGS PER SHARE

+2.8SEN

318.7 SEN | 2014 : 315.9 SEN

NET PROFIT

+0.9%

910 MIL | 2014 : 902 MIL

REVENUE

-4.5%

4,582 MIL | 2014 : 4,796 MIL

RETURN ON EQUITY

-6.0PP

166% | 2014 : 172%

EBITDA

+0.0%

1,277 MIL | 2014 : 1,277 MIL

OPERATING PROFIT MARGIN

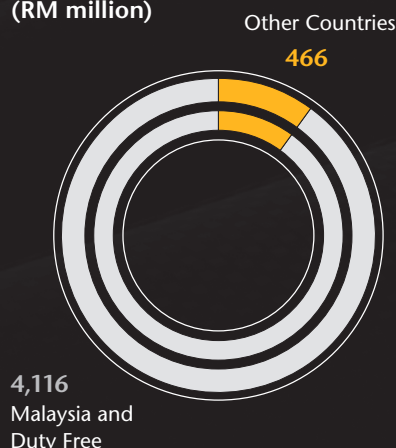
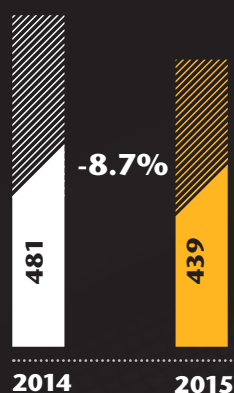
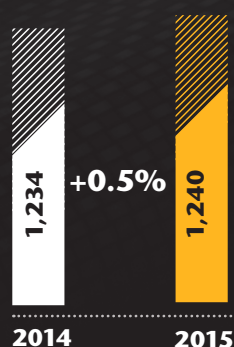
+1.4PP

27.1% | 2014 : 25.7%

MARKET CAPITALISATION

-13.9%

16.0 BIL | 2014 : 18.6 BIL

Gross Revenue
(RM million)Operating Expenses
(RM million)Profit From Operations
(RM million)

REVENUE

Revenue for the domestic and duty free market declined by 4.3 percent (RM184 million) when compared to 2014, while contract manufacturing revenue suffered a 6.1 percent (RM30 million) decline from previous year. Net revenue (revenue excluding excise and sales tax) recorded a 4.1 percent decline in comparison to previous year.

This revenue evolution was mainly driven by a 13.5 percent reduction of domestic market volumes versus 2014 as a consequence of the overall softer demand amongst consumers after the Goods and Services Tax (GST) implementation, and the impact of the unprecedented high excise increase in November 2015.

COST OF SALES

In 2015, lower production volumes, further efficiencies and productivity savings undertaken by the Group resulted into a 5.7 percent (RM177 million) decrease in cost of sales against 2014.

During the year, cost of sales was negatively impacted by the November 2015 excise increase, inflationary cost increases on raw materials, and escalating cost pressures due to lower production volumes. However, volume reduction more than offset these increases, resulting in a decline in overall cost of sales.

OPERATING EXPENSES

In 2015, operating expenses were 8.7 percent (RM42 million) lower than previous year despite inflationary pressures and foreign exchange headwinds. This was largely driven by the absence of the one-off cost related to the discontinuation of employee cigarette rations in 2014 along with year-on-year savings (RM14 million), and the Group's continuous effort in driving further efficiencies in marketing expenditure and overhead costs (RM36 million).

PROFIT FROM OPERATIONS

Despite the overall impact of volume loss and escalating cost pressures, the Group recorded a marginal 0.5 percent (RM6 million) growth in profit from operations when compared to 2014. This increase was led by the implementation of further cost effective measures and productivity savings across the business allowing for a 1.4 percentage points increase in Operating Profit Margin from 25.7 percent to 27.1 percent.

TAXATION

The average effective tax rate of the Group for the financial year ended 31 December 2015 was 26.1 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 2015, the Group again declared and paid four quarterly interim dividends with no final dividend aimed to accelerate dividend payments to shareholders. Total payout for 2015 was 312 sen per share, which represents a 97.9 percent earnings per share payout (2014: 97.8 percent). This translated into a dividend growth of 1.0 percent when compared to 2014.

DEBT STRUCTURE

In August 2014, the Group successfully redeemed its RM250 million Medium Term Note (MTN) through a combination of cash on hand and short term borrowings. Since then, the Group has utilised revolving credit facilities to support its short term working capital requirements as this structure offers more flexibility to mirror the movements in working capital, together with improved interest deductibility.

During 2015, debt levels were reduced and further interest effectiveness of the borrowing was achieved.

REVIEW OF FINANCIAL RESULTS

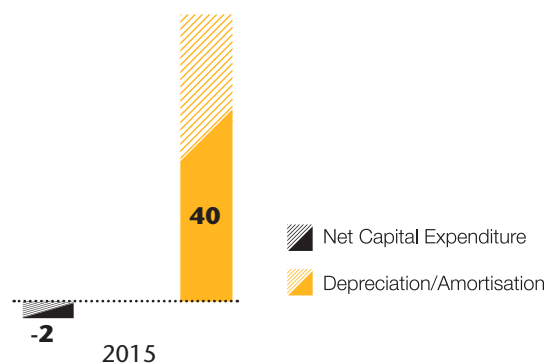
WORKING CAPITAL AND LIQUIDITY

The closing cash and cash equivalents amounted to RM29 million, an increase of RM25 million from 2014. The Group had a net cash inflow of RM25 million in 2015 (RM80 million higher than 2014). The net cash inflows was largely attributed to lower repayment of borrowings of RM95 million and improvement in working capital of RM67 million (predominantly due to reduction in inventories and trade receivables). These inflows were partially offset by a higher tax payment of RM70 million and a higher dividend payment of RM9 million, all compared to 2014.

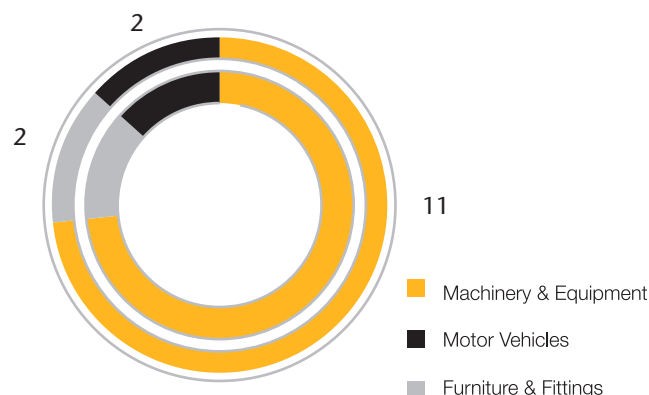
The EBITDA cash conversion recorded an increase of 6 percentage points, which was primarily attributable to the improvement in working capital.

	12 months 2015 RM million	12 months 2014 RM million	Favourable/ (Adverse) %
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	1,277	1,277	0%
Profit from Operations	1,240	1,234	1%
Cash from Operations	1,378	1,307	5%
EBITDA Cash Conversion	108%	102%	6%
Increase/(Decrease) in cash and cash equivalents	+25	-56	145%

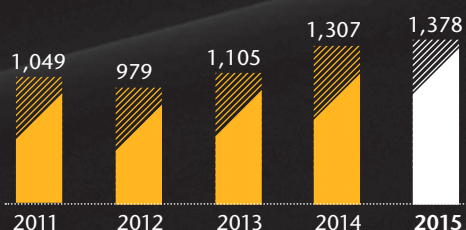
Net Capital Expenditure & Depreciation (RM million)



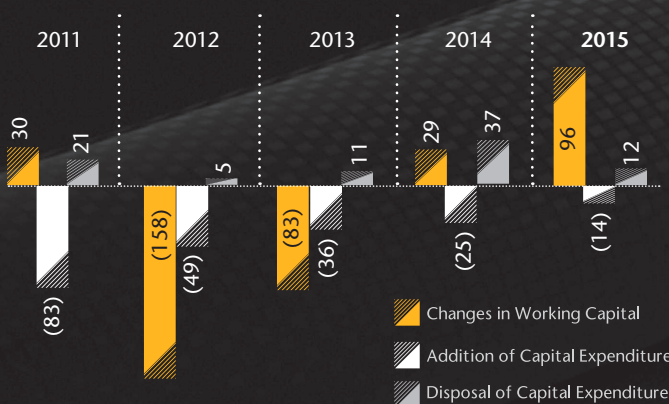
Capital Expenditure (RM million)



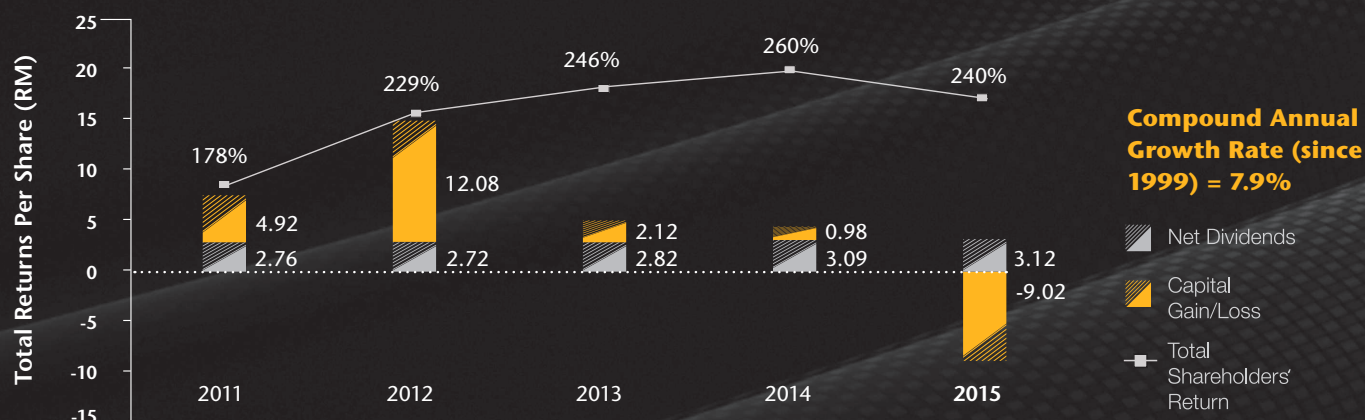
Cash from Operations (RM million)



Key Cash Flow Components (RM million)



SHAREHOLDERS' RETURN



2015 proved to be a very challenging year not only for the Malaysian economy, but also for the domestic tobacco industry, as a consequence of weaker consumer sentiments and excise/tax increases. This situation translated into share price fluctuations for British American Tobacco Malaysia which translated into a total annual shareholder loss of RM5.90 per share. When compared to 2014, this represented a total annual return decline of 9.1 percent, comprised of dividends for the year and a 13.9 percent drop in share price.

Nonetheless, despite the weaker 2015 share price performance, the total shareholders' return remains solid at a 7.9 percent

return per annum on a compounded basis when measured since the 1999 merger. British American Tobacco Malaysia has consistently outperformed the FTSE Bursa Malaysia Kuala Lumpur Composite Index for the past 16 years since the merger, with market capitalisation exceeding RM16 billion as at end of year 2015.

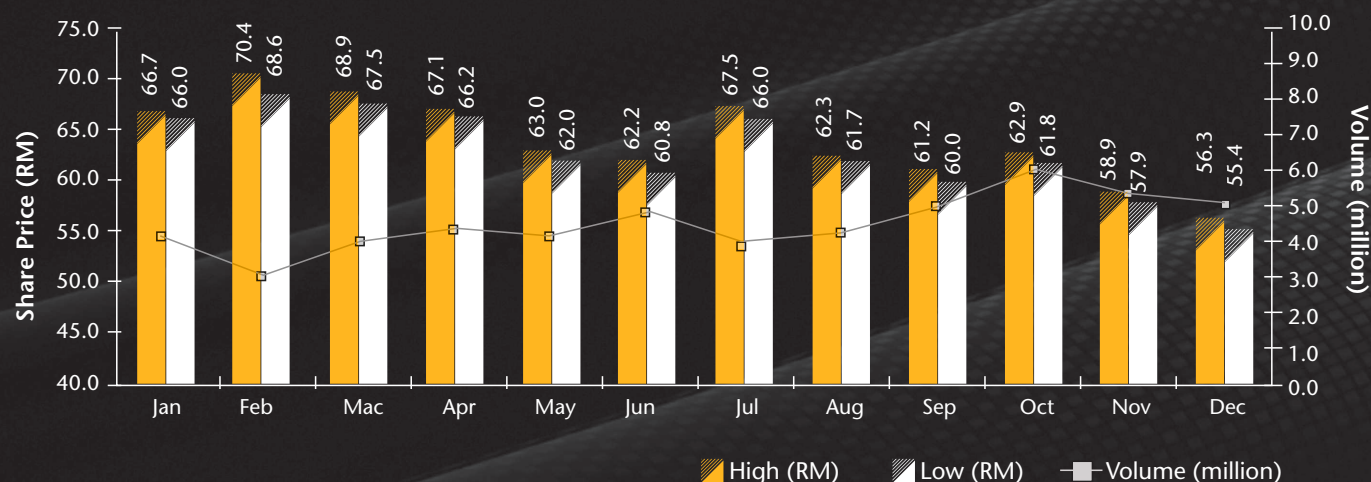
The Group's strategies and priorities on the business will remain the same, which is to invest where it matters to strengthen its brand portfolio, to increase the Group's legal market share and to drive further cost efficiencies for delivering growth not just today, but to invest in the future as well.

British American Tobacco Malaysia Total Shareholders' Return Compared Against FTSE Bursa Malaysia Kuala Lumpur Composite Index from 1999 to 2015



REVIEW OF FINANCIAL RESULTS

SHARE PERFORMANCE 2015



REVIEW OF OPERATING ACTIVITIES

Transformed and Enhanced Business Technology

In 2015, British American Tobacco p.l.c Group launched the Enhanced Productivity in the Cloud (EPIC) programme which will span until 2016, aimed to transform and enhance the personal computing technology of over 38,000 end users globally and at the same time to reduce the respective Company's IT costs.

REGULATORY

In 2015, 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 2015, which was gazetted on 30 July 2015.

The key amendments are outlined below:

- Reduction in emission levels for cigarettes.
- Clear price label for cigarette packets and cartons.
- Revision of Minimum Cigarette Price (MCP) to RM9.00 for a packet of twenty sticks cigarettes.
- Prohibition of online sale of tobacco products.

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 is committed towards ensuring that sustainability is embedded throughout all our business practices in order to continue giving value to our stakeholders. In 2015, our framework for Sustainability continued to focus on creating value for our shareholders and stakeholders in four key areas; Community, Workplace, Environment and Marketplace.

At the end of 2014, the Malaysian's east coast was hit with one of the worst floods in decades affecting over 200,000 people across the nation. British American Tobacco Malaysia employees continued their spirit of volunteerism by conducting a donation drive to raise monetary aid for the flood victims. The funds raised were then used to purchase much needed basic necessities which were hand delivered to the affected community in Tumpat, Malaysia by a group of volunteer employees.

British American Tobacco Malaysia also places top priority on the occupational health and safety of employees. Following this year's Health and Safety Week theme of *Building a Culture of Prevention in Health and Safety*, the Group rolled out numerous initiatives aimed at reducing the number of accidents at the workplace to *zero*. Other environment, health, and safety initiatives conducted included programmes on defensive driving and improving standard practice for machine operators, amongst others. We also continued to take proactive measures towards reducing our environmental impact by introducing Hybrid vehicles to our fleet in an effort to achieve less fossil fuel consumption and to reduce our carbon footprint as well as upgrading to more environment-friendly machinery and amenities that reduced energy and water consumption.

2016 OUTLOOK

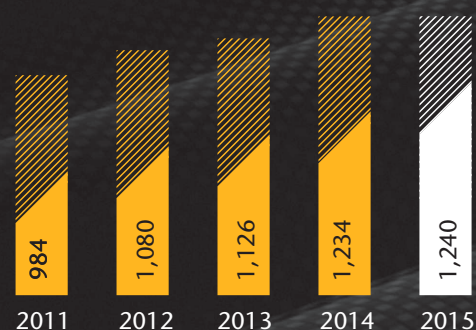
Looking ahead to 2016, we remain concerned of the high illegal cigarette trade incidence of 36.9 percent, especially in the face of the legal market contraction fueled by the unprecedented excise increase in November 2015 and the impact of consumer spending after the implementation of the Goods and Services Tax in April 2015. It is certain that the industry will be facing a far tougher time ahead. However, British American Tobacco Malaysia is ready to face these challenges head-on and will continue to do what is necessary for the sustainability of the business, as we maintain the best interests of our shareholders and stakeholders at heart.

FIVE YEAR PERFORMANCE HIGHLIGHTS

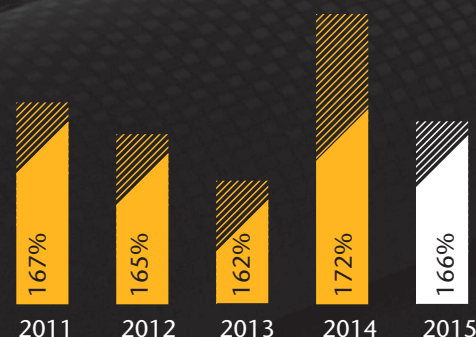
- 2011** ▶ Special dividend to return excess cash to shareholders.
- 2012** ▶ Sharp increase in contract manufacturing volume and the conversion from toll to contract manufacturing. The acquisition of inventories reducing cash conversion ratio in 2012.
- 2013** ▶ Dividend payout ratio has increased from 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.
- 2015** ▶ The unprecedented massive 40 percent excise increase in November 2015 resulted in another large tax-led price increase for the tobacco industry. This extreme excise hike against the backdrop of both weakened economy and consumer sentiments, coupled with implementation of the Goods and Services Tax (GST) in April 2015 and the sharp rise in illegal cigarette incidence from 33.7 percent in 2014 to 36.9 percent will further dampen the legal industry. (Source: Illicit Cigarette Study).

FIVE YEAR PERFORMANCE HISTORY

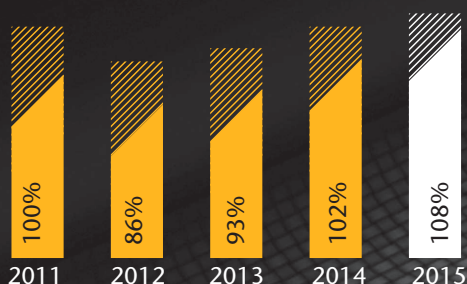
Profit from Operations (RM million)



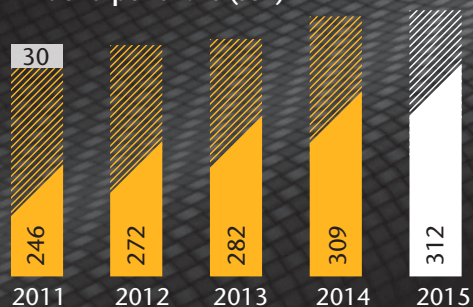
Return on Equity



EBITDA Cash Conversion



Dividend per Share (sen)



Special Dividend

CORPORATE PROFILE



KENT
PALL MALL / 



Today, British American Tobacco Malaysia is the clear market leader of the Malaysian cigarette industry, with approximately 62.1 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 752 employees who are involved in the full spectrum of the tobacco industry, from processing and manufacturing, to marketing and distribution. Our

comprehensive distribution network spans the length and breadth of the country, ensuring that our brands are available everywhere in Malaysia. We aim to maintain our leadership in the industry through increasing our share of the tobacco business and satisfying consumer demands better and more profitably than our competitors. In meeting these goals, we ensure that we market responsibly, and in a manner sensitive to our environment. For us,

leadership goes beyond just market share. It has to be about qualitative leadership in our eyes, and in the eyes of our stakeholders. While the tobacco industry is seen as controversial, it is also an important industry which has a role to play in contributing to the growth and development of the community in which it operates in. British American Tobacco Malaysia is committed to fulfilling that role.

AWARDS AND ACHIEVEMENTS



In 2015, we have continued to strive in ensuring all aspects of our business conducts are done to the highest standards of accountability and transparency. Testament to these efforts in setting benchmarks for high corporate governance standards, shareholder value and human resource policies and practices, we are proud to have received the local and international recognitions as listed below.

2015

1. Winner of Malaysia Best Employer Brand Award at the Employer Brand Awards 2015.
2. Two Gold awards for Best Candidate Experience and Best Recruitment Evaluation Technique at the Asia Recruitment Awards 2015.
3. Two Gold awards for Excellence in Talent Management and Excellence in Employee Engagement; four Silver awards for Excellence in Employer Branding, Excellence in Recruitment and Retention Strategy, Excellence in Innovative Use of HR Technology and Excellence in Employee Development; two Bronze awards for Excellence in Leadership Development and Excellence in Graduate Development at the HR Excellence Awards 2015.
4. Received the Pioneer Members Award Tribute to Selangor Members of 45 years and above from the Federation of Malaysian Manufacturers Selangor Branch as recognition of our longstanding membership with them.

5. Highest Return on Equity in the Consumer Product Sector for the Edge Billion Ringgit Club Awards 2015.
6. Silver award for Employer of Choice Award at the Malaysia HR Awards in partnership with JobStreet.com.
7. Top 10 public listed companies in Malaysia recognised for their excellence in corporate reporting at the Building Trust Awards 2015 by PricewaterhouseCoopers.
8. Top 20 Companies shortlisted for their Reporting within An Annual Report at the ACCA Malaysia Sustainability Reporting Awards 2015.
9. Winner of the CG Award for Industry Excellence in the Consumer Services and Goods category at the MSWG-ASEAN Corporate Transparency Index, Findings and Recognition 2015 – The Malaysian Chapter.

2014

1. Recognised in Life at Work Award 2014 for a talent brand and corporate programmes that promote diversity beyond gender and nationalities.
2. Acknowledged in Focus Malaysia 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 (MaSRA) 2013.



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

2012

1. Industry Excellence Award in the Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2012.
2. Silver Award in the Best Designed Annual Report Category for National Annual Corporate Report Awards (NACRA) 2012.

3. High Recognition for 2012 FinanceAsia Awards Poll. Our recognition includes:

- First Place for Most Committed to a Strong Dividend Policy.
- Fifth Place for Best Corporate Governance.
- Sixth Place for Best Managed Company.

4. Highest Return on Equity in the Consumer Product Category for The Edge Billion Ringgit Club 2012.

5. Highest Return on Equity among Companies with more than RM10 billion market capitalisation for The Edge Billion Ringgit Club 2012.

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 (NACRA) 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.

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.

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 (MaSRA) 2011.

2015 CORPORATE EVENTS HIGHLIGHTS

JANUARY



- Launched Limited Edition Packs (DUNHILL Core range).



- Launched Limited Edition Packs (DUNHILL Menthol range).



- Launched DUNHILL Zest with Malaysia's first unique flavoured Zest capsule.

FEBRUARY

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

MARCH

- Launched PALL MALL XL.
- Recognised as Malaysia Best Employer Brand Award at the Employer Brand Awards 2015.



MAY

- Recognised with two Gold awards at the Asia Recruitment Awards 2015.

JUNE

- Launched DUNHILL Mix featuring two flavoured capsules.



APRIL

- Upgraded PETER STUYVESANT Pack.
- Released First Quarter 2015 financial results.
- Conducted a Blood Donation Drive.



- Held Company Family Day at Sunway Lagoon Theme Park.

JULY

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

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

AUGUST

- Conducted a Saturday Night Fishing Competition.



SEPTEMBER

- Recognised with eight awards in various categories at the HR Excellence Awards 2015.
- Conducted an intercompany Bowling Competition.



OCTOBER

- Launched Limited Edition Packs (DUNHILL Red).



- Launched SHUANG XI.



- Recognised with the Silver award for Employer of Choice Award at the Malaysia HR Awards in partnership with JobStreet.com.
- Recognised in the Edge Billion Ringgit Club Awards 2015 as a profitable company in the consumer product category.

- Conducted financial analyst briefing on Third Quarter 2015 financial results.
- Held a Futsal and Go Karting Tournament for employees.
- Organised a company excursion to Vietnam.



NOVEMBER

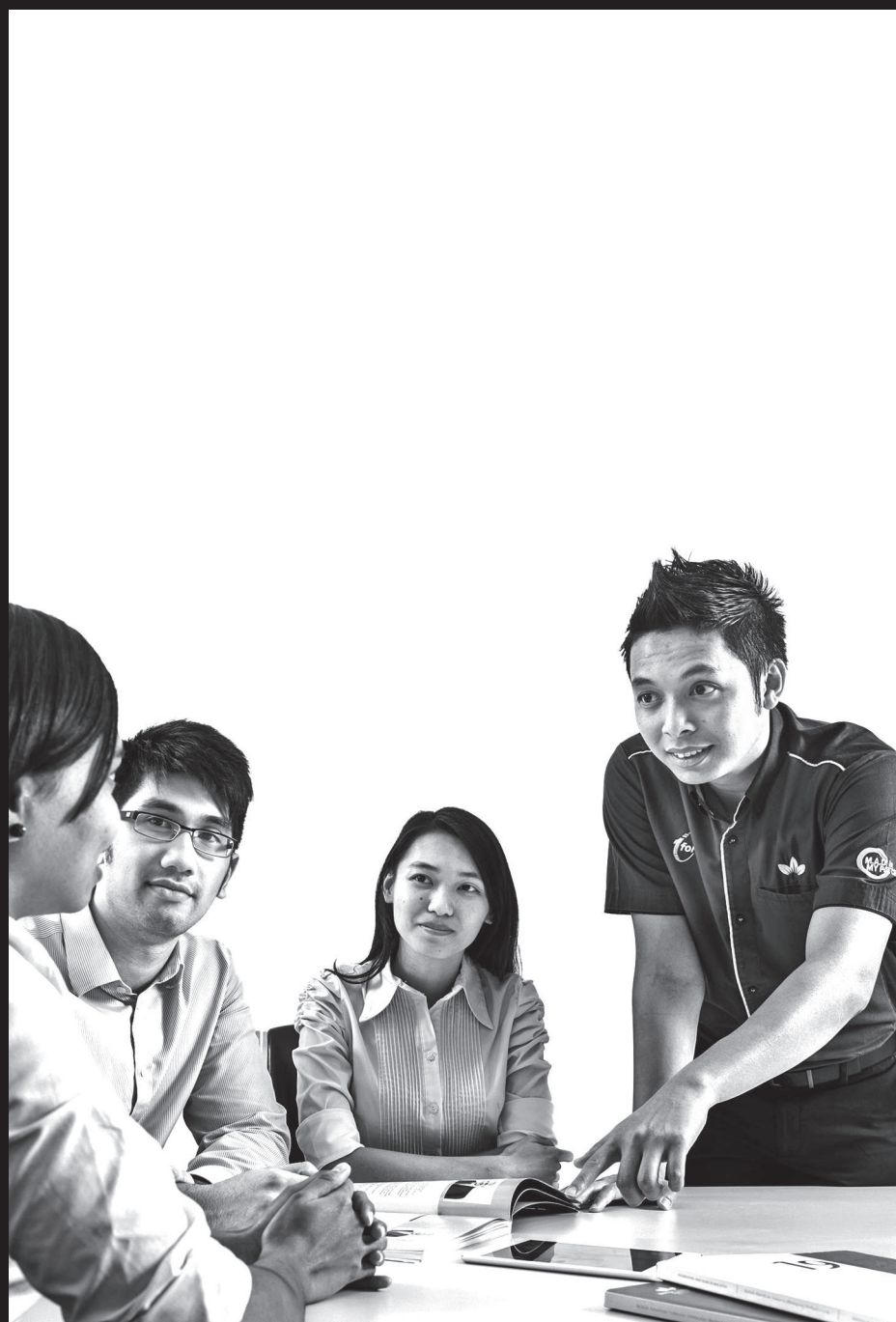
- Launched PETER STUYVESANT Neo.
- Held Company Annual Dinner and Dance, which also honoured long-serving and retiring employees.
- Recognised as a Top 10 public listed company in Malaysia for our excellence in corporate reporting at the Building Trust Awards 2015 by PricewaterhouseCoopers.



DECEMBER

- Awarded scholarships to scholars pursuing higher education.
- Recognised as a top 20 Company shortlisted for our Reporting within an Annual Report at the ACCA Malaysia Sustainability Reporting Awards 2015.
- Winner of the CG Award for Industry Excellence in the Consumer Services and Goods category at the MSWG-ASEAN Corporate Transparency Index, Findings and Recognition 2015 – The Malaysian Chapter.
- Conducted Company Treasure Hunt.

GOOD LEADERSHIP AND GOOD GOVERNANCE GO HAND IN HAND. AT BRITISH AMERICAN TOBACCO MALAYSIA, WE AIM TO CREATE A LEGACY OF DISTINGUISHED AND VISIONARY LEADERS WHO ARE CAPABLE OF REALISING THE GROWTH POTENTIAL OF OUR COMPANY AND ENSURE ITS LONG TERM SUCCESS. THE ACCOUNTABILITY MECHANISMS WE HAVE PUT IN PLACE HELP TO PROVIDE STRATEGIC SUPPORT AND EXPERT OVERSIGHT TO KEEP OUR LEADERSHIP, AND IN TURN OUR COMPANY ON THE RIGHT PATH TO CONTINUE DELIVERING SUCCESS *THE BAT WAY*.



LEADERSHIP

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
(Finance 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

Datuk Christine Lee Oi Kuan
DPSM
Non-Independent Executive Director
(Legal and External Affairs 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
E-mail : bat_malaysia@bat.com

Company Website

www.batmalaysia.com

Share Registrar

Tricor Investor & Issuing House Services
Sdn Bhd (Company No. 11324-H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No. 8, Jalan Kerinchi
59200 Kuala Lumpur.
Tel : +60 (3)2783 9299
Fax : +60 (3)2783 9222
E-mail : lay.kiow.lim@my.tricorglobal.com

Auditors

PricewaterhouseCoopers (AF 1146)
Level 10, 1 Sentral
Jalan Rakyat, 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)

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

BNP Paribas Malaysia Berhad
(Company No. 918091-T)

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



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

PROFILE OF DIRECTORS



**Tan Sri Mohamad Salim
bin Fateh Din**

PSM, PJN, DPMS, DSAP, DSPN, JP
(Independent Non-Executive Director/
Chairman)

Malaysian, Age 59 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 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 includes 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. He is also the Chairman of Jutaria Gemilang Sdn. Bhd., a joint venture vehicle with Giant Group as the flagship to undertake the convenience store concept.

Tan Sri Mohamad Salim attended all of the four Board Meetings in the financial year ended 31 December 2015.

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 the Circular to Shareholders dated 1 April 2016. He has had no convictions for any offences within the past ten years.



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

Italian, Age 49 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 and Nutrition in May 2010. He held that role for three years before joining British American Tobacco p.l.c in 2013.

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

Stefano attended all of the four Board Meetings which were held in the financial year ended 31 December 2015.

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 ten 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 includes being a Government appointed Committee Member of the Kuala Lumpur Stock Exchange (1990-1996), a Council member (1981-2002) as well as a past President (1994-1996) of the Malaysian Institute of Certified Public Accountants (MICPA) and a board member of Malaysian Accounting Standards Board (MASB) (2003-2009). He was the Chairman of Land & General Berhad (1999-2007) 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 four Board Meetings which were held in the financial year ended 31 December 2015.

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 ten years.



Datuk Oh Chong Peng

PJN, JSM

(Independent Non-Executive Director)

Malaysian, Age 71 years

PROFILE OF DIRECTORS



Pablo Daniel Sconfianza
(Non-Independent Executive Director)

Finance Director
Italian, Age 39 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 acquisition 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 Degree in Management and Corporate Finance from Fundação Getulio Vargas (RJ - Brazil).

Pablo attended all of the four Board Meetings which were held in the financial year ended 31 December 2015.

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 ten 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 a 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 four Board Meetings which were held in the financial year ended 31 December 2015.

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 ten 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 respectively. 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 four Board Meetings which were held in the financial year ended 31 December 2015.

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 ten years.



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

British, Age 69 years

Datuk Zainun Aishah binti Ahmad was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 March 2012. She is a member of the Audit Committee and also the Chairman of the Remuneration Committee of the Company.

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, most notable of which was 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 eleven 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 attended all of the four Board Meetings in the financial year ended 31 December 2015.

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.



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

Malaysian, Age 69 years

PROFILE OF DIRECTORS



Datuk Christine Lee Oi Kuan
DPSM
(Non-Independent Executive Director)
Legal and External Affairs Director

Malaysian, Age 57 years

Datuk Christine Lee Oi Kuan was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 March 2012. On 14 November 2015, Datuk Christine was conferred the Darjah Pangkuan Seri Melaka (DPSM), which carries the title Datuk by Tuan Yang Terutama Yang di-Pertua Negeri Melaka, Tun Datuk Seri Utama Mohd Khalil Bin Yaakob, in conjunction with His Excellency's 77th birthday celebration.

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

Datuk 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, Datuk Christine 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 Legal and External Affairs Director, Datuk Christine is responsible for corporate and regulatory affairs and legal matters of the Group.

Datuk Christine attended all of the four Board Meetings in the financial year ended 31 December 2015.

Datuk 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 ten years.

PROFILE OF LEADERSHIP TEAM MEMBERS

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



Stefano Clini
Managing Director

Italian, Age 49 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.



Marcelo Alvarenga Guimaraes
Marketing Director

Brazilian, Age 44 years

PROFILE OF LEADERSHIP TEAM MEMBERS



Fiona Jane Geddes
Human Resources Director

British, Age 40 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, she 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
Finance Director

Italian, Age 39 years

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

Gavin Ong Yew Dee was appointed Operations Director of British American Tobacco (Malaysia) Berhad on 1 July 2015. Prior to joining the Company, he was the Head of Operations for the China Project.

Gavin started his career as an engineer in an electronic company for five years before joining the tobacco industry. In 1996, he joined British American Tobacco (BAT) Singapore as Department Engineer and thereafter held various roles in the British American Tobacco p.l.c Group including being the General Manager of Vietnam PMD Joint Venture and Head of Supply Chain of Vietnam Cluster from 2011 to 2013. In 2013, Gavin was one of the pioneers to establish a new joint venture in China, mainly on hiring, setting up of the supply chain, NPI processes and operation functions as well as being involved in the designing of the factory.

Throughout more than 18 years of experience in the tobacco industry, his focus is on operations, supply chain and project management with special focus in people development.

Gavin holds a Degree in Mechanical Engineering from the Queen's University of Belfast, Northern Ireland, United Kingdom and a Master of Science in Megatronic from National University of Singapore.



Gavin Ong Yew Dee
Operations Director

Singaporean, Age 50 years

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



Datuk Christine Lee Oi Kuan
DPSM
Legal and External Affairs Director

Malaysian, Age 57 years

STANDARDS OF BUSINESS CONDUCT STATEMENT

The Standards of Business Conduct (Standards) are a set of global policies, rooted locally, which express the high standards of integrity that the British American Tobacco (Malaysia) Berhad and subsidiaries (the Group) is committed to upholding. It is a fundamental policy of the Group which requires the Board of Directors (the Board), 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 the Standards. The Group believes that the actions, behavior and how it does business must be responsible, trustworthy and sincere.

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

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

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



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

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

The areas covered by the Standards are:

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

In ensuring compliance and transparency, all employees, including the Board 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 Group which may lead to a conflict of interest. Immediate family 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.

Among the conflicts of interest declared is the declaration by the Chairman of the Board, Tan Sri Mohamad Salim bin Fateh Din (Tan Sri Salim), with respect to the renting of space for siting of cigarette dispensing units entered into by Jutaria Gemilang Sdn. Bhd. (JGSB) and Commercial Marketers and Distributors Sdn. Bhd. (CMD). Tan Sri Salim holds 98.25 percent interest in Gapurna Sdn. Bhd. (GSB), which in turn holds 70 percent interest in JGSB. Pursuant to Section 6 of the Companies Act, 1965, Tan Sri Salim is deemed interested in the shareholding in JGSB to the extent that GSB has an interest. In compliance with Section 131 of the Companies Act, 1965, Tan Sri Salim declared his interest in the contract with respect to the renting of space for siting of cigarette dispensing units entered into by JGSB and CMD. Additionally, there had been 13

declarations of conflict of interest made by employees of the Group, of which nine consisted of employees having family members working within the Group and four consisted of employees having family members working with services providers of the Group.

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 entities dealt with or contracted by the Group. The applicable provisions in the Standards are incorporated in agreements with the relevant contractors, service providers, suppliers and distributors of the Group. It is made clear in all these agreements that compliance to the Standards are mandatory and that any non-compliance of the Standards is deemed a breach and the Group has the right to terminate its agreement with the said contractors, service providers, suppliers or distributors of the Group.

Compliance with the Standards are monitored regularly by the Board and the Audit Committee of British American Tobacco (Malaysia) Berhad. The Head of Legal and Secretarial Services is charged with the responsibility of reporting the aforesaid to the Board on an annual basis. Employees have a strict duty to report incidences of non-compliance with the Standards and any other incidences of wrongdoing at work.

The Standards are made available to employees and the Board on the Group's intranet (Interact website) and the Group's corporate website at www.batmalaysia.com.

STATEMENT ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE FRAMEWORK

British American Tobacco (Malaysia) Berhad (the Company) and its Board of Directors (the Board) remains 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 endorsed, developed and continuously enhanced based on the compliance of the rules and regulations and observation of the principles and best practices outlined in the following:

- (i) The Companies Act, 1965 (Act)
- (ii) Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements)
- (iii) Malaysian Code on Corporate Governance 2012 (Malaysian Code)
- (iv) Corporate Governance Guide: Towards Boardroom Excellence of Bursa Malaysia Securities Berhad, 2nd Edition (CG Guide)
- (v) Corporate Disclosure Guide by Bursa Malaysia Securities Berhad (CD Guide)
- (vi) Malaysia-ASEAN Corporate Governance Scorecard by Minority Shareholder Watchdog Group (MSWG)
- (vii) British American Tobacco p.l.c's Code of Corporate Governance
- (viii) Standards of Business Conduct of the Company
- (ix) Statement of Business Principles of the Company (Business Principles)
- (x) 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 Board also notes the principles and recommendations of the above mentioned guides and will further review its corporate governance practices from time to time. The Company is also guided by the Company's Business Principles that covers key matters that underpin Corporate Responsibility (CR) for

a multinational business and more particularly, the unique characteristics of a tobacco business. The three Business Principles are Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct, each of which is supported by a core belief which explains and supports the Business Principles. The Company also has in place the Statement of Delegated Authorities, which supports good corporate governance and prudent control of risks and investment management. In the Company's Statement of Delegated Authorities, the Board has specifically reserved matters such as establishment of new businesses or factories, annual strategic plan, approval of major capital expenditure, acquisition and disposal of businesses or equity, borrowings and any corporate restructuring, for its decision.

The Board notes the recommendation from the Malaysian Code in formalising a Board Charter which outlines amongst others, the board composition, the division of responsibilities and powers between the board, board committees, senior management, the Chairman and the Chief Executive Officer/ Managing Director. The Board is however guided by the BATM Code which sets out similar principles and processes in the discharge of their responsibilities and also the processes and procedures of the Board and Board Committees' meeting. The Board is also guided by British American Tobacco p.l.c's Code of Corporate Governance that sets out various global policies and procedures that has been established. Together with the abovementioned, the Company's Articles of Association, the regulatory and statutory requirements and the Company's internal policies, principles and practices, in place of a Board Charter, have complied with the main recommended contents of a Board Charter in line with the Malaysian Code.

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 as 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 behavior in relation to competition laws that employees are required to follow and comply.

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 of any 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 their employment status and key employment terms.

International Marketing Principles

A 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

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

Policy on Indirect Procurement

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

Standards of Business Conduct

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

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

STATEMENT ON CORPORATE GOVERNANCE

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 21 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 2015.

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. Whilst the Board does not adopt a formal policy on boardroom diversity, the Board is committed to ensuring the Directors of the Company possess a broad balance of skills, knowledge, experience, background, independence and diversity, including gender diversity. Currently, two out of the eight Board members are women, with one of the female Board members being an Independent Director.

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, background, 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 important to the sustainability and growth of the business.

The Board is aware and recognises the importance in devoting time and commitment in carrying out their duties and responsibilities. All Board and Board Committee meeting dates are pre-scheduled at the end of the year for the following year in ensuring full and complete attendance and participation. Additional meetings will be convened as and when necessary to discuss and consider urgent and important matters that require the Board's attention.

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

The roles and responsibilities of the Board are as follows:

- (i) Responsible for the long term strategy of the Company and setting the goals and the direction of the Company.
- (ii) Directs the Company's risk assessment and ensures implementation of appropriate systems to manage these risks.
- (iii) Reviews and adopts strategic plans for the Company, including appointing, training, fixing the compensation and where appropriate, replacing senior management and financial and operational management.
- (iv) 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.
- (v) 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.

(vi) Pursuant to the Company's Statement of Delegated Authorities, the Board is also tasked to decide on the following business transactions and activities:

- Acquisition, disposal or closure of a business.
- Establishment of new businesses.
- Annual strategic plan.
- Capital investment and disposal of tangible assets from existing business to third party.
- Purchase or sale of trademarks.
- Proposal for borrowings from on unrelated third party that is not part of a previously agreed programme.
- 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 Directors

ROLE OF THE CHAIRMAN

- Provides leadership to the Board.
- Ensures that the Board and its Committees function effectively.
- Facilitates contribution of the Directors.
- Set 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 judgment, 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 judgment objectively and act in the best interest of the Company, its shareholders and minority shareholders.

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) Legal and External 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.

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 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 (Bursa Securities), legal and regulatory developments and impact, if any, to the Company and its business.

BOARD AND BOARD COMMITTEE MEETINGS

The composition of the Board Committees as at 31 December 2015 and the attendance of the Directors at the Board and Board Committees meetings held in 2015 are as follows:

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	CSR Committee	Executive Compensation Committee
Tan Sri Mohamad Salim bin Fateh Din (Chairman) <i>Independent Non-Executive Director</i>	4/4	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
Stefano Clini (Managing Director) <i>Non-Independent Executive Director</i>	4/4	N/A – Not an Audit Committee member	2/2	N/A – Not a Nomination Committee member	2/2	2/2
Datuk Oh Chong Peng <i>Independent Non-Executive Director</i>	4/4	4/4	1/2	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	CSR Committee	Executive Compensation Committee
Datuk Zainun Aishah binti Ahmad <i>Independent Non-Executive Director</i>	4/4	4/4	2/2	N/A – Not a Nomination Committee member	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
James Richard Suttie <i>Non-Independent Non-Executive Director</i>	4/4	4/4	2/2	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Dato' Chan Choon Ngai <i>Non-Independent Non-Executive Director</i>	4/4	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
Datuk Christine Lee Oi Kuan (Legal and External Affairs Director) <i>Non-Independent Executive Director</i>	4/4	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
Pablo Daniel Sconfianza (Finance Director) <i>Non-Independent Executive Director</i>	4/4	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	2/2	2/2

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.

In 2015, 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) Major announcements released to Bursa Securities.
- (vi) Company's Corporate Social Responsibilities activities.
- (vii) Company's Enterprise Risk Management Programme.
- (viii) Directors' Performance Evaluation.
- (ix) 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).
- (x) Revision of the Company's Standards of Business Conduct.
- (xi) Revision of the Board Committees' Terms of Reference.
- (xii) Discussion on the succession planning for the Company's senior management.
- (xiii) Operations re-structuring exercise.

STATEMENT ON CORPORATE GOVERNANCE

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 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 2015, the resolutions approved by the Board via Circular Resolutions covered among others, the change of bank signatories and revision of the existing 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 strictly 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 under the Listing Requirements. He is also a qualified Chartered Accountant and is a Fellow of the Institute of Chartered Accountants, England and Wales.

(a) Authority

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

- (i) To assist 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) To meet 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 British American Tobacco p.l.c Group's Regional Audit Committee.
- (iii) To review compliance with the Standards of Business Conduct and the procedures in place within the Company for the management of its business policies.
- (iv) To be 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 2015.
- (ii) No member of the Audit Committee, save and except the Chairman of the Audit Committee, received any payments in 2015 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 2015 audited by Messrs. PricewaterhouseCoopers Malaysia and recommended to the Board that the Audited Financial Statements as at 31 December 2015 be included in the Company's Annual Report 2015. The Board had also on the same day approved the aforesaid audited financial statements for inclusion in the Company's Annual Report 2015 for issuance to the shareholders before the Annual General Meeting (AGM) and to be submitted to the Bursa Securities and Securities Commission Malaysia within the requisite timeline.

For details on the scope and activities of the Audit Committee including attendance of the Committee, please refer to pages 64 to 68 of this Annual Report.

2. Nomination Committee

The Nomination Committee comprises exclusively of Non-Executive Directors, a majority of whom are independent. The Chairman of the Nomination Committee is Tan Sri Mohamad Salim bin Fateh Din, Independent Non-Executive Director of the Company, who is also the Chairman 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.
- (vii) To assist the Board to assess the independence of all the independent Directors annually.

(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

The Nomination Committee met once during the financial year ended 31 December 2015. The attendance is shown as below:

Composition of Nomination Committee	Number of Meetings		Percent
	Held	Attended	
Tan Sri Mohamad Salim bin Fateh Din Chairman (Independent Non-Executive Director)	1	1	100
Datuk Oh Chong Peng (Independent Non-Executive Director)	1	1	100
James Richard Suttie (Non-Independent Non-Executive Director)	1	1	100

3. Remuneration Committee

The Remuneration Committee shall comprise wholly or mainly of Non-Executive Directors. The Remuneration Committee shall comprise the Chairman of the Remuneration Committee, the Managing Director of the Company and Non-Executive Directors. The Chairman of the Remuneration Committee shall be an Independent Non-Executive Director appointed from among the Board of the Company.

The remuneration packages of the Executive Directors and members of the Leadership Team are put forth to the Remuneration Committee for deliberation and decisions. In addition, the Managing Director, (who is one of the member of the Remuneration Committee) in consultation with the Chairman of the Remuneration Committee, shall recommend to the Board, the fees payable to the Non-Executive Directors. 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 the 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 Chairman of the Executive Compensation Committee is the 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 2015, the Remuneration Committee met twice. Amongst the items deliberated by the Remuneration Committee in 2015 were the annual bonus, salary increments and the revised remuneration package for the members of the Leadership Team.

Composition of Remuneration Committee	Number of Meetings		Percent
	Held	Attended	
Datuk Zainun Aishah binti Ahmad Chairman (Independent Non-Executive Director)	2	2	100
Stefano Clini Managing Director (Non-Independent Executive Director)	2	2	100
Datuk Oh Chong Peng (Independent Non-Executive Director)	2	1	50
James Richard Suttie (Non-Independent Non-Executive Director)	2	2	100

STATEMENT ON CORPORATE GOVERNANCE

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"> The Managing Director of the Company. Finance Director of the Company. Human Resources Director of the Company. <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"> British American Tobacco p.l.c's Asia Pacific Regional Head of Human Resources. British American Tobacco p.l.c's Asia Pacific Regional Head of Rewards. Leadership Team members of the Company. <p>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"> 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: <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 caliber of employees required and against which the Company in practice has to recruit within the business environment.</p> <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>	<ul style="list-style-type: none"> To meet at least twice a year or more frequently, if necessary. The quorum for the ECC shall be at least two members of which one member present must be the Chairman. The Secretary shall record and circulate the minutes of the meeting. ECC minutes will be tabled and noted by the Remuneration Committee and Board. <p>In 2015, the ECC met twice to review and deliberate on matters related to remuneration, benefits and payments of employees in the Group.</p>

Composition of members	Roles and responsibilities	Operating procedures
	<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"> Review and approve the mandate for collective agreement. Review, approve and amend as the case may be, the design and terms of the executive shares scheme. Review and approve voluntary separation scheme, if any. Note job grades of Grades 36 to 38. 	

2. Corporate Social Responsibility (CSR)

Composition of members	Roles and responsibilities	Operating procedures
The Company's Leadership Team with the Corporate Affairs Manager as the Secretary of the CSR Committee.	<ul style="list-style-type: none"> Identification and management of key social and environmental issues. Identification and engagement with key stakeholders. Monitoring the efficiency and effectiveness of corporate social responsibility management systems and controls. Ensuring the reliability of social and environmental performance management information. Monitoring alignment with the Business Principles. 	<ul style="list-style-type: none"> To meet at least twice annually. CSR minutes will be tabled and noted by the Audit Committee and Board. <p>In 2015, 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 2015 sustainability initiatives.</p> <p>For details of the corporate responsibility activities, please refer to pages 86 to 123 of this Annual Report.</p>

STATEMENT ON CORPORATE GOVERNANCE

3. Risk Management Team (RMT)

Composition of members	Roles and responsibilities	Operating procedures
<p>(a) Finance Director (Chairman of RMT).</p> <p>(b) Senior managers from all functions of the Company.</p>	<ul style="list-style-type: none"> • Protect the Company's corporate assets and its ability to meet or exceed its strategic business objectives consistently. • Minimise the total cost of risk. • 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. • Review and update the Leadership Team and Audit Committee on the Company's Enterprise Risk Management programme. • Review and recommend to the Leadership Team and Audit Committee the key risks for the Company. • Review and update the Leadership Team and Audit Committee on the ongoing status of the key risk response measures. • Review and update the Leadership Team and Audit Committee on the status of the Business Continuity Plans. 	<ul style="list-style-type: none"> • To meet at least twice annually. • 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. • The Board through the Audit Committee reviews the effectiveness of the Group's Enterprise Risk Management Programme bi-annually. <p>The RMT met twice during the financial year ended 31 December 2015 to deliberate on among others, the review of the Risk Register, key learnings from the conducted Business Continuity Plan tests well as the risk mitigation plans.</p> <p>For details of the Company's Enterprise Risk Management activities in 2015, please refer to page 72 of the Annual Report.</p>

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 also subjected to the same process. A Director seeking re-election and re-appointment will abstain from all deliberations regarding his re-election and re-appointment 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 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. Directors may only hold up to five directorships in public listed companies in compliance with the Listing Requirements.

The changes at the 2015 Annual General Meeting are as follows:

Name	Designation	Nature of changes at the 2015 Annual General Meeting
Tan Sri Mohamad Salim bin Fateh Din	Independent Non-Executive Director	Re-elected
James Richard Suttie	Non-Independent Non-Executive Director	Re-elected
Datuk Oh Chong Peng	Independent Non-Executive Director	Re-elected
Pablo Daniel Sconfianza	Executive Director	Re-elected

Re-election process

The Company 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. Article 103 of the Articles 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. None of the Directors is due for retirement under this article. Section

STATEMENT ON CORPORATE GOVERNANCE

129 of the Act, 1965 states that Directors who have attained or are over the age of seventy (70) years shall retire at every Annual General Meeting and entitled for re-appointment and to hold office until the next Annual General Meeting. The names of the Directors seeking for re-election and re-appointment at this coming Annual General Meeting are disclosed in the Notice of Annual General Meeting.

The Board will recommend to shareholders, the 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.

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 to approve the remuneration package of an Executive Director.

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

- (i) Fees – the fixed annual fees to be paid to the Non-Executive Directors.
- (ii) Salaries – the basic salaries for the Executive Directors as recommended by the Remuneration Committee to the Board for approval.
- (iii) Other Emoluments* – Emoluments such as bonuses, retirement benefits, provision for leave, fixed allowances, statutory contributions and incentives in the form of shares/option in shares of British American Tobacco p.l.c pursuant to the British American Tobacco p.l.c's shares scheme.
- (iv) 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.

The details of the remuneration of the Directors are as follows:

	Fees (RM)	Salaries (RM)	Other Emoluments* (RM)	Benefits in Kind** (RM)	Total (RM)
Executive Directors	–	3,306,685	3,382,472	1,203,182	7,892,339
Non-Executive Directors	745,000	–	208,212	–	953,212
Total	745,000	3,306,685	3,590,684	1,203,182	8,845,551

The number of Directors whose remuneration falls into the following bands is as follows:

Range of Remuneration	Number of Directors	
	Executive Directors	Non-Executive Directors
RM100,000 – RM150,000	–	4
RM500,000 – RM550,000	–	1
RM2,000,000 – RM2,050,000	1	–
RM2,100,000 – RM2,150,000	1	–
RM3,500,000 and above	1	–

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

In addition to fixed annual director fees, all Non-Executive Directors, save for the Chairman of the Board, are paid a meeting attendance allowance for each Committee meeting attended. In recognition of the additional time and commitment required, the Chairman of the 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 performance of the Board as a whole as well as Board Committees and individual Directors are assessed annually via an evaluation survey questionnaire known as the Board and Board Committee Assessment Questionnaire (Questionnaire), to evaluate the overall performance against the criteria as set out in the Questionnaire. The aim of the Questionnaire is to enhance its effectiveness, strength and to identify areas that need to be improved.

The Questionnaire is divided into five sections as follows:

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

The main criteria set out in the abovementioned sections are as follows:

- Skills, years of experience and expertise of individual directors.
- Division of authority and allocation of responsibilities between the Board and Management.
- Division of duties in relation to the individual Director's role on the Board.
- Time commitment in deliberation and participation in the Board and Board committees meetings.
- The level of sufficient independency for the Independent and Non-Executive Directors participation in deliberating on issues put before the Board.
- Satisfaction with the quality of materials and presentations in the meetings and timely circulation of meeting papers before commencement of the meetings.

STATEMENT ON CORPORATE GOVERNANCE

During the financial year ended 31 December 2015, the Questionnaire was conducted on the Board, Board Committees and individual Directors. The Company Secretary compiled the findings into a report to the Chairman of the Nomination Committee for discussion in the Nomination Committee meeting. Thereafter, a summarised report was tabled to the Board for evaluation and consideration, and the findings are as follows:

- That the Board and Board Committees agreed that the Board Composition in terms of skills and expertise of each individual director was good.
- That the Board and Board Committees had continued to operate efficiently and effectively in discharging their duties and responsibilities.
- That the Directors clearly understood their roles and have fulfilled their responsibilities as members of the Board and Board Committees.
- That the Directors were satisfied with the Company's direction, strategy, planning and budgeting process and their level of contribution to these matters.
- That Directors were well informed on the vision, objectives and goals of the Company.
- That the Directors commented that there was sufficient time allocated for deliberation during the Board and Board Committee Meetings.
- That the Directors confirmed that the Board meetings were constructive and conducted in a manner that allows for open and constructive communication, encourages focused discussions, critical questioning and the expression of various viewpoints and also ensures open and meaningful participation, and the timely resolution of issues related to the Board meetings.

As such, the findings of the Questionnaire for 2015 confirmed that the Board had performed effectively for 2015.

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 Securities with effect from 1 January 2005, the Board continues to evaluate and determine the training needs of the Directors to ensure continuing education to assist them in the discharge of their duties as Directors.

The Directors will continue to undergo 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. During the year under review, the Directors have 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 2015 are as follows:

Directors	Briefing/Conference/Forum/Seminar/Training/ Workshop attended	Date
Tan Sri Mohamad Salim bin Fateh Din	Directors CEP Training 2015 ¹	20 October 2015
Stefano Clini	Directors CEP Training 2015 ¹	20 October 2015
Datuk Christine Lee Oi Kuan	SSM National Conference 2015 ³ Directors CEP Training 2015 ¹	8 and 9 September 2015 20 October 2015
Pablo Daniel Sconfianza	Financial Communications and Effective Media Management ²	28 October 2015
James Richard Suttie	Financial Communications and Effective Media Management ²	28 October 2015
Datuk Oh Chong Peng	An Evening with Jane Goodall Briefing Session on Bank Negara Malaysia Annual Report 2014/ Financial Stability and Payment Systems Report 2014 In-house Board Briefing by Messrs. PricewaterhouseCoopers on Integrated Reporting	29 January 2015 11 March 2015 17 March 2015
Dato' Chan Choon Ngai	Directors CEP Training 2015 ¹	20 October 2015
Datuk Zainun Aishah binti Ahmad	Directors CEP Training 2015 ¹	20 October 2015

Note:

- 1 One day Directors' Continuing Education Programme (CEP) on understanding the needs of minority shareholders, integrated reporting and economic outlook.
- 2 Half day seminar on an overview of financial communications to public listed companies, the importance of investor relations, the role of financial media and other relevant applicable case studies.
- 3 Two days conference on the deliberation of the proposed legal framework contained in the new Companies Bill 2015, together with the sharing of insights from various corporate leaders and practitioners on the impact of the new Companies Bill 2015, on directors, shareholders and corporate intermediaries.

Apart from the above training programmes, all members of the Board are updated at every Board meeting on relevant legal/regulatory updates applicable to the Company.

STATEMENT ON CORPORATE GOVERNANCE

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 sufficient time to review, consider, and if necessary, obtain further information or research on the matters to be deliberated in order to be well prepared at the meetings.

The meeting papers are presented in a manner which include among others, comprehensive management reports, minutes of meetings, project proposals and 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 as well as officers 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.

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 acknowledges that good corporate governance requires active participation of shareholders in the decision making process at the Company's AGM. The Company's AGM is the principal forum for dialogue and communication between the shareholders and the Board. At the AGM, shareholders participate in the deliberations of the resolutions being proposed or on the Company's operations in general.

Shareholders are encouraged to ask questions about the resolutions being proposed and the operations of the Company and communicate their expectations and concerns. Questions posed are, where possible, answered in detail either at the 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.

Shareholders' attendance at the AGM continued to be high as evidenced by the presence of 672 shareholders at the 54th AGM of the Company held on 27 April 2015 at the Sime Darby Convention Centre, Kuala Lumpur. There were no bundling of several items into the same resolution put forward for shareholders' voting in the AGM and all resolutions were duly passed and approved by the shareholders present at the meeting. All Directors, members of the Leadership Team, the Company Secretary, the Company's external legal counsels and the external auditors, Messrs. PricewaterhouseCoopers were present at the meeting to answer questions raised and provide clarification as required by the shareholders.

As with previous years, detailed feedback on questions raised by the Minority Shareholder Watchdog Group (MSWG) prior to the AGM was shared with all shareholders during the meeting.

Among the questions and topics of discussion raised by the shareholders during the 54th AGM of the Company were on issues such as the financial performance and share price performance of the Company, the excise and tax led price increases of cigarettes and the illegal cigarette trade. These issues were adequately addressed and answered by the Board during the meeting. For the benefit of the other shareholders who were absent from the meeting, a summary of the minutes was uploaded and published on the Company's website.

The 2016 AGM will be held on 25 April 2016 at the Sime Darby Convention Centre in Kuala Lumpur. The Notice of AGM and the Form of Proxy are enclosed with the Abridged Annual Report 2015. The results of all resolutions proposed will be available on the Company's and Bursa Securities' website on the closure of business on 25 April 2016.

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 Securities 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 2015. These statements and reports were tabled at the Audit Committee meeting for the Committee's comments and recommendation to the Board of Directors for review and deliberation before being incorporated into the Annual Report.

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 AGM and related circular to shareholders at least 21 days or earlier before the meeting as required by the Listing Requirements in order to facilitate full understanding and evaluation of the issues involved. Where special business items appear in the Notice of the AGM, 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. Notices of the AGM are advertised in selected English, Bahasa Malaysia and Chinese newspapers.

STATEMENT ON CORPORATE GOVERNANCE

The date of issuance of Annual Report for the past consecutive two years are as follows:

	Date of Issue/Release
Annual Report 2015	1 April 2016
Annual Report 2014	2 April 2015

* *The issuance of the annual reports is released to Bursa Securities and the shareholders within four months from the close of the financial year.*

Release of Quarterly Financial Results

2015 Quarterly Results	Date of Issue/Release
First Quarter as at 31 March	28 April 2015
Second Quarter as at 30 June	28 July 2015
Third Quarter as at 30 September	27 October 2015
Fourth Quarter as at 31 December	17 February 2016

* *All the quarterly reports are announced to Bursa Securities earlier than the requisite timeline of no later than two months after the end of each quarter of a financial year.*

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 Securities. The quarterly briefings are intended not only to promote the dissemination of the financial results of the Company to as wide an audience of investors, shareholders and media as possible but also to keep the investing public and other stakeholders updated on the progress and development of the business of the Company. This is further testimony to the Company's continued commitment to transparency.

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

In 2015, the Company held three quarterly briefings, fifteen direct one-on-one meetings, and hosted thirteen 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. Shareholders can access information under the 'Investor' link encompassing corporate information, latest annual reports, latest press releases, latest financial results, share prices, Bursa Securities'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.

(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 as follow:

- (i) Properly declared by the employee concerned at the appropriate time.
- (ii) Reviewed at the appropriate management level and deemed acceptable.
- (iii) Not otherwise inconsistent with the requirements of the Standards of the Business Conduct. In 2015, there had been thirteen 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.

CONSUMERS

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

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 contracts with the relevant suppliers or service providers. It is made clear in all these agreements that compliance to the Standards of Business Conduct are mandatory and that any non-compliance of the Standards of Business Conduct is deemed a breach and the Group has the right to terminate its agreement with the said contractors, service providers, suppliers or distributors.

STATEMENT ON CORPORATE GOVERNANCE

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 Securities 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 Act have been complied with and reasonable and prudent judgments 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 138 to 144 and the Financial Statements from pages 149 to 215 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 69 to 74 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 Securities, 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 corrective actions. 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 and 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 has 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 Secretarial Services 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 are 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 Investigation Procedures and stringent control measures, the Company investigated two whistleblowing and nine breach incidents in 2015. Of the breach incidents, three cases involved fraud and misappropriation by employees and one case involved sexual harassment. The gross losses suffered by the Company arising from the incidents reported in 2015 were approximately RM150,609.65 and four employees of the Company were dismissed as a result of their misconducts.

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 compliant to competition laws, when such competition laws are introduced in Malaysia. The Guidelines sets out the general principles and standards of behavior in relation to competition laws that employees are required to follow and comply. 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 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 companywide process to have all employees sign a personal data notice and consent form in order to be compliant with the PDPA.

The Board 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 2015 were:

- Purchase and sale of cigarettes and tobacco products.
- Purchase of 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) in 2013. JGSB is duly licensed with the Ministry of Domestic Trade, Co-operatives and Consumerism to operate convenient 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 on this transaction.

For details of these transactions, please refer to pages 199 to 203 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 page 64 to page 68 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 judgment, accounting principles and the operating effectiveness of internal controls and business risk management. The Audit Committee met with the external auditor twice in 2015 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 this Statement on Corporate Governance. The Board is satisfied that this 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 2015.

This Statement is approved by the Board of Directors on 17 February 2016.

OTHER COMPLIANCE INFORMATION

1. Utilisation of Proceeds

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

2. Share Buy-Back

The Company did not enter into any share buy-back transactions during the financial year.

3. Options, Warrants or Convertible Securities

The Company did not issue or exercise any options, warrants or convertible securities during the financial year.

4. Depository Receipt Programme

The Company did not sponsor any Depository Receipt Programme during the financial year.

5. Imposition of Sanctions and/or Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries (the Group), Directors or Management by the relevant regulatory bodies during the financial year.

6. Variation in Results

There was no variation between the audited financial results for the financial year ended 31 December 2015 and the unaudited financial results for quarter ended 31 December 2015 of the Group previously announced.

The Company has not released or announced any estimated profits, financial forecast or projection in the financial year ended 31 December 2015.

7. Profit Guarantee

The Company did not provide any profit guarantee during the financial year.

8. Material Contracts Awarded

There was no material contracts entered into by the Group involving the Directors and major shareholders' interests, either still subsisting at the end of the financial year or entered into since the previous financial year.

9. Non-Audit Fees

During the financial year ended 31 December 2015, the amount of non-audit fees incurred for services rendered by the Company's external auditors or its affiliates is RM192,000.

10. Recurrent Related Party Transactions of a Revenue or Trading Nature

During the Company's 54th Annual General Meeting held on 27 April 2015, the Group had obtained a renewal of the Recurrent Related Party Transactions (RRPT) mandate with certain related parties (as defined in the Circular to Shareholders dated 2 April 2015). The RRPTs conducted during the financial year ended 31 December 2015 pursuant to the said mandate are disclosed in pages 199 to 203 in this Annual Report.



AUDIT COMMITTEE REPORT



The Audit Committee of British American Tobacco (Malaysia) Berhad (the Company) is pleased to present the Audit Committee Report for the financial year ended 31 December 2015.

COMPOSITION, MEMBERSHIP AND ATTENDANCE

The Audit Committee comprised the following members and details of attendance of each member at the Audit Committee meetings in 2015 are as follows:

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

The Audit Committee is appointed by the Board of Directors (the Board) 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 Chairman of the Audit Committee, Datuk Oh Chong Peng 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).

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.

The Audit Committee meets at least four times annually. However, at least twice a year, the Audit Committee meets with the external auditor without the Executive Directors and management being present. In 2015, the Audit Committee met twice with the external auditor without the Executive Directors and management being present.

At the invitation by the Audit Committee, the Managing Director and the Finance Director attended the Audit Committee meetings in 2015 to facilitate direct communication and to provide clarification on audit issues and operations of British American Tobacco (Malaysia) Berhad and subsidiaries (the Group). A representative from British American Tobacco p.l.c Group Internal Audit was also invited to attend the Committee meetings to report all internal audit subjects. Representatives of the external auditors, who had attended all the meetings during the financial year, presented their audit plan and highlighted their findings to the Committee members on significant audit and accounting areas during the course of their audit. During the course of the year, senior management employees were also invited by the Audit Committee to attend the 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.

SUMMARY OF THE TERMS OF REFERENCE

The key responsibilities and duties of the Audit Committee are as follows:

(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.
 - 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.
- To review the Board's statements on compliance with the Malaysian Code of Corporate Governance for inclusion in the Annual 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 to 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.
- 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.
 - To request and review any special audit which it deems necessary.

AUDIT COMMITTEE REPORT

(f) External audit

- To review the external auditor audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and co-ordination 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.
- 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

During the course of 2015, the Audit Committee carried out its responsibilities and duties in accordance with its terms of reference and carried out the following activities:

Financial Reporting

- Reviewed the quarterly and annual financial statements of the Company and the Group together with the Finance Director and Managing Director as well as the external auditors, focusing particularly on significant changes to accounting policies and practices, adjustments arising from the audits, compliance with the relevant accounting standards and other legal requirements to ensure that the financial statements presented a true and fair view of the

Company's financial performance before recommending them to the Board for approval.

- Reviewed the proposed dividend payment for the financial year.

Internal Control

- Reviewed the Group's Risk Management Programme, including the top 20 risks for the Group and Risk Management Programme work plan, and to ensure that all major risks are well managed and reported to the Board.
- 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.
- Received and reviewed updates on breaches of the Standards of Business Conduct and whistleblowing incidents.

Internal Audit

- Reviewed and approved the Internal Audit Plan 2015 as to their consistency with the Risk Management Framework used and adequacy of coverage.
- Reviewed status reports from internal audit to ensure that appropriate actions had been taken to implement the audit recommendations.
- 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

- 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 2015 Annual Report.
- Reviewed the Group's quarterly and annual financial statements with the Finance Director and Managing Director together with the external auditor, 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 for approval.

- c. Reviewed the external auditor's audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and co-ordination 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 and discussed the reports of the 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 and discussed 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.
- c. Reviewed and discussed the recurrent related party transactions to ensure that they were undertaken on an arm's length basis and on normal commercial terms not more favourable to the related party than those generally available to the public.

- d. Reviewed and discussed the quarterly reports on the recurrent related party transactions whether the actual value of the transactions exceeded the estimated value of the recurrent related party transactions as disclosed in the Circular to Shareholders and to make immediate announcement, if necessary.
- e. Reviewed and recommended to the Board, the Circular to Shareholders relating to renewal of shareholders' mandate for the related party transactions which is recurrent, of a revenue or trading nature.

Ethical and Integrity Areas

- a. Deliberated on reports on whistleblowing and Standards of Business Conduct breach incidents.
- b. Deliberated on security and safety matters and loss reports.
- c. Deliberated on environmental, health and safety review reports.

Annual Reporting

- a. Reviewed the 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 2014 for inclusion in the Annual Report 2014 and recommended their adoption by the Board.

Other Activities

- a. Conducted an Audit Committee self-evaluation assessment on the performance of the Audit Committee as a whole.
- b. Discussed the succession plan for the Audit Committee Chairman in the short and medium term.
- c. Noted and deliberated on the proposal from management on the change of external auditors in the ensuing year.
- d. Noted and received progress reports and updates on the Factory Blueprint Study during the course of the year.

AUDIT COMMITTEE REPORT

INTERNAL AUDIT

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

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

The Group's internal audit through the British American Tobacco p.l.c Group Internal Audit undertakes the risk-based audit reviews 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. As such, three types of audit exist, namely Process Audits, Project and Programmes Audits and Other Audits. Process Audits have a scope of an end-to-end process across multiple British American Tobacco p.l.c global entities. Project and Programmes Audits are focused on significant business change initiatives. Other Audits are audits that are as a consequence of a direct request, either from Management or the Audit Committee.

The Group's 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. The Group's 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 in achieving its business objectives. All proposals by management regarding the appointment, transfer and removal of the Group's internal audit shall require prior approval of the Audit Committee. Any inappropriate restrictions on audit scope are to be reported to the Audit Committee.

The Group's internal audit provides independent assessment on the effectiveness and efficiency of internal controls utilising a global audit methodology and tool to support the Group's corporate governance framework and an efficient and effective global risk management framework to provide assurance over the Group's strategy delivery and change management initiatives. The annual audit planning cycle takes direct input from both the risk register, described in page 70, and the Audit Committee. In turn, the Audit Committee approves the internal audit plan during the first quarter of Audit Committee meeting

annually and reviews the said 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 follow-up audits on all key departments and operations, including subsidiaries within the Group in accordance with the approved annual audit plan. The internal audit reports are presented and reported by the Internal Auditor Manager at the Audit Committee meeting on a quarterly basis.

Furthermore, the Audit Committee can request immediate assistance from the Group's internal audit for any matter it considers appropriate.

Other key activities undertaken by the Group's internal audit are as follows:

- To carry out annual Audit Committee's performance evaluation in measuring the effectiveness of the Audit Committee and each of its members at least once every three years.
- To undertake special reviews requested by the Audit Committee and/or management.
- To review the findings, management response and action plans resulting from internal audits.

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

- Intellectual Property – Management of Trade Marks (March 2015).
- Order to Cash (May 2015).
- Record to Report (October 2015).
- Requisition to Pay (October 2015).
- Human Resources – Recruitment, Development and Separation (October 2015).

The cost incurred for the Group's internal audit for the financial year ending 31 December 2015 was RM0.9 million.

This Audit Committee Report is made in accordance with the resolution of the Board of Directors on 17 February 2016.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RESPONSIBILITY

The Board of Directors (the Board) recognises the importance of British American Tobacco (Malaysia) Berhad and Subsidiaries' (the Group) sound risk management practices and internal controls to safeguard shareholders' investments and the Group's assets. The Board affirms its overall responsibility for the Group's system of risk management and internal control which includes the establishment of an appropriate control environment and framework, as well as reviewing its adequacy and integrity. The Board 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 good corporate behaviour, and is an integral part of the Group's system of corporate governance. The Standards of Business Conduct require all employees to act with highest standards of business integrity, comply with all applicable laws and regulations, and ensure that business standards are not compromised for the sake of results. Our Standards of Business Conduct is made available to our stakeholders and employees on our corporate website at www.batmalaysia.com.

ENTERPRISE RISK MANAGEMENT PROCESS

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

GROUP'S ENTERPRISE RISK MANAGEMENT OBJECTIVES

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

- (a) Review and update the risk register.
- (b) Assess status of risk mitigation action plans.

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

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.

The outcome of the risk identification and evaluation process is both a Risk Heat Map and a comprehensive Risk Register which documents all identified business risks.

RISK MANAGEMENT TEAM RESPONSIBILITIES

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

Five-Phase Enterprise Risk Management Process

(1) Risk Identification

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

(2) Risk Evaluation

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

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

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

ENTERPRISE RISK MANAGEMENT PROCESS



RISK HEAT MAP

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

Key focus areas

(3) Risk Mitigation

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

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

Risk Management Measures	Sub Category	Description
ACCEPT	Acceptance	Accept the risk as it is rated, with no further action and maintain the control procedures that are already in place.
RETAIN	Loss prevention	Implement pro-active risk mitigation (control measures and practices) to reduce likelihood of the risk crystallising.
	Loss reduction	Implement reactive risk mitigation (control measures and practices) to reduce the impact and consequences if a risk materialises.
TRANSFER	Insurance	Purchase insurance for insurable risks e.g. fire, life, theft, etc.
	Contract	Protection clauses in contracts e.g. indemnity clauses, etc.
	Sharing of risks	Joint venture or partnerships.
	Outsourcing	Third party to assume risk.

(4) Risk Monitoring

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

(5) Risk Review

Finally, the Group's Enterprise Risk Management process is subject to periodic reviews by Management to ensure that the policies and objectives of the programme remain applicable and effective under changing market and regulatory environment.

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.

- 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.

Communications Team

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

Crisis Response Team

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 fifteen Business Continuity Plans (BCP) in place to manage the various potential disruptions which could impact the Group. Examples are the Site Recovery Plan and the IT Disaster Recovery Plan.

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

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

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

KEY RISKS TO THE GROUP

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

- (a) Growth of illegal cigarette trade.
- (b) Excise driven price shocks.

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

2015 RISK MANAGEMENT ACTIVITIES

Review of The Group's Risks

The Risk Management Team met formally twice during the year, in February and August 2015, to review and assess the Group's risks, and to monitor progress of key activities for the year, including the progress of the BCPs.

The Leadership Team and the Audit Committee were briefed by the Enterprise Risk Manager on the Group's Enterprise Risk Management programme in April and October 2015. The

briefing included updates on the key risks of the Group and the risk mitigation plans, and the status of BCP testings.

Promotion of Risk Awareness

Risk communication is equally important and forms an integral part of the risk management activity as it focuses on the dissemination of risk information to appropriate levels of employees and stakeholders. Appropriate channels are available for employees to provide feedback on risk management issues and suggestions for improvement.

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

Crisis Management Activation

In 2015, there were no major crises which required the activation of the Crisis Management and Crisis Response Teams.

Significant Risk Mitigation Activities

There were no significant Risk Mitigation activities carried out in 2015.

Business Continuity Plan (BCP) Simulation and Testing

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

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

SYSTEM OF INTERNAL CONTROL

Control Self Assessment (CSA) Process

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

The self assessment is carried out 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 2015, 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's 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 auditors. 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 British American Tobacco p.l.c. This approach ensures a high level of independence and gives access to more skilled and specialised resources, particularly in respect of Information Technology (IT), than would otherwise be available within the Group. A permanent invitee from the Global Audit function attends the Audit Committee and is the liaison between the Audit Committee and Global Audit. The annual audit planning cycle takes direct input from both the risk register, described above, and the Audit Committee. In turn, the Audit Committee formally approves the scope of work for the year. Furthermore, the Audit Committee can request immediate assistance from Global Audit for any matter it considers appropriate.

British American Tobacco p.l.c Group Internal Audit undertakes risk-based audit reviews structured in line with the operating

model of the British American Tobacco p.l.c Group. As such, three types of audits exist, namely Process Audits, Project and Programmes Audits and Others. Process Audits have a scope of one process across multiple British American Tobacco global entities. Project and Programmes Audits are focused on significant projects or programmes. Others are those Audit reviews that are as a consequence of a direct request, either due to an incident, Management request or Audit Committee concern.

More details on the internal 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 from 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 reviews 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 are regularly updated to reflect changing risks or to resolve operational deficiencies. All policies are approved by the Board and cases of non-compliance to policies and procedures which are in place are reported to the Board and Audit Committee by exception.

(b) Immediately Reportable Incidents

- The Group adheres to a British American Tobacco p.l.c control procedure termed 'Immediately Reportable Incidents'. This process seeks to capture breakdowns in basic controls and expedite the reporting and immediate action thereof. Seven areas of basic control issues are considered:
 - (1) Reconciliation of accounts issue.
 - (2) Reporting issue.
 - (3) Stock control issue.
 - (4) Procurement issue.
 - (5) Segregation of duties, access, password and related issues.
 - (6) Effective market focus demand issue.
 - (7) Trade debtor management.

(c) Strategic Business Plan, Budget and Performance Review

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

(d) Insurance and Physical Safeguard

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

(e) Written Declarations

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

- Written declaration from the Finance Director and Managing Director confirming their compliance with the Group's Standards of Internal Control.

CONTROL MATTERS

No material control matters were reported in 2015.

In 2014, the Finance Director notified the Audit Committee and the Board on control breakdowns relating to stock counts at the Group's EDx Distributor. The Group discovered within the EDx 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 that resulted in minor financial loss amounting to RM0.2 million to the Group. Police reports have been lodged for both these incidences. Measures were subsequently put in place to enhance the controls surrounding the operational procedure of stock counting, which include tightening of the reconciliation and counting procedures as well as enhancement in security in the EDx Distributor's stores.

BOARD ASSESSMENT

The Board is of the view that the Group's overall risk management and internal control system is operating adequately and effectively, and have received the same assurance from both the Managing Director and Finance Director of the Group. The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Group has been in place throughout 2015 and up to the date of approval of this statement. The Board is also of the view that the Group's system of internal control is robust and is able to detect any material losses, contingencies or uncertainties that would require disclosure in the Group's 2015 Annual Report.

This Statement is approved by the Board of Directors on 17th February 2016.

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

THE YEAR 2015 WAS PIVOTAL FOR BRITISH AMERICAN TOBACCO MALAYSIA. DESPITE THE CHALLENGING MARKET ENVIRONMENT, THE COMPANY HAS DELIVERED ON ITS VISION FOR GROWTH THROUGH A *DARE TO EXCEED* MENTALITY FROM ITS PEOPLE. THE COMPANY HAS CONTINUED ITS FOCUS ON THE GROWING NEEDS OF ITS CONSUMERS BY FURTHER DEVELOPING COMPELLING AND DIFFERENTIATED OFFERS THROUGH ITS PORTFOLIO OF BRANDS.



GROWTH

KEY HIGHLIGHTS IN 2015

JANUARY

Launched Limited Edition Packs (DUNHILL Core range)

Launched Limited Edition Packs (DUNHILL Menthol range)

Launched DUNHILL Zest with Malaysia's first unique flavoured Zest capsule

MARCH

Launched PALL MALL XL

APRIL

Upgraded PETER STUYVESANT pack

JUNE

Launched DUNHILL Mix featuring two flavoured capsules

OCTOBER

Launched Limited Edition Packs (DUNHILL Red)

Launch of SHUANG XI

NOVEMBER

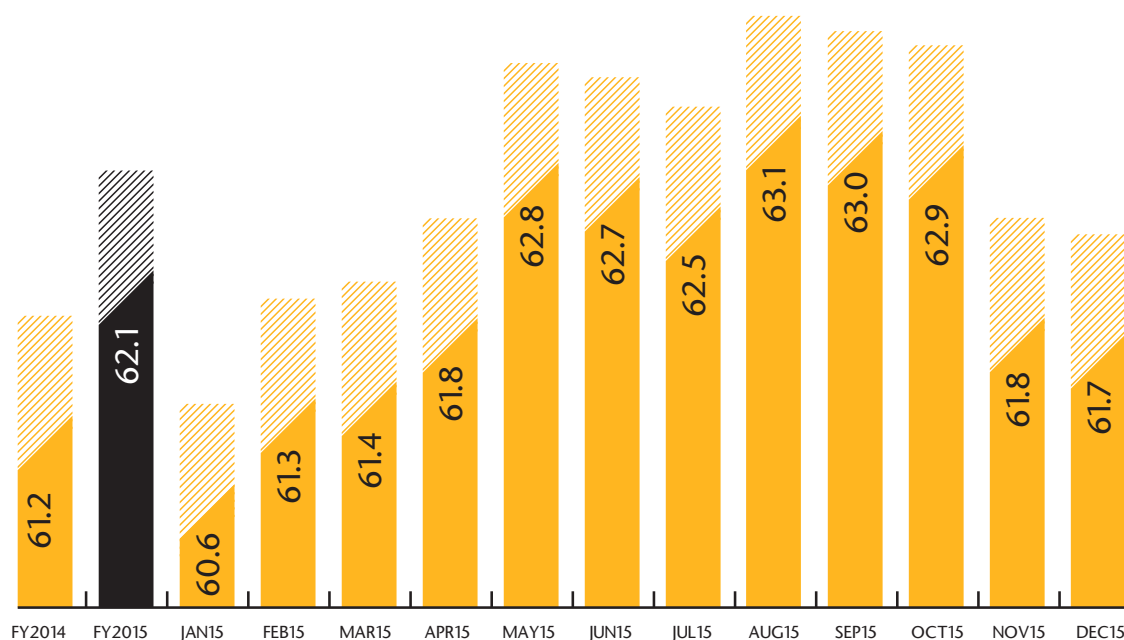
Launched PETER STUYVESANT Neo

62.1%
FULL YEAR CORPORATE MARKET SHARE FOR 2015

Apart from a challenging market environment, 2015 was also a year where the Company had to face the implementation of stricter market regulations, steep excise increases and the growing presence of the illegal cigarette trade. However, the Company with the strategies that it had put in place and implemented, achieved a gain of 0.9 percentage points to close the year with a strong 62.1 percent when compared to the full year corporate market share for 2014.

While DUNHILL continued to maintain its clear market leadership with a 46.9 percent full year share of market, this increase was fuelled by the strong performance of a renewed PETER STUYVESANT. PETER STUYVESANT recorded a gain of 1.3 percentage points to reach 6.4 percent full year share of market, which also made it the fastest growing brand in Malaysia.

British American Tobacco Malaysia Corporate Market Share (%)



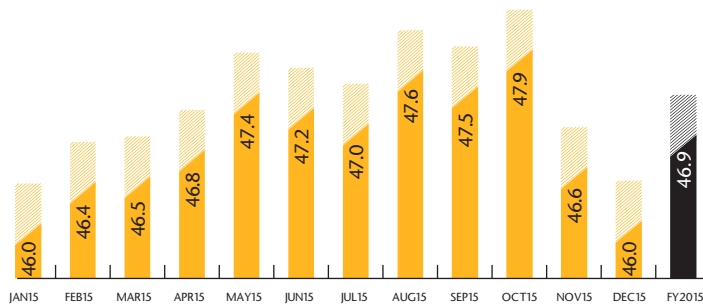
Source: Retail Audit

Base: Total legal market

Premium Brand: DUNHILL

SOLIDIFYING BRAND HERITAGE

DUNHILL Market Share Performance (%)



Source: Retail Audit

Base: Total legal market

2015 was destined to be a special year for DUNHILL as it celebrated its 50 year anniversary in Malaysia. And what better way to commemorate the occasion than by also being the year DUNHILL attained its highest market share ever in Malaysia of 47.9 percent¹.

These significant milestones were celebrated with British American Tobacco Malaysia's employees to give acknowledgment and appreciation to their efforts in helping to build the brand since its introduction in 1965 and further motivate them to build the brand to greater heights.



Evolution of DUNHILL Red from 1965 to 2015

*The DUNHILL 1965 pack is without Pictorial Health Warning because it was not required by Malaysian regulation at the time of production

It is with this motivation that saw several new exciting product launches for the year to further enhance DUNHILL's position as the leading tobacco brand amongst consumers.

¹Retail Audit Malaysia - October 2015

The year started with the successful launches of the Limited Edition Packs of both the DUNHILL Core and DUNHILL Menthol range in January 2015 which showcased its proud international heritage. British American Tobacco Malaysia also introduced a new offering in January 2015 with DUNHILL Zest. DUNHILL Zest is the first of its kind with a unique flavoured Zest capsule in the market.



DUNHILL Limited Edition Packs (Core and Menthol range)



DUNHILL Zest with Malaysia's first unique flavoured Zest capsule

Subsequently, DUNHILL Mix was launched in June 2015 and represents the brand's first ever double capsule product in Malaysia. These product offerings showcased the Company's drive in constantly pushing to deliver innovative and differentiated offers for its consumers. DUNHILL closed off the year with yet another Limited Edition Pack range, this time for DUNHILL Red in October 2015.



DUNHILL Mix featuring two flavoured capsules



Limited Edition Packs (DUNHILL Red)

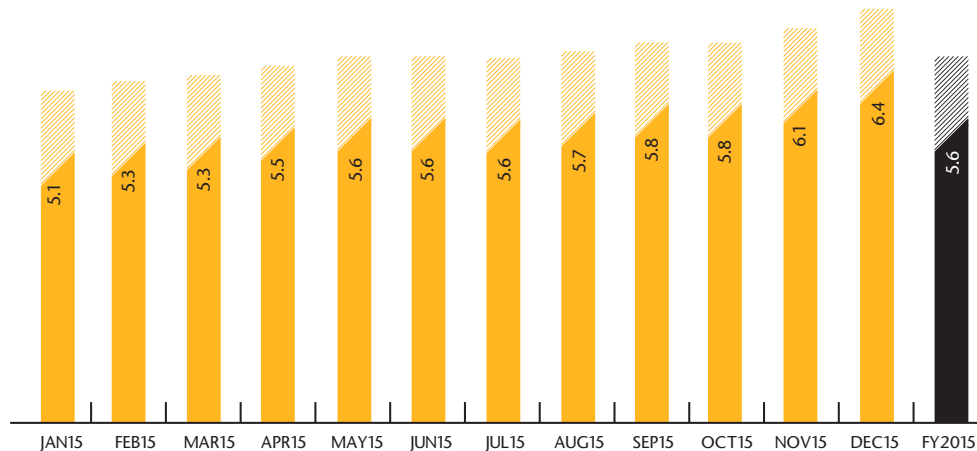
Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.

GROWTH

Aspirational Premium Brand: PETER STUYVESANT

INSPIRATION FOR SUCCESS

PETER STUYVESANT Market Share Performance (%)



Source: Retail Audit

Base: Total legal market

As a brand, PETER STUYVESANT continued to make great strides as the fastest growing cigarette brand. In April 2015, PETER STUYVESANT underwent a pack upgrade by permanently replacing its packs with the Limited Edition Packs introduced last year.

2015 also saw the November launch of PETER STUYVESANT Neo, aimed at establishing the growing position of the brand in the Aspirational Premium category. PETER STUYVESANT Neo is unique in the market as it features a charcoal filter and a slimmer profile stick. This new offering is showing promising performance with PETER STUYVESANT Neo sales reaching close to 1.0 percent market share within the first three weeks of its launch.



PETER STUYVESANT's new permanent packs

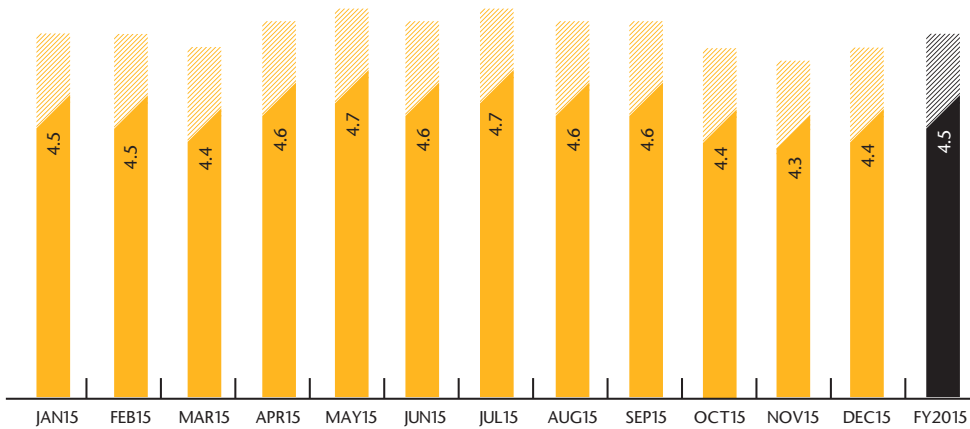


PETER STUYVESANT Neo with charcoal filter

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

Aspirational Premium Brand: PALL MALL

PALL MALL Market Share Performance (%)



Source: Retail Audit

Base: Total legal market



PALL MALL XL

In March 2015, PALL MALL launched its PALL MALL XL designed to elevate consumer value via a longer stick format. PALL MALL's performance for 2015 remained stable versus last year, closing at 4.5 percent full year share of market.

Premium Plus Brand: SHUANG XI

In October 2015, for the first time, British American Tobacco Malaysia launched a purely Premium Plus brand, SHUANG XI – a range of distinct offerings through limited distribution channels. SHUANG XI is only sold in Klang Valley at Duty Free shops, specific entertainment outlets and SHELL Select stores. As it is not widely available, a new service, British American Tobacco Malaysia's first order and delivery service was also introduced for consumers who were interested to purchase SHUANG XI.



Introducing SHUANG XI

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

GROWTH

TRADE MARKETING ACTIVITIES IN 2015

2015 was a very active year for trade. With new challenges faced and greater opportunities to explore, the overall focus for the Company's trade marketing division was self-improvement, motivation and consolidating partnerships.

SMART 2015

The Company's trade programme, *SMART*, was launched in 2002 and aimed primarily at helping our retail partners remain competitive and relevant in a continuously challenging market as well as growing their business. Since then, it has evolved to cater to the changing industry landscape and deliver tools required for evolving business solutions.

Launched in the month of May, *SMART* 2015 was revamped and relaunched with a focus on retailer advocacy and to consolidate positive relationships with our retail partners. To kick off the programme, a Platinum Dinner was held for selected retailers in order to give them a clear understanding of the year's programme structure and allow retailers an opportunity to fully appreciate what the new *SMART* 2015 programme can offer then. The stellar reception received from the retailers was an encouraging indication of the success of *SMART* 2015.



SMART 2015 launch

DARE TO EXCEED

Recognising the heightened challenges faced by the tobacco industry in Malaysia, a change in mind-set was imperative.

This gave birth to *Dare to Exceed*, a simple, yet powerful mind-set change to motivate employees to exceed their personal best to excel in everything they do. This was officially launched in April 2015 and became the guiding force for employees in the face of any challenges encountered.

British American Tobacco Malaysia employees decked out in Dare to Exceed t-shirts at the launch



PRODUCTIVITY IS A VITAL ENABLER IN OUR BUSINESS AND REMAINS A VERY IMPORTANT ASPECT OF THE COMPANY'S STRATEGY IN SUPPORTING BUSINESS GROWTH IN A TOUGH AND COMPETITIVE ENVIRONMENT. BY LEVERAGING ON THE COMPANY'S CONSUMER-CENTRIC AND FLEXIBLE SUPPLY CHAIN, OUR ASPIRATION IS IN BUILDING A *FIT-TO-FIGHT* ORGANISATION. GUIDED BY *THE BAT WAY* STRATEGY, WE AIM TO CONTINUOUSLY IMPROVE OUR PRODUCTIVITY, TO INCREASE PROFITS, IMPROVE OUR OPERATING MARGIN AND GENERATE INVESTMENT FUNDS TO GROW MARKET SHARE AND ACHIEVE HIGHER RETURNS FOR SHAREHOLDERS.



PRODUCTIVITY

PRODUCTIVITY

KEY HIGHLIGHTS IN 2015:

- Continuously strived to effectively deliver new and innovative products.
- Integration of global best practices to improve productivity and efficiency.
- Transformed and enhanced business technology.

SUPPLY CHAIN PERFORMANCE

Supply Chain Operations

BUSINESS HIGHLIGHTS

- Achieved 100 percent delivery on time, and in full again; upholding customers' confidence in our high level of service.
- Successfully pushing the envelope in delivering new innovative products.
- Greater strides made in waste reduction.
- Improved optimisation of internal resources.
- Operating efficiency – implementation of Global Integrated Work System.

PEOPLE DEVELOPMENT

- Fostering stronger bonds and deeper understanding of the business amongst employees.
- Continuing to put emphasis on knowledge sharing and creating opportunities to upskill and advance employees.

Achieved 100 percent delivery on time, and in full again; upholding customers' confidence in our high level of service.

Following the outstanding performance in 2014, British American Tobacco Malaysia continues to prioritise delivering high quality products within the planned timeframe to each customer every time. This is evident as the Company has yet again achieved an overall 100 percent delivery on time, and in full (OTIF) in 2015. Maintaining this performance is vital in upholding our customers' confidence in our high level of service and acts as a great morale booster for the delivery team.

Successfully pushing the envelope in delivering new innovative products

The Company has continuously strived to push the envelope in effectively delivering new and innovative products to the market, and 2015 was no different. It was a year British American Tobacco Malaysia achieved exceptional results by producing 18 new product innovations that were introduced to the domestic market. One of the key accomplishments in 2015 was the pioneer manufacturing of a mixed product pack (two different product offerings in one single pack) in Malaysia. Our competency and ingenuity in creating new product variants are essential in providing as many options to satisfy different consumer needs. In addition to this, our supply chain has also successfully delivered 22 new Stock Keeping Units (SKUs) for export to various end markets.

Greater strides made in waste reduction

Minimising wastage is extremely important in the manufacturing industry as not only does it promote cost optimisation but it can lead to an increase in profits and competitiveness. The Company has identified two key wastage areas – tobacco waste and wrapping material waste. In 2015, our supply chain has upped its game by implementing a more efficient tobacco recovery method that reduces dust generation and improves the yield of tobacco ripper shorts in the recovery process. With the introduction of this new method, we have seen a reduction in tobacco and wrapping material waste by 18 percent and 25 percent respectively when compared to the previous year. The Company will continue to put focus on efforts in minimising wastage in line with our supply chain's drive towards *Zero Waste*.

Improved optimisation of internal resources

British American Tobacco Malaysia has always been proactive in trying to maintain a cost competitive business by maximising our resources and assets. 2015 saw a complete optimisation of underutilised resources and factory space. Steps were taken to re-map and re-align the flow of our cigarette making and packing process to better meet current needs. The effort resulted in a consolidation of machinery spread across two factory blocks to one. The space freed up was then converted into storage space for materials previously stored in rented external warehouses. This optimisation has allowed the supply chain to more efficiently manage our energy usage and reduce unnecessary rental and transportation costs to external parties.

Operating Efficiency – Implementation of Global Integrated Work System

As a market leader, the Company has to remain innovative to further enhance productivity. Following a global initiative, British American Tobacco Malaysia introduced the Global Integrated Work System (IWS) to its factory in 2015. IWS is a manufacturing system that integrates best practices in the industry and aims to achieve zero losses in production, quality, cost, delivery and safety. IWS focuses on equipment efficiency and is designed to function at an operator's level. It requires disciplined involvement and active contribution from them as there is heavy emphasis on equipment ownership and technical mastery.

To allow for daily accountability, the *Daily Direction Setting* (DDS) framework provides all operational levels the time, resource and support they need to review, learn by doing and carry out effective problem solving. The goal is to learn from setbacks and encourage the ability to develop systematic countermeasures to ensure that deviation does not occur again.

The key indicators of equipment efficiency are:

- *Machine Uptime*: measure of the time a machine has been working without stopping.
- *Mean Time Between Failure* (MTBF): refers to the average amount of time between an occurrence that causes downtime such as a machine breakdown.
- *Run to Target*: the ability to achieve pre-determined targets such as quality and centrelining.

The programme was implemented in August 2015 for six production modules and has since increased overall equipment effectiveness by 10 percent. The Company also has plans to implement the programme for three additional production modules in 2016.

PEOPLE DEVELOPMENT

Fostering stronger bonds and deeper understanding of the business amongst employees

British American Tobacco Malaysia believes that a committed and highly engaged team is the key driver of a successful business. Aligned to this belief, the supply chain organised quarterly *team talk* sessions where business updates and key focus areas were shared with all supply chain employees to ensure a clear line of sight of the Company's strategies and direction. Appreciation awards are given out to employees during these sessions to express the Company's recognition of their remarkable contribution and to serve as a source of motivation and encouragement for the others to emulate.

Additionally, a team building session was held in 2015 to allow employees a chance to get to know each other better, promote teamwork and build a sense of camaraderie amongst all supply chain employees.



PRODUCTIVITY

Continuing to put emphasis on knowledge sharing and creating opportunities to upskill and advance employees

Through the recent Supply Chain optimisation process, new career opportunities with more complex roles and greater responsibilities were made available for employees with the chance to further develop, upskill their capabilities and extend their careers to the next level. Also, as the newly introduced IWS requires active contribution from employees, it created the right environment to further promote a culture of knowledge sharing and encourages self-initiative and empowerment.



The Company undertook this change because we believe that providing our people with simple, integrated and powerful end user technology will make British American Tobacco Malaysia a better place to work and more successful as a business.



Epic Launch

With the implementation of the Goods and Services Act (GST) in 2015, the Company went through extensive preparation to ensure its systems were ready to accommodate the changes that would come with it. A GST feature to take into account the six percent tax was integrated into the existing SAP applications to ensure compliance with all Government regulations. This feature was successfully rolled out to all SAP systems used in British American Tobacco Malaysia ahead of the GST implementation.

TRANSFORMED AND ENHANCED BUSINESS TECHNOLOGY

British American Tobacco p.l.c Group launched the Enhanced Productivity in the Cloud (EPIC) programme which will span over 2015 and 2016. The programme was developed to transform and enhance the personal computing technology of over 38,000 British American Tobacco p.l.c Group end users and at the same time to reduce the respective endmarket's IT costs. EPIC puts the users at the heart of everything that we do and aims to deliver a new IT interface for all end users, enabled through Microsoft's modern Cloud technology; Office365, Skype for Business, Microsoft Mobile, Sharepoint, OneDrive and eventually the roll-out of Windows10.

As part of phase one of EPIC, British American Tobacco Malaysia's local IT team worked tirelessly to successfully migrate all end users from the previously used Lotus Notes to Microsoft Outlook and Skype. The focus of the change approach was to empower the technology savvy end user of today through the principles of self-migrate, self-train and self-support – and to constantly communicate to the end user a set of common and simple messages.

Restructuring IT systems for better efficiency

The Company's existing Telepresence infrastructure underwent a revamp in a Company effort in enhancing IT systems. The revamp saw an upgrade to a larger meeting room equipped with the Telepresence SX80 system which significantly improved the effectiveness and productivity of the meetings. Furthermore, an uplift was done to the network to improve connectivity and to also minimise downtime.

In 2015, a project was set up to consolidate the printers within the Company's premises into all-purpose Multi-Function Printers (MFP). By doing so, the existing printers and fax machines were decommissioned. The consolidation allowed for an improvement in the quality of service, a reduction in electricity used and provided cost savings for the Company.

In addition, a reduction of servers within the IT infrastructure and an upgrade to the network capabilities and latency of the remaining servers were done at the Company. These initiatives fuelled better overall efficiency, cost savings and a reduction of the Company's IT footprint in line with the strategy towards a *Tech Zero* or fit-for-purpose end market.

RESPONSIBILITY

DELIVERING AND BUILDING ON OUR COMMITMENTS TO SOCIETY AND OUR STAKEHOLDERS

BRITISH AMERICAN TOBACCO MALAYSIA BELIEVES THAT EVERY BUSINESS HAS A RESPONSIBILITY TO GIVE BACK TO THE COMMUNITIES THEY SERVE IN AND AS THE INDUSTRY LEADER, THE COMPANY IS FULLY AWARE OF THE IMPORTANCE OF ITS ROLE AS A CORPORATE CITIZEN. THE COMPANY IS FULLY COMMITTED TO SUPPORTING THE SUSTAINABILITY OF OUR BIODIVERSITY AND SURROUNDING COMMUNITIES, SO MUCH SO THAT IT IS EMBEDDED IN OUR *BAT WAY* STRATEGY AND IS AN INTEGRAL PART OF HOW THE COMPANY CONDUCTS BUSINESS.



RESPONSIBILITY

We are mindful that as we embark on our business sustainability, the cultivation of trust from our stakeholders becomes even more critical. To do and embed that, the Company is committed to upholding high standards of ethics in our business practices and in our dealings with all of our stakeholders.

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

SUSTAINABILITY AGENDA – COMMITMENT FROM SENIOR MANAGEMENT

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

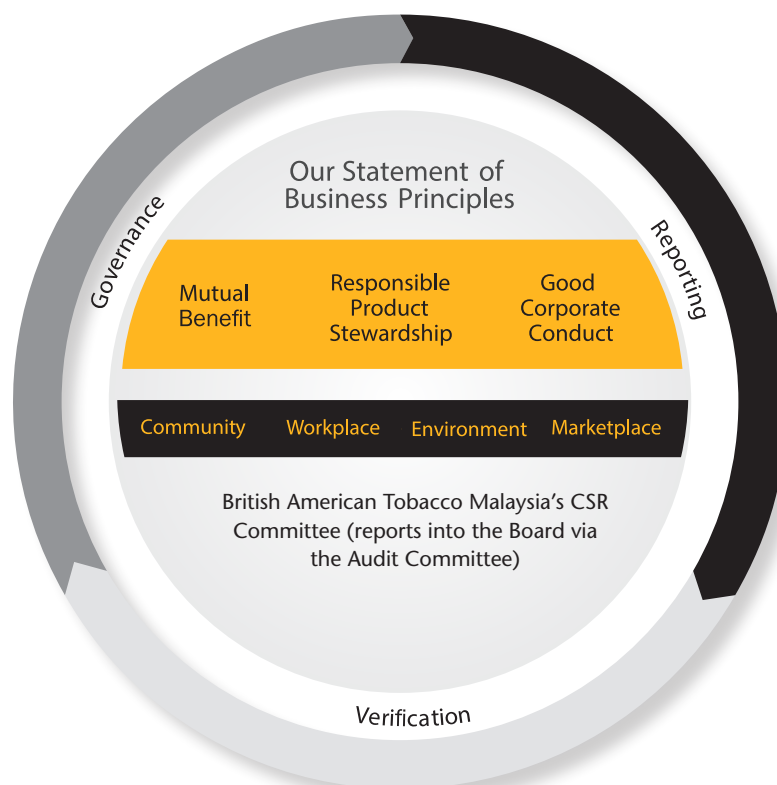
The focus areas of the CSR Committee include those outlined below:

- 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 Regional Audit and CSR Committee, which in turn reports to the British American Tobacco p.l.c CSR Committee. A dedicated team is also tasked to coordinate and implement sustainability initiatives.

BRITISH AMERICAN TOBACCO MALAYSIA'S SUSTAINABILITY FRAMEWORK

A central part of being a sustainable business is operating with integrity and responsibility. British American Tobacco Malaysia's sustainability initiatives are conducted with clear alignment to Bursa Malaysia's CSR Framework, which acts as a guide for public-listed companies in Malaysia. Our Sustainability Framework focuses on creating value for our shareholders and stakeholders in four key areas; Community, Workplace, Environment and Marketplace.



British American Tobacco Malaysia's Sustainability Framework

Key Sustainability for British American Tobacco Malaysia



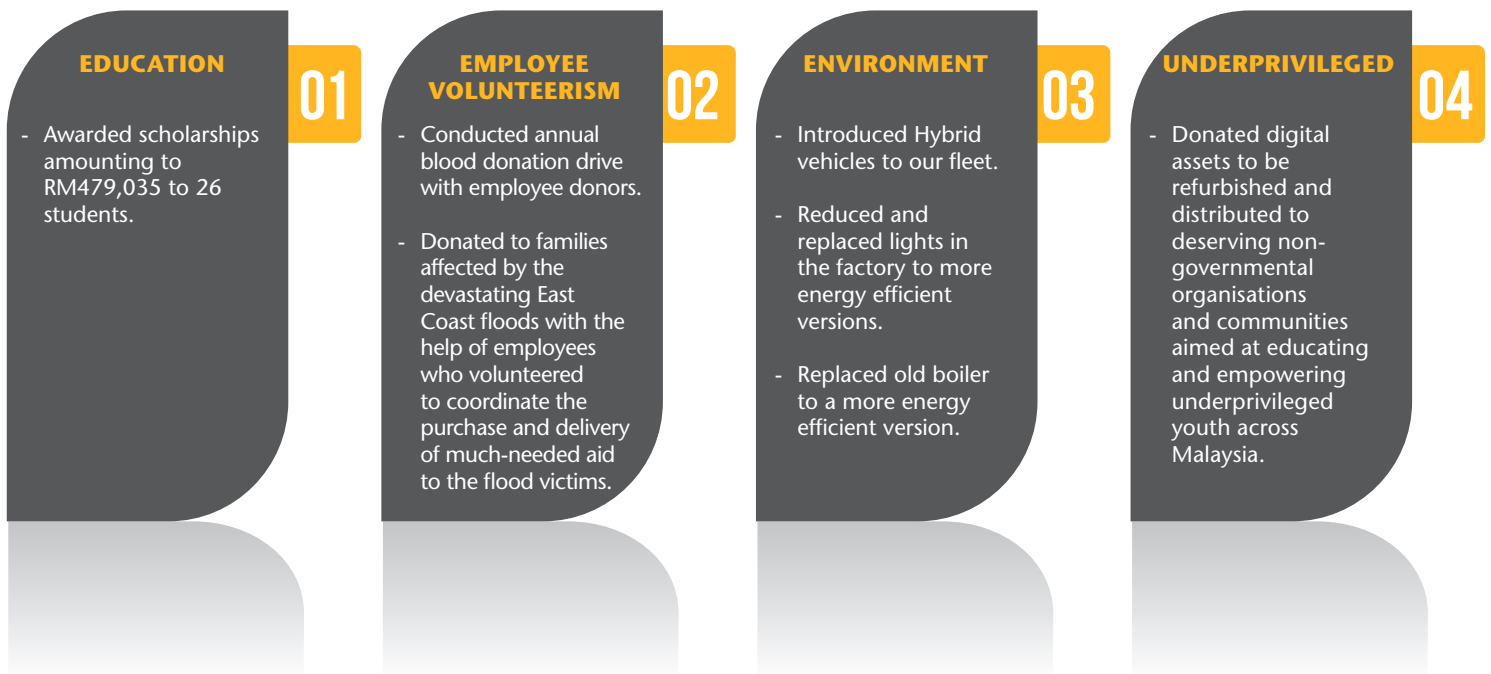
RESPONSIBILITY COMMUNITY

OUR COMMUNITY

Since the inception of British American Tobacco Malaysia, responsibility has always been an integral pillar of its strategy and a prerequisite which defines how the business is operated. It is for this purpose that the Company places the highest commitment in conducting Corporate Social Investment activities that support the sustainability of our surrounding communities.

Outlined below are the key highlights of our community activities in 2015:

KEY HIGHLIGHTS IN 2015 UNDER OUR COMMUNITY PILLAR



Education: Enabling education opportunities for tomorrow's leaders

- In 2015, the British American Tobacco Malaysia Foundation awarded over RM479,000 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 RM18 million.



British American Tobacco Malaysia Foundation's 2015 scholarship recipients

The Company passionately believes that in order for a country to be great, various investments must be made for its people to realise their full potential and what better way than by giving them access to the most powerful tool they can ever need, an education. The British American Tobacco Malaysia Foundation was founded to reinforce the Company's active involvement in providing financial assistance to foster, develop, and improve education opportunities to deserving Malaysian students pursuing higher education.

Demonstrating this, the British American Tobacco Malaysia Foundation held its 32nd Foundation Day Awards Ceremony in December, where we awarded scholarships to 26 students from the retailer community, our Smart Invest Trade Retailer Programme, children of our external distributor business partners' employees, employees' children and employees themselves. The scholarships awarded amounted to over RM479,000 which covers the full duration of the students' courses.

The British American Tobacco Malaysia Foundation was established in 1999 when Rothmans of Pall Mall (Malaysia) Berhad and the Malaysian Tobacco Company Berhad merged to form the now British American Tobacco Malaysia. Over the years, more than 2,800 students have benefited from the Foundation's various education aid programmes which include scholarships for university degrees, college diplomas and foundation studies in local higher education institutions. The various Foundation programmes represent an investment of well over RM18 million.

Employee Volunteerism: Giving back for a good cause

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 2015, we continued to keep the spirit of volunteerism alive by encouraging employees to participate in British American Tobacco Malaysia's blood donation drive. Approximately 27 employees donated blood during the small blood donation drive held in April.

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



Employees participating in the blood donation drive



RESPONSIBILITY

COMMUNITY

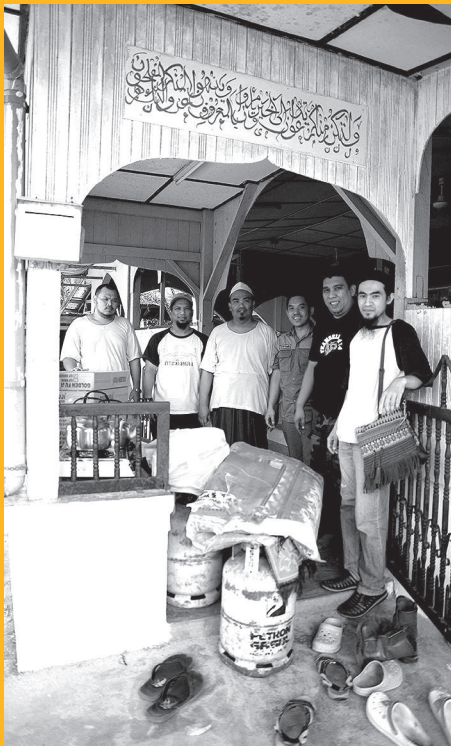
EMPLOYEE VOLUNTEERISM: BAT MALAYSIA EMPLOYEES CAME TO THE AID OF FLOOD VICTIMS

As part of the Company's Corporate Social Investment (CSI) initiatives, we believe in supporting communities devastated by natural catastrophes both locally and regionally to alleviate the burden of those affected.

At the end of 2014, Malaysia's East Coast was hit with one of the worst floods in decades. The floods affected over 200,000 people across the nation, and caused many to lose their homes and all their belongings. In the aftermath of the floods, there was a call for aid to provide shelter and basic necessities to the victims.

In response to the flooding, British American Tobacco Malaysia employees dug into their hearts to lend monetary support via a donation drive conducted for the families affected. Whilst emergency relief was immediately deployed to the affected communities, the widespread devastation on roads and bridges also meant that many families had difficulty being contacted and had limited access to delivered aid. A group of 20 British American Tobacco Malaysia employees proactively volunteered to coordinate the purchase and delivery of much-needed aid to these communities, from the donations collected.

In a show of outstanding volunteerism, this group of employees set off from the Company's headquarters after working hours in their four wheel drive trucks in early February 2015 to personally deliver items such as mattresses, gas cookers, gas tanks, tents, and mats to the affected community in Tumpat, Kelantan. The volunteers spent the weekend handing out aid at Sekolah Pondok Berangan, a local village school in Tumpat, which doubled up as a centre for flood relief supplies. The volunteers also stayed over the weekend to help out in cleanup efforts in the area.



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.
- The Company introduced Hybrid vehicles to our fleet in an effort to achieve less fossil fuel consumption and to reduce our carbon footprint.
- The Company also reduced and replaced lights in the factory to more energy efficient versions and replaced the old boiler to a more energy efficient version.

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

In conjunction with World Environment Day 2015, British American Tobacco Malaysia collaborated with UMW Malaysia to introduce Hybrid vehicles to the Company's fleet. As a responsible organisation, we believe it is imperative that we continuously strive to embed environmental responsibility throughout our business operations. The transition to more environmentally friendly vehicles is proven to be the way forward which is evident from a simulation done with real time data that shows even with two of the Hybrid units initially procured, a savings of approximately 40 percent of fuel cost is achievable for every 180,000 kilometres travelled.

Not only that, but by replacing two of the Company's normal 2.5 litre vehicles with a Hybrid vehicle, the Company is also able to achieve a reduction as much as 80 tonnes of carbon dioxide. With the introduction of these Hybrid vehicles to our fleet, the Company will not just achieve less fossil fuel consumption via the sophisticated and proven Hybrid technology but it will also go a long way in helping to reduce our carbon footprint.



British American Tobacco Malaysia introduces Hybrid vehicles to our fleet during World Environment Day 2015

Focusing back on our business operations, we reduced the quantities of lights used in the factory and replaced them with more energy efficient versions as well as replacing the old boiler with a more energy efficient version. These changes have resulted in a reduction of energy consumption and improved the water recycling process.

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

RESPONSIBILITY COMMUNITY

Underprivileged community: Bridging the digital divide

- In 2015, British American Tobacco Malaysia donated 248 digital assets to be refurbished and distributed to deserving non-governmental organisations and communities aimed at educating and empowering underprivileged youth across Malaysia.

In 2015, British American Tobacco Malaysia continued its partnership with SOLS Tech, a non-profit organisation which collects, refurbishes and distributes donated computers and other electronic devices for free to underserved communities throughout Malaysia in an effort to narrow the digital divide, combat computer illiteracy, and provide a sustainable alternative to digital waste.

In January and November of 2015, the Company contributed to this programme by donating 248 of our digital assets comprising of laptops, central processing units, printers, projectors, PDAs and other digital accessories. We are proud to report that these donated items have been sent to communities in Perak where they have been used to conduct IT classes for underserved communities as well as for the administration purposes of non-profit organisations. The bulk of British American Tobacco Malaysia's donations have also been converted to a hydroelectric system which allows them to be used for a span of time without needing electricity and have reached many rural areas in Malaysia.

Continuing with this partnership has allowed the Company to not only help bridge the digital divide and empower underprivileged youths in Malaysia but also serves as the more eco-friendly option in disposing of used hardware.



Donated digital assets being well used in rural areas in Malaysia



RESPONSIBILITY

WORKPLACE



KEY HIGHLIGHTS IN 2015:

- Implemented a robust communication plan to provide employees with a clear line of sight of the Company's strategies.
- Continued to put importance on employees' welfare and wellbeing.
- Enhanced safety and health initiatives to eliminate work-related accidents.

Engaging Employees

Our employees are our greatest asset and having an engaged workforce, no matter the level, is a critical requirement to achieving our business results to further drive the Company forward. It is for this very reason that British American Tobacco Malaysia puts importance in ensuring a robust communication plan to provide employees with a clear line of sight of the Company's strategies and direction as well as to provide employees with updates on the business not only locally but globally and regionally. 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 2015 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 2015 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 2015, we disseminated our key business information through the direct communication channels outlined below:

	Business Update (Employee town hall session)	Functional Team Talks	Departmental / Functional meetings	Focus Group Sessions	Hot Topic briefing sessions
Scheduled dates	June, August, December	March, June	Throughout 2015	Throughout 2015	Throughout 2015
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 company wide.	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

RESPONSIBILITY

WORKPLACE

Employee Propositions

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

- A reward structure that pays competitively for performance.
- 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* – As of 2011, the Company has extended paid maternity leave from 60 to 90 days.

4. *Paternity leave* – British American Tobacco Malaysia 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 marriage leave for all employees.
7. *Compassionate leave* – The Company allocates 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, counseling, 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 the 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 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**

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

Outlined below are the key activities conducted:

Safety and Health Campaign

In conjunction with World Safety Day, the Environment, Health and Safety Committee organised a two-day Safety and Health campaign at our Virginia Park headquarters. This year's campaign with its theme of *Building a Culture of Prevention in Health and Safety* saw 270 participants from various functions and external suppliers coming together to participate in the event. The two-day event was filled with many interactive games and exhibitions to raise awareness on safe practices in the factory on topics such as road safety, entrapment prevention, first aid CPR technique and many more.



Strong participation from employees during the two-day Safety and Health campaign



Safety Day for Operation employees



Safety Day

The health and safety of our employees at the workplace is extremely important to the Company. In recognising this, Tobacco Importers and Manufacturers Sdn. Berhad made a conscious decision to cease operations for a day to organise a *Safety Day* instead.

The main objective of the day was to improve health and safety awareness by reinforcing workplace safety messages. The event was participated by all employees and external contractors of Tobacco Importers and Manufacturers Sdn. Berhad. The 252 strong crowd were made aware of the most common types of hazards at the workplace and worked on group risk assessment and risk stimulation exercises together to increase their knowledge on the matter.

At the end of the event, the participants commended the use of interactive activities such as quizzes, practical tests, role plays and group discussions which made it easier for them to understand the content presented and which drove home the essential message that safety is everyone's responsibility.

RESPONSIBILITY WORKPLACE

Defensive Driving Refresher Training Programme

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

To address this issue, promote safe driving and get on the path to *zero* accidents, the Company embarked on conducting a refresher of the Defensive Driving Training Programme amongst these employees. It was aimed to refresh them on how to identify potential road hazards and how to handle their vehicles in the event of an emergency. Other topics such as vehicle safety checks, the safe way to changing a tire, understanding first aid treatments and protection from attacks or assault are also to be covered during the sessions.

The refresher would involve 164 *Field Force* personnel across Malaysia and be conducted in 10 separate sessions that would span until 2016. To date, four sessions have been completed. The Defensive Driving Training programme is aligned to the national 1Malaysia staff upskilling and safety programme.



Employees attending the Defensive Driving Training Programme

Forklift and Stacker Refresher Training

In another ongoing effort to promote safe driving amongst employees, a training refresher was conducted for all existing forklift and stacker drivers. The refresher course focused more on behavioral based safety operations for both permanent employees and contractors. The refresher was conducted in stages and a total of 40 participants were involved in the retraining course.

Safety Observation Card

British American Tobacco Malaysia introduced a *Safety Observation Card* initiative over the past ten years in its efforts to ensure 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.

The *Green Card* training programme was carried out in January and May 2015 whereby a total of 11 new green cards were issued to new contractors. A *Green Card* refresher course was also organised in July 2015 and was attended by 23 existing *Green Card* holders.

Making steady progress in achieving full zero Lost Time Injury

In 2015, British American Tobacco Malaysia and its wholly owned marketing subsidiary, Commercial Marketers and Distributors Sdn. Bhd. achieved 4,069,459 man-hours without a Lost Time Injury since September 2011, whereas its wholly owned manufacturing subsidiary, Tobacco Importers and Manufacturers Sdn. Berhad achieved 137,054 man-hours without a Lost Time Injury since September 2015. The Lost Time Injury rate for 2015 is 0.64 with two reported incidents involving a Material Handling Equipment (MHE) accident and an entrapment injury.

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

Near Misses/Incident report form

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

In May 2015, any employee who provided feedback with the near miss report form was incentivised with a *Coffee Voucher* to further promote this initiative. This approach enabled the prevention of 61 near misses solely based on employee feedback.

Incorporating global best practices - PULSAR

On 18 August 2015, British American Tobacco Malaysia launched a new programme *PULSAR* which is part of the global EHS strategy that was developed to fully embed a culture of accident-prevention in Operations locations globally.

PULSAR is a journey of *Behavioural Change* leading to a *Cultural Change* towards embedding safety. It is by no means a substitute of the Company's current safety measures but instead focuses on changing the attitude that employees have towards safety measures. *PULSAR* emphasises that positive thinking results in positive action which leads to employees having positive habits that ultimately brings about positive results.

In this programme, education, awareness and change management play a vital role in embedding the message of safety in our *pulse*. During the launch which was attended by 100 employees, mannequins and forklifts were displayed around the factory premise in various mock up scenarios as part of the activity for employees to identify which was the right and wrong action.

The *PULSAR* mindset was also reflected in the communication banners around the factory premise which encouraged employees to *THINK, FEEL* and *ACT* in the right way. To date 102 employees have undergone training.



PULSAR launch

KEY HIGHLIGHTS IN 2015:

- Continued to govern our environmental management stringent policies.
- Focused on efforts of energy and water reduction.

Our environmental policies

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

The British American Tobacco p.l.c Group is required to:

- Comply with all applicable national and international laws and regulations affecting their business activities.
- Establish procedures for assessing and reviewing the EHS impacts of present and future activities on a regular basis.
- Continually seek to identify proactive and cost-effective measures which it can take to safeguard the health and safety of its employees and non-company personnel on company premises and the physical environment.

Integrated Management System (IMS) Policy

The Integrated Management System Policy 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 May 2015, the surveillance audit on Environmental Management System (ISO 14001) was completed without any minor or major non-compliance findings.

Minimising our environment impact for a sustainable future

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

• Reducing energy consumption

Energy-efficient initiatives – In 2015, as part of the continuous drive for energy efficiency, the Company consolidated the Secondary Manufacturing Department's cigarette making machines into one main area and have converted the additional space into a *Wrapping Materials Warehouse* (WMS-A). With this, the Company was able to reduce the usage of lighting and achieved a savings of approximately 7,776 kilowatt hour per month.

All conventional high bay lights (250 watts) at the new *Wrapping Materials Warehouse* were replaced with LED high bay lights (100 watts) which saved an additional 16,560 kilowatt hour per month. A replacement of three condenser return pump units at the Primary Manufacturing Department was done to enable a more efficient recovery of condensate steam return to the boiler water tank feed which is used for water recycling purposes.

The Company also replaced one of its boilers to a unit with a higher capacity. The upgraded boiler reduced the number of boilers needed to run daily from two units to just one unit at a certain hour for the requirement of the Primary Manufacturing Department. The new boiler is also more efficient in waste heat recovery.

Following from these initiatives, we also monitor and track our usage of energy and water consumption.

	2014	2015	2014 vs 2015	Remarks
Total Energy (GJ)	201,147	162,199	19.4%	19.4 percent reduction in a total energy usage versus 2014 primarily due to a reduction in production volume and various energy conservation projects such as factory optimisation, a more efficient boiler and the replacement to LED lights.
Total water withdrawn (m ³)	180,785	137,087	24.2%	24.2 percent reduction in a total water usage versus 2014 primarily due to reduction in production volume and various water conservation projects such as factory optimisation and a more efficient boiler.

- **Benchmarking key business partners against our environmental standards**

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

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

KEY HIGHLIGHTS IN 2015:

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

FIGHTING THE GROWING BLACK MARKET

The trade of illegal cigarettes remains a key concern for both the industry and the country. The latest Illicit Cigarette Study (ICS) conducted by Nielsen Malaysia in 2015 revealed that illegal cigarette incidence now stands at 36.9 percent¹, a 3.2 percentage point increase from 33.7 percent in 2014. This means that more than three out of 10 cigarette packs sold in the country are illegal.

Cigarette prices have in the last two years become the second highest among ASEAN countries after Singapore. Coupled with weaker consumer sentiments after the implementation of the Goods and Services Tax (GST), Malaysia's attractiveness for the cigarette smuggling market has risen drastically.

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 Groups². Numerous reports have forged links between the illegal cigarette trade and organised crimes groups or syndicates, who are attracted by high consumer demand, potential lucrative profits, and perceived lack of deterrent penalties. These syndicates maintain a robust and dynamic supply chain model, from unmarked factories in undisclosed locations, to a wide distribution networks via retail outlets across Malaysia and to street peddlers.

Essentially, the high levels of illegal cigarettes bring these criminal networks and crime closer to our neighbourhoods.

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.

Given the severity of the issue, law enforcement authorities, especially the Royal Malaysian Customs (RMC), the Malaysian Maritime Enforcement Agency, and Marine Police have stepped

up their enforcement efforts respectively. RMC in particular, embarked on a game-changing campaign in 2014 called OPS Outlets and OPS Pacak. Both campaigns focused on disrupting the illegal supply chain by targeting enforcement efforts on retailers and wholesalers, pressing for more deterrent penalties such as jail terms, as well as remanding retailers caught to facilitate investigations.

Following the successful campaign in 2014 with an unprecedented 2.0 percentage points drop in the 2014 ICS results; the RMC launched Ops Outlet V2.0 in April 2015, galvanising the public nationwide to report on errant retailers that still persisted to sell illegal cigarettes. As a result of the public whistleblowing campaign and intensified raids, close to two thousand offenders have been arrested and remanded for investigation, with many charged in court with stiffer penalties, such as jail term from 2014 to 2015.

On top of enforcement activities, RMC also raised awareness at point of sales 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.

In October 2015, RMC's initiatives were supported by the Municipal Council of the Sandakan district in East Malaysia to revoke the business license of outlets and backlisting them from any future business prospect if they are found to be selling illegal cigarettes. From news reports, other key Municipal Councils in Peninsular Malaysia are also considering taking similar initiatives to combat the illegal cigarette trade.

This effort also gained much support from various retail associations, including the Malaysia-Singapore Coffee Shop Proprietors General Association, the Federation of Sundry Goods Merchants Association, Malaysian Muslim Wholesalers and Retailers Association, Malaysian Muslim Restaurant Owners Association, and Malaysian Indian Restaurant Owners Association, who have warned their members against selling illegal cigarettes.

¹ 2015 Illicit Cigarette Study (ICS) commissioned by the Confederation of Malaysian Tobacco Manufacturers

² Cigarettes and the terrorists link, New Straits Times, 30 September 2013

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 illicit cigarette trade to retailers, government stakeholders, the judiciary and members of the public.

CMTM also continued to proactively engage with various law enforcement agencies which include the Royal Malaysia Customs, the Ministry of Domestic Trade, Co-operatives and Consumerism, Malaysian Maritime Enforcement Agency, the Royal Marine Police, the Royal Malaysian Police, the Malaysian Anti-Smuggling Unit, the Ministry of Finance, and the Ministry of Health enforcement division on tackling the menace of illegal cigarette trade.

DELIVERING COMMERCIAL BENEFITS

With the transformation of the Procurement department from a local structure into a global function in British American Tobacco Malaysia, the Company has been able to reap the benefit of such aggregation and leverage of global insights where both stretched direct and indirect productivity savings target were hit and exceeded respectively. This has helped to propel the Company into achieving the desired level of profitability where we can maximise value from bottom-line.

Besides productivity savings, the Procurement team has also been driving external supplier payment terms to close the gap with industry benchmarks and release any capital tied up for the Company. The implementation of the *Purchasing Card* with our Global partner is yet another initiative to further streamline purchasing processes which benefits both the Company and external suppliers.

PRODUCT RESPONSIBILITY

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

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

REGULATORY DEVELOPMENTS IN 2015

British American Tobacco Malaysia strongly subscribes to operating responsibly and we remain fully committed in adhering to the highest standards of corporate conduct.

We acknowledge that the consumption of tobacco carries with it real risks of diseases to health. British American Tobacco Malaysia has always supported sensible and evidence-based regulations on tobacco products that not only meet public health objectives, but at the same time do not unnecessarily impede the need to balance consumer preferences while respecting the legal rights for the business to continue to compete in the market.

RESPONSIBILITY

MARKETPLACE

In 2015, some of the regulatory developments that took place included the implementation of further reduction in emission levels for cigarettes. This requirement was introduced on 11 June 2013 through the Control of Tobacco Product (Amendment) Regulation 2013. Under the said amendment, effective 1 June 2015, the maximum allowable emission levels per cigarette by the Ministry of Health is:

- Total Aerosol Residue: 10mg
- Nicotine: 1.0mg
- Carbon Monoxide: 10mg

Further to that, on 30 July 2015, the Ministry of Health amended the Control of Tobacco Product Regulations 2004 via the Control of Tobacco Products (Amendment) Regulations 2015. The key regulatory amendments include:-

1. Clear price label for cigarette packets and cartons

Effective 1 August 2015, the Ministry of Health requires a clear price label of the retail price approved by the Director on each cigarette packets and cartons.

2. Revised Minimum Cigarette Price (MCP)

Effective 1 August 2015, the Ministry of Health has mandated that no person shall sell or offer for sale any cigarette below the minimum price of RM9.00 for a packet of twenty cigarette sticks.

3. Regulation to prohibit the online sale of tobacco products

Effective 1 August 2015, the Ministry of Health has prohibited the sale, or offer for sale of any tobacco product online.

British American Tobacco Malaysia has duly complied with the abovementioned regulations, where relevant, and is fully compliant with all other existing regulations enacted by the Government, in line with its commitment as a responsible company.

RESPONSIBILITY

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2015

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

Over the years, British American Tobacco Malaysia has been lauded for exemplary disclosure of its economic, environmental, social and governance performance in its Annual Report. In keeping with our commitment in prioritising the Company's accountability and transparency, we have updated and incorporated the more comprehensive Global Reporting Initiative (GRI) G4 Indicators in our 2015 Annual Report. This is the seventh year that the Company is continuing with this initiative in line with its sustainability agenda to demonstrate its commitment in operating responsibly.

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

GRI – G4 Code	Issue Area	Response for 2015
G4-EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	<p>Direct economic value generated (Revenues): RM4,582 million</p> <p>Economic value distributed:</p> <p>Operating costs: RM1,143 million</p> <p>Employee wages and benefits: RM127 million</p> <p>Payment to providers of capital: RM891 million</p> <p>Payment to government in the form of taxes: RM2,532 million</p> <p>Community investment: RM2 million</p> <p>Economic value retained: RM19 million</p>
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	<p>British American Tobacco Malaysia continuously works to address both our immediate environmental impacts and the likely environmental pressures on the business in the future by adopting a multi-pronged approach which encompasses changing employees' behaviour, investing in new technology and improving product designs that aim to lessen our environmental impacts.</p> <p>For further information on our environment-related activities, please refer to our ENVIRONMENT section of the Responsibility pillar.</p>
G4-EC3	Coverage of the organisation's defined benefit plan obligations.	In 2015, British American Tobacco Malaysia contributed an additional four percent into the employees' accounts, above the mandatory employer Employees Provident Fund (EPF) contribution: 12 percent for salaries more than RM5,000 and 13 percent for salaries less than RM5,000. Altogether, British American Tobacco Malaysia contributed 16 percent or 17 percent to employees' EPF. Employees contribute 11 percent to EPF.
G4-EC4	Financial assistance received from Government.	British American Tobacco Malaysia did not receive any financial assistance from the Government in 2015.

RESPONSIBILITY

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2015

GRI – G4 Code	Issue Area	Response for 2015
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operations.	For 2015, the Company ensured that its workforce irrespective of gender or location was compensated above the prescribed amount in the Minimum Wages Order 2012.
G4-EC6	Proportion of senior management hired from the local community at significant locations of operations.	<p>In 2015, the percentage of senior management in British American Tobacco Malaysia at significant locations of operations that are hired from the local community represent 91 percent.</p> <p>Please refer below for the definition of the terms reported:</p> <ul style="list-style-type: none"> • Senior management – refers to job Grades 36 and above. • Significant locations of operations – refers to the Marketing, Operations and Corporate Services functions. • Local community – refers to Malaysia.
G4-EC7	Development and impact of infrastructure investments and services supported.	Please refer to pages 88 to 89 on British American Tobacco Malaysia Foundation which encompasses initiatives on helping the underprivileged, scholarships and employee volunteerism.
G4-EC8	Significant indirect economic impacts, including the extent of impacts.	<p>Listed below are some significant indirect economic impacts to British American Tobacco Malaysia in 2015:</p> <ol style="list-style-type: none"> Post implementation of Goods and Services Tax (GST) in April 2015 – consumers are more cautious in spending and this is evident with the declining trend of CCI (Consumer Confidence Index) which currently stands at 78 in the third Quarter of 2015. Increase in price on tobacco has a medium impact (1-2.5 percent) to CPI (Consumer Price Index) as the weightage of tobacco and alcohol to total CPI is only 2.2 percent. Unprecedented massive increase in cigarette excise of 40 percent effective 3 November 2015.
G4-EC9	Proportion of spending on local suppliers at significant locations of operation.	British American Tobacco is a global business and has contracts with global suppliers, although the delivery and invoicing of goods and services often takes place locally, making it difficult to categorise spend as either global or local. Our Company uses the most appropriate supplier for goods and services, taking into account numerous factors such as meeting our minimum standards, capability and capacity to supply, quality, location, price, speed of delivery and various other criteria which include local regulations.

GRI – G4 Code	Issue Area	Response for 2015
G4-EN1	Materials used by weight or volume.	<p>Total materials : 26,376 tonnes.</p> <p>Non-renewable materials : 3,625 tonnes. (Parts, fuels, cleaning materials, chemicals and processing aids).</p> <p>Direct materials: 10,202 tonnes. (Leaf, wrapping, packaging, filter and flavouring).</p> <p>Normalised: 1.55 tonnes/million cigarette equivalent (1.13 for 2014).</p> <p>British American Tobacco Malaysia recorded a 12.8 percent reduction in direct materials usage and 18.4 percent reduction in indirect materials usage in 2015. The decrease is mainly attributed to lower production volumes, effective usage of materials and better waste management.</p>
G4-EN2	Percentage of materials used that are recycled input materials.	<p>The percentage of recycled materials used (reconstituted tobacco products) in 2015 is at 0.56 percent.</p> <p>The Reconstituted Tobacco plant only operated for four months in 2015 (January to April 2015).</p> <p>Based on decision made from the Management team, the microflake sheet plant ceased to operate from May 2015 onwards.</p>
G4-EN3	Energy consumption within the organisation.	<p>Total: 182,416 Gigajoules.</p> <p>Non-renewable: 182,416 Gigajoules. (Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas).</p> <p>Renewable: 0 Gigajoules.</p> <p>Normalised: 10.7 Gigajoules/million cigarette equivalent.</p> <p>A lower direct energy usage of 29.5 percent was recorded in 2015 primarily due to lower production volumes, more efficient equipment and better production planning initiatives such as <i>Production Conformance To Plan</i> (PTCP), which resulted in an improvement in production efficiency accordingly.</p>

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GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2015

GRI – G4 Code	Issue Area	Response for 2015
G4-EN4	Energy consumption outside of the organisation.	<p>Total: 236,216 Gigajoules.</p> <p>Non-renewable: Electricity – 236,216 Gigajoules.</p> <p>Normalised: 13.8 Gigajoules/million cigarette equivalent.</p> <p>A decrease of indirect energy consumption of 18.7 percent in was recorded in 2015. This was due to a reduction of the number of perk cars and due to lower long haul business travel. This decrease is also a result of the replacement of two units of very energy efficient hybrid cars.</p>
G4-EN5	Energy intensity.	<p>Energy intensity ratio in 2015: 11.7 Gigajoules/million cigarette equivalent produced.</p> <p>The intensity calculation is based on total energy used in British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn. Bhd. (CMD) divided by the total production volume produced.</p> <p>Total energy used was inclusive of direct and indirect energy.</p> <p>As for the total production volume produced, it is inclusive of total cigarette, total export cut rag and total export Diet produced.</p>
G4-EN6	Reduction of energy consumption.	<p>British American Tobacco Malaysia initiatives:</p> <ol style="list-style-type: none"> 1. Factory space optimisation (Reduced electricity consumption by 149,136 kilowatt-hours from August to December 2015). 2. Replacement of one of its boilers (Reduced in liquefied natural gas (LNG) consumption by 35,000 cubic metres from May to December 2015). 3. Addition of two Hybrid cars units (Reduced of petrol consumption by 16,263 litres from June to December 2015). 4. Replacement to LED high bay lights at the Wrapping Materials Warehouse (Reduced of electricity usage by 18,216 kilowatt-hours in December 2015).
G4-EN7	Reductions in energy requirements of products and services.	<p>In response to the ceased operations of the microflake sheet plant in May 2015, there was a recorded energy reduction from June to December in:</p> <ol style="list-style-type: none"> 1. Electricity usage by 140,000 kilowatt-hours. 2. Liquefied natural gas (LNG) consumption by 259,000 cubic metres.

GRI – G4 Code	Issue Area	Response for 2015
G4-EN8	Total water withdrawal by source.	<p>Total: 147,528 cubic metres.</p> <p>Normalised: 8.64 cubic metres/million cigarette equivalent.</p> <p>British American Tobacco Malaysia recorded a 20 percent decrease in water index primarily due to lower production volume and the cessation of the microflake sheet plant operation in May 2015. In addition to that, water conservation initiatives such as the replacement of old and leaking pipes, and the replacement of Air Handling Units and a boiler in Factory A which improved the water usage efficiency in the Secondary Manufacturing Department.</p>
G4-EN9	Water sources significantly affected by withdrawal of water.	<p>British American Tobacco Malaysia facilities sourced water from its respective Government authorised state water supplier. The water withdrawal did not affect any of the six sites designated under the Ramsar List of Wetlands of International Importance* in Malaysia.</p> <p>*These wetlands are included under the Ramsar Convention, which is an international treaty for the conservation and sustainable utilisation of Wetlands.</p>
G4-EN10	Percentage and total volume of water recycled and reused.	British American Tobacco Malaysia did not reuse any recycled water in 2015.
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high bio-diversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
G4-EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
G4-EN13	Habitats protected or restored.	There is no leaf plantation activity in Malaysia and British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
G4-EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.

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GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2015

GRI – G4 Code	Issue Area	Response for 2015
G4-EN15	Direct green-house gas (GHG) emissions (Scope 1).	<p>Direct green-house gas emissions (CO²) from Scope 1 used by British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn. Bhd. (CMD): 7,387 tonnes.</p> <p>Reporting is based on the Environmental Impact Report in the fourth Quarter of 2015.</p>
G4-EN16	Energy indirect green-house gas (GHG) emissions (Scope 2).	<p>Direct green-house gas emissions (CO²) from Scope 2 used by British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn. Bhd. (CMD): 14,824 tonnes.</p> <p>Reporting is based on the Environmental Impact Report in the fourth Quarter of 2015.</p>
G4-EN17	Other indirect green-house gas (GHG) emissions (Scope 3).	<p>Direct green-house gas emissions (CO²) from Scope 3 used by British American Tobacco Malaysia's Operations function and Commercial Marketers and Distributors Sdn. Bhd. (CMD): 1,370 tonnes.</p> <p>Reporting is based on the Environmental Impact Report in the fourth Quarter of 2015.</p>
G4-EN18	Green-house gas (GHG) emissions intensity.	<p>Emissions intensity ratio in 2015: 1.38 CO² emissions/million cigarette equivalent produced.</p> <p>The green-house gas emissions intensity calculation is based on total carbon dioxide emissions divided by the total production volume produced. The total carbon dioxide emissions are derived from Scope 1, Scope 2 and Scope 3 emissions.</p> <p>As for the total production volume produced, it is inclusive of total cigarette, total export cut rag and total export Diet produced.</p>
G4-EN19	Reduction of green-house gas (GHG) emissions.	<p>Total green-house gas emissions reduction achieved as a direct result of energy saving initiatives is estimated to be around 213 tonnes of CO² equivalent. The reduction is mainly a result of Scope 2 emissions.</p>
G4-EN20	Emissions of ozone-depleting substances (ODS).	<p>All British American Tobacco Malaysia air conditioning equipment is chlorofluorocarbon (CFC) free.</p>
G4-EN21	NO _x , SO _x , and other significant air emissions.	<p>British American Tobacco has no significant air emission incident reported to date.</p>
G4-EN22	Total water discharge by quality and destination.	<p>British American Tobacco Malaysia facilities discharged water through these routes:</p> <ol style="list-style-type: none"> 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.

GRI – G4 Code	Issue Area	Response for 2015
G4-EN23	Total weight of waste by type and disposal method.	<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>2015 : Hazardous Waste – 11 tonnes. : Non-Hazardous Waste – 3,107 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 was recycled (e.g. paper, plastic and metal materials).</p> <p>British American Tobacco Malaysia noted a higher 18.2 percent of non-hazardous waste in 2015 due to :</p> <ul style="list-style-type: none"> - Reclassification of C48 boxes for imported leaf as recycled waste material. - Higher recorded waste materials due to numerous construction activities (cutter installation, boiler replacement, factory consolidation and the decommissioning of certain factory processes).
G4-EN24	Total number and volume of significant spills.	British American Tobacco Malaysia did not record any significant spills in 2015.
G4-EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	<p>Total: 11 tonnes (2014: 13 tonnes).</p> <p>All hazardous wastes were sent to a Government approved site (Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan) for disposal.</p>
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	British American Tobacco Malaysia continues to treat water used in factory operations at our Effluent Treatment Plant which follows stringent standards.

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GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2015

GRI – G4 Code	Issue Area	Response for 2015
G4-EN27	Extent of impact mitigation of environmental impacts of products and services.	<p>British American Tobacco Malaysia's comprehensive environment, health and safety programme achieved improvements in minimising its environmental footprint during the years through the implementation of initiatives in these areas of processes and practices:</p> <ol style="list-style-type: none"> (1) Introduction of the use of Hybrid cars for company usage (replacement of two units of company cars in June 2015). (2) Primary Manufacturing Department Main and Diet Condensate return recovery for water and Natural Gas (NG) usage reduction initiatives. (3) Replacement of one of the boilers to improve Natural Gas usage. (4) Factory space optimisation to improve and optimise energy usage. (5) Energy Metering initiative for energy usage monitoring and improvement initiative. (6) Replacement to LED high bay lights at the Wrapping Materials Warehouse to improve electricity usage.
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category.	Information not reported due to a lack of data systems needed to generate the required information. The development of the required data systems will be evaluated.
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	In 2015, British American Tobacco Malaysia was in full compliance with environmental laws and regulations.
G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce.	There were no significant environmental impacts recorded resulting from transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.
G4-EN31	Total environmental protection expenditures and investments by type.	<p>Total: RM2,235,651.</p> <p>Below is the breakdown for total environmental protection expenditures and investments:</p> <ol style="list-style-type: none"> (1) Purchase of two Hybrid car units – RM328,000 (2) Primary Manufacturing Department Main and Diet Condensate return recovery – RM216,651. (3) Boiler replacement – RM761,000. (4) Factory space optimisation – RM200,000. (5) Energy Metering – RM500,000. (6) Replacement to LED high bay lights at the Wrapping Materials Warehouse – RM230,000.

GRI – G4 Code	Issue Area	Response for 2015
G4-EN32	Percentage of new suppliers that were screened using environmental criteria.	<p>100 percent of our new and existing direct materials suppliers are screened using environmental criteria as part of our supplier programmes.</p> <p>We use our Business Enabler Survey Tool (BEST). BEST assesses the sustainability performance, including environmental criteria, of our materials suppliers through continuous detailed reviews by an international pool of trained auditors. Suppliers must obtain Approved, Qualified or Certified status in order to be retained by British American Tobacco p.l.c Group. As part of the process, we also provide guidelines and roadmaps to support suppliers' continuous improvement.</p>
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken.	There were no significant environmental impacts in the supply chain recorded in British American Tobacco Malaysia for 2015.
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal mechanisms.	There were no recorded grievances about environmental impacts filed against British American Tobacco Malaysia in 2015.
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region.	<p>As at 31 December 2015:</p> <p>The total number of employees who left employment in 2015 by age group:</p> <ul style="list-style-type: none"> a. less than 30 years old : 48 b. 30 – 50 years old : 92 c. above 50 years old : 26 <p>The total number of employees who left employment in 2015 by gender:</p> <ul style="list-style-type: none"> a. Male : 130 b. Female : 36 <p>The total number of employees who left employment in 2015 by region:</p> <ul style="list-style-type: none"> a. East Coast : 4 b. North : 7 c. South : 7 d. East Malaysia : 2 e. Central : 146 <p>The total number of employees who left employment in 2015 by ethnicity:</p> <ul style="list-style-type: none"> a. Malay: 61 b. Chinese: 80 c. Indian: 20 d. Others: 5

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GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2015

GRI – G4 Code	Issue Area	Response for 2015
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	<p>The following benefits were provided to British American Tobacco Malaysia's fulltime management and non-management employees:</p> <ul style="list-style-type: none"> a. Medical benefits. b. Free meals. c. Annual, calamity, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, sports and pilgrimage leave. d. Bonus. e. Group Term Life Insurance Scheme. f. Company vehicle and monthly cash allowance (depending on grade). g. Corporate club membership (depending on grade). h. Housing loan interest subsidy (depending on grade). i. Car loan interest subsidy (depending on grade).
G4-LA3	Return to work and retention rates after parental leave, by gender.	<p>As at 31 December 2015:</p> <p>Total number of employees that were entitled to parental leave, by gender;</p> <ul style="list-style-type: none"> a. Female : 144 b. Male : 608 <p>Total number of employees that took parental leave, by gender.</p> <ul style="list-style-type: none"> a. Female : 3 b. Male : 32 <p>Total number of employees who returned to work after parental leave ended, by gender.</p> <ul style="list-style-type: none"> a. Female : 3 b. Male : 32
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	<p>The minimum notice period specified in Article 61 of the Collective Agreement (CA) between 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> <p>Apart from the CA, the Company has a Guideline on Employee Engagement which provides a two week window period for the Employee/Union to provide feedback on intended initiative within scope*.</p> <p>The following areas are defined to be within the scope of these Guidelines:</p> <ul style="list-style-type: none"> a. Employment status <ul style="list-style-type: none"> (1) Voluntary Separation Schemes (VSS). (2) Retrenchment. (3) Restructuring/regrading resulting in a change of employment. b. Key employment terms <ul style="list-style-type: none"> (1) Working days/hours. (2) Rest Days/Off Days.

GRI – G4 Code	Issue Area	Response for 2015
GR-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	<p>100 percent of the total workforce was represented by a senior manager representing each function in our Corporate Environmental Health and Safety (EHS) Committee.</p> <p>Six representatives each (from management and non-management employees respectively) were members of the Petaling Jaya EHS Committee. This Committee is headed by a chairman (Head of Production) and also includes representatives from Occupational Health, Security and an appointed Secretary (EHS Manager).</p>
GR-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region and by gender.	In 2015, British American Tobacco Malaysia and its wholly owned marketing subsidiary, Commercial Marketers and Distributors Sdn. Bhd. achieved 4,069,459 man-hours without a Lost Time Injury since September 2011, whereas its wholly owned manufacturing subsidiary, Tobacco Importers and Manufacturers Sdn. Berhad achieved 137,054 man-hours without a Lost Time Injury since September 2015. The Lost Time Injury rate for 2015 is 0.64 with two reported incidents involving a Material Handling Equipment (MHE) accident and an entrapment injury.
GR-LA7	Workers with high incidence or high risks of diseases related to their occupation.	There was no record of workers having high incidence or high risk of diseases relating to their occupation in British American Tobacco Malaysia.
GR-LA8	Health and safety topics covered in formal agreements with trade unions.	<p>Environment, health and safety topics were covered in various articles in the Collective Agreement (CA) between British American Tobacco Malaysia Berhad and British American Tobacco Malaysia Employees Union (BATEU), effective from 1 July 2004 to 30 June 2007. Despite the expiry, the Collective Agreement continues to be in force and the Company honours all the articles on health and safety as set out in the said 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>

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GRI – G4 Code	Issue Area	Response for 2015
GR-LA9	Average hours of training per year per employee by gender, and 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.</p> <p>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> <p>Management employees</p> <p>Global Leadership Curriculum (GLC) courses – 17.2 hours on average</p> <ul style="list-style-type: none"> a. British American Tobacco Malaysia : 18.8 hours b. Commercial Marketers and Distributors : 16.9 hours c. Tobacco Importers and Manufacturers : 15.9 hours <p>Non-GLC courses – 11.2 hours on average</p> <ul style="list-style-type: none"> a. British American Tobacco Malaysia : 13 hours b. Commercial Marketers and Distributors : 9.8 hours c. Tobacco Importers and Manufacturers : 10.8 hours <p>Non-management employees</p> <p>Non-GLC courses – 9.88 hours on average</p> <ul style="list-style-type: none"> a. British American Tobacco Malaysia : 14 hours b. Commercial Marketers and Distributors : 7 hours c. Tobacco Importers and Manufacturers : 8.6 hours <p>The central programmes were under the purview of British American Tobacco Malaysia's Human Resources function and covered all other functions within the Company. The Global Leadership Curriculum includes the leadership programmes owned by British American Tobacco p.l.c while the non-GLC courses cover all trainings conducted by external trainers based on employees' development needs.</p>

GRI – G4 Code	Issue Area	Response for 2015
GR-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	<p>There are two types of regional training programs implemented to upgrade employee skills which are Junior to Middle Development Programme, and Senior Development Programme. Some examples of these program are as below:</p> <ul style="list-style-type: none"> a. Leadership Training <ul style="list-style-type: none"> (1) Leading Managers. (2) Leading Teams. (3) Leading Self. (4) Coaching for Performance. b. Skills Training <ul style="list-style-type: none"> (1) Negotiation Skills. (2) Presentation Skills. (3) DRM training. c. Finance <ul style="list-style-type: none"> (1) Finance Excellence Program. <p>British American Tobacco Malaysia also launched its first e-Learning training in August 2015. The e-Learning training represents a list of online training courses available on the Company's intranet and covers the three leadership capabilities which were identified as key focus areas last year:</p> <ul style="list-style-type: none"> a) Thinks Strategically and Prioritises. b) Leads Change and Innovate. c) Develop Leaders and Teams. <p>British American Tobacco Malaysia also ensures that every employee is integrated successfully into the organisation through the three activities below:</p> <ul style="list-style-type: none"> • Meet and greet presentation. • 90 days corporate onboarding program.
GR-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employment category.	<p>100 percent of employees, both management and non-management employees, received a formal performance appraisal and review during the reporting period.</p> <p>As at 31 December 2015:</p> <p>Management</p> <ul style="list-style-type: none"> a. Male : 82 percent (556) b. Female : 18 percent (126) <p>Non-management</p> <ul style="list-style-type: none"> a. Male : 74 percent (52) b. Female : 26 percent (18)

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GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2015

GRI – G4 Code	Issue Area	Response for 2015
GR-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	<p>The percentage of British American Tobacco Malaysia's Board of Directors by gender:</p> <ul style="list-style-type: none"> a. Male : 75 percent (6 out of 8 Directors) b. Female : 25 percent (2 out of 8 Directors) <p>The percentage of British American Tobacco Malaysia's Board of Directors by age groups:</p> <ul style="list-style-type: none"> a. Under 30 years old : 0 percent b. 30-50 years old : 25 percent (2 out of 8 Directors) c. Over 50 years old : 75 percent (6 out of 8 Directors) <p>The percentage of employees in British American Tobacco Malaysia by gender:</p> <ul style="list-style-type: none"> a. Male : 81 percent (608 out of 752 employees) b. Female : 19 percent (144 out of 752 employees) <p>The percentage of employees in British American Tobacco Malaysia by age groups:</p> <ul style="list-style-type: none"> a. Under 30 years old : 22 percent (168 out of 752 employees) b. 30-50 years old : 61 percent (456 out of 752 employees) c. Over 50 years old : 17 percent (128 out of 752 employees)
GR-LA13	Ratio of basic salary and remuneration of women to men by employee category by significant locations of operation.	Male and female employees of the same grade shared the same salary scale, but their starting salary might differ based on talent, experience and skills set. Male and female Management Trainees were paid equal basic salaries.
GR-LA14	Percentage of new suppliers that were screened using labour practices criteria.	100 percent of our new and existing direct materials suppliers are screened using labour practices criteria as part of our supplier programmes.
GR-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken.	There were no significant impacts for labour practices in the supply chain recorded in British American Tobacco Malaysia for 2015.

GRI – G4 Code	Issue Area	Response for 2015
GR-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms.	<p>Two grievances were lodged by the National Union of Tobacco Industry Workers (NUTIW) in 2015 for the matters listed below:</p> <ol style="list-style-type: none"> Cessation of employee cigarette ration. The Voluntary Separation Scheme introduced in Tobacco Importers and Manufacturers Sdn. Berhad in March 2015. <p>These matters were conciliated at the Industrial Relations Department of Selangor and the Minister ordered for the said matters to be referred to the Industrial Court for a decision.</p>
GR-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that have underwent human rights screening.	British American Tobacco Malaysia's significant investments were with its suppliers. Our philosophy on supplier partnership was not just about procurement but how we could increase value in the supply chain. We use the 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.
GR-HR2	Total hours of employee training on human rights policies or procedures concerning aspect of human rights that are relevant to operations including the percentage of employees trained.	<p>Trainings on human rights policies and procedures were provided to 21 employees and 199 hours were invested. Below are some examples of trainings that were attended:</p> <ol style="list-style-type: none"> 6th LES Asia Pacific Regional Conference 2015. Creating Value through an Effective Audit Committee. Financial communications and Effective Media Management. FMM Seminar on GST for Human Resources (HR) Practitioners. Foreign Companies and Representative Office under the Companies Act 1965. Getting started with uCustoms: A New Customs Online System for Declaration, Payment and Clearance.
GR-HR3	Total number of incidents of discrimination and corrective actions taken.	<p>There were no incidences of discrimination reported in British American Tobacco Malaysia in 2015.</p> <p>The Respect in the Workplace section of the Standards of Business Conduct makes clear British American Tobacco Malaysia's commitment to treating all colleagues and business partners inclusively, with dignity, and with respect. This includes specific provisions for promoting equality and diversity and preventing harassment and bullying. It details how all aspects of harassment and bullying are completely unacceptable and that British American Tobacco Malaysia is committed to removing any such actions or attitudes from the workplace. The Standards of Business Conduct provides for a comprehensive whistleblowing procedure which enables any employee to raise any concern including that of discrimination.</p> <p>Please refer to page 34 on Standards of Business Conduct.</p>

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GRI – G4 Code	Issue Area	Response for 2015
GR-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.	There were no significant risks in exercising freedom of association or collective bargaining in British American Tobacco Malaysia in 2015.
GR-HR5	Operations and suppliers identified as having significant risks for incident of child labour, and measures taken to contribute to the effective abolition of child labour.	<p>British American Tobacco Malaysia's Employment Principles builds on its commitment to good employment practices and workplace related human rights. It sets out a common approach to the development of policies and procedures, while recognising that we must take account of local labour laws and practices and the local political, economic and cultural context. Topics covered by our Employment Principles include:</p> <ul style="list-style-type: none"> a. Equality of opportunity and non-discrimination. b. Internal communications and the free flow of ideas. c. Worker representation and freedom of association. d. Fairness at work and the unacceptability of harassment and bullying. e. Do not condone or employ child labour. f. Forced or bonded labour is completely unacceptable. g. Performance responsibility. h. Health, safety and environmental responsibility. i. Community contributions and skills development for employees and communities in markets where our companies operate. j. Personal development and learning. k. Reasonable working hours and family friendly policies. l. Fair, clear and competitive remuneration and benefits.
GR-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	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.
GR-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations.	The Human Rights and Our Operations section of the Standards of Business Conduct ensures that British American Tobacco Malaysia conducts the operations in a way that respects the human rights of its employees, the people that British American Tobacco Malaysia works with and the communities in which British American Tobacco Malaysia operates in.

GRI – G4 Code	Issue Area	Response for 2015
GR-HR8	Total number of incidents of violations involving rights of indigenous people and actions taken.	<p>There were no incidents of violations involving rights of indigenous people in British American Tobacco Malaysia in 2015.</p> <p>British American Tobacco Malaysia's Employment Principles builds on its commitment to good employment practices and workplace related human rights. It sets out a common approach to the development of policies and procedures, while recognising that we must take account of local labour laws and practices and the local political, economic and cultural context. Topics covered by our Employment Principles include:</p> <ul style="list-style-type: none"> a. Equality of opportunity and non-discrimination. b. Internal communications and the free flow of ideas. c. Worker representation and freedom of association. d. Fairness at work and the unacceptability of harassment and bullying. e. Do not condone or employ child labour. f. Forced or bonded labour is completely unacceptable. g. Performance responsibility. h. Health, safety and environmental responsibility. i. Community contributions and skills development for employees and communities in markets where our companies operate. j. Personal development and learning. k. Reasonable working hours and family friendly policies. l. Fair, clear and competitive remuneration and benefits.
GR-HR9	Total number and percentage of operations that have been subject to human right reviews or impacts assessments.	<p>The Human Rights and Our Operations section of the Standards of Business Conduct make it clear that British American Tobacco Malaysia must identify specific human rights risks that may be relevant for, or impacted by, British American Tobacco Malaysia's operations.</p> <p>In doing so, British American Tobacco Malaysia will seek the views of stakeholders, including employees and their representatives. British American Tobacco Malaysia will take appropriate steps to ensure that the operations do not contribute to human rights abuses and to remedy any adverse human rights impacts directly caused by our actions.</p>
GR-HR10	Percentage of new suppliers that were screened using human rights criteria.	100 percent of our new and existing strategic direct materials suppliers are reviewed through our major supplier programme, the Business Enabler Survey Tool (BEST). This tool helps us assess whether our suppliers are meeting our human rights criteria and over time help achieve measurable improvements. If we identify human rights breaches in relation to a supplier, but there is no clear commitment to corrective action, persistent inaction, or a lack of improvement, then our Standards of Business Conduct make it clear that our work with that supplier should cease.
GR-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken.	There were no significant human rights impacts in the supply chain recorded in British American Tobacco Malaysia for 2015.

RESPONSIBILITY

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2015

GRI – G4 Code	Issue Area	Response for 2015
GR-HR12	Number of grievance about human rights impacts filed, addressed and resolved through formal grievance mechanism.	<p>In 2015, there were no grievances about human rights impacts filed in British American Tobacco Malaysia.</p> <p>The Standards of Business Conduct provides for a comprehensive whistleblowing procedure that enables anyone working for or with British American Tobacco Malaysia, in confidence, to raise concerns about possible improprieties or wrongdoing, including workplace and human rights issues. They can do so without fear of reprisal, provided that such concerns are not raised in bad faith.</p>
GR-S01	Percentage of operations with implemented local community engagement, impact assessments and development programs.	No environmental impact assessment has been performed amongst British American Tobacco suppliers in 2015. However, Vendor Evaluations are being carried out annually and the suppliers are evaluated based on the environment impact of their goods and services.
GR-S02	Operations with significant actual and potential negative impacts on local communities.	There were no significant impacts on local communities recorded in British American Tobacco Malaysia for 2015.
GR-S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	<p>It is a mandatory policy, set out in the Standards of Business Conduct, that British American Tobacco Malaysia and all employees (including all Directors) observe and comply with the laws and regulations applicable to them and that they act with high standards of business integrity.</p> <p>The Standards of Business Conduct include specific provisions on gifts and business entertainment, and provide employees with guidance on what they may and may not offer or accept in this regard. Gifts and business entertainment (other than of a modest amount) must be notified to the Head of Legal and Secretarial Services and recorded in its books. Additionally, certain types of gift and entertainment are specified as unacceptable as they would represent a corrupt act.</p>
GR-S04	Communication and training on anti-corruption policies and procedures.	<p>All employees have access to and made aware of the Standards of Business via its intranet and employee onboarding training, which includes detailed information on anti-corruption and bribery. All employees are also required to sign off on an annual Declaration of Compliance to the Standards of Business Conduct.</p> <p>A further reinforcement message to all employees on Standards of Business Conduct compliance was issued in May 2015</p>
GR-S05	Confirmed incidents of corruptions and actions taken.	There were no incidences of corruption reported at British American Tobacco Malaysia in 2015.

GRI – G4 Code	Issue Area	Response for 2015
GR-S06	Total value of political contributions by country and recipient/beneficiary.	<p>The Political Contributions section of the Standards of Business Conduct set out the policy on political donations. Contributions from British American Tobacco Malaysia to political parties and organisations, their officers, elected politicians and candidates for elective office are actively discouraged, and may only be made subject to specific controls. Contributions are not permitted to be made in order to achieve any improper business or other advantage or to influence any decision by a public official to the advantage of British American Tobacco Malaysia.</p> <p>In addition, they must not be intended personally to benefit the recipient or his or her family, friends, associates or acquaintances and must be permissible under all applicable laws.</p>
GR-S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	<p>British American Tobacco Malaysia has not been involved in any legal action for anti-competitive behavior, anti-trust, and monopoly practices.</p> <p>The Standard of Business Conduct embeds the principles of fair competition rules in conducting business. In addition, British American Tobacco Malaysia's Competition Guidelines which was rolled out company-wide on 18 June 2009 also ensures that business activities are not in any manner anti-competitive and not in breach of the Competition Act 2011.</p>
GR-S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	There were no significant fines or any non-monetary sanctions imposed on British American Tobacco Malaysia in 2015.
GR-S09	Percentage of new suppliers that were screened using criteria for impacts on society.	Information not reported due to a lack of data systems needed to generate the required information. The development of the required data systems will be evaluated.
GR-S010	Significant actual and potential negative impacts on society in the supply chain and actions taken.	Information not reported due to a lack of data systems needed to generate the required information. The development of the required data systems will be evaluated.
GR-S011	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms.	<p>In 2015, there were no grievances about impacts on society filed in British American Tobacco Malaysia.</p> <p>The Group's Standards of Business Conduct set out our Whistleblowing Policy which enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal, provided that such concerns are not raised in bad faith.</p>

RESPONSIBILITY

GLOBAL REPORTING INITIATIVE (GRI) G4 INDICATORS 2015

GRI – G4 Code	Issue Area	Response for 2015																				
GR-PR1	Percentage of significant products and service categories for which health and safety impacts are assessed for improvement.	<p>It is imperative that we follow a robust approach to product assessment to ensure that there is no further increase to the health risks because we acknowledge that consumption of tobacco carries with it real risks of diseases to health.</p> <p>100 percent of our tobacco products are assessed to ensure compliance to the emission standard for cigarettes as provided under the Control of Tobacco Product Regulations 2004.</p>																				
GR-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.	British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.																				
GR-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling and percentage of significant products and services categories subject to such information requirements.	<table border="1"> <thead> <tr> <th rowspan="2"></th><th colspan="2">2015</th></tr> <tr> <th>yes</th><th>no</th></tr> </thead> <tbody> <tr> <td>The sourcing of components of the product or service</td><td></td><td>✓</td></tr> <tr> <td>Content, particularly with regard to substances that might produce an environmental or social impact</td><td>✓</td><td></td></tr> <tr> <td>Safe use of the product or service</td><td>✓</td><td></td></tr> <tr> <td>Disposal of the product and environmental/social impacts</td><td></td><td>✓</td></tr> <tr> <td>Other (explain)</td><td>N.A</td><td>N.A</td></tr> </tbody> </table> <p>100 percent of our cigarette packs and cartons are printed with Pictorial Health Warnings (PHWs) as required under the Control of Tobacco Product Regulations (CTPR) 2004.</p> <p>Furthermore, the CTPR 2004 also requires the PHWs to be printed as far as possible on an equal number of packaging for each brand and variant of cigarette.</p> <p>British American Tobacco Malaysia is committed to 100 percent compliance with these regulations under the CTPR 2004, in addition to adherence to our International Marketing Principles (IMP).</p> <p>For more information on our IMP, please see www.bat.com/imp</p>		2015		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
	2015																					
	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																				

GRI – G4 Code	Issue Area	Response for 2015
GR-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	In 2015, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required new health warnings and further textual warnings and/or labelling requirements on every cigarette packet.
GR-PR5	Results of surveys measuring customer satisfaction.	Information not reported due to a lack of data systems needed to generate the required information. The development of the required data systems will be evaluated.
GR-PR6	Sale of ban or disputed products.	<p>British American Tobacco Malaysia does not sell products that are the subject of stakeholder questions or public debate apart from combustible tobacco products.</p> <p>The Malaysian Government is still considering how to regulate e-cigarettes.</p> <p>British American Tobacco Malaysia advocates for a regulatory approach that has high consumer safety and product quality standards, while encouraging innovation, growth and availability of e-cigarettes as recognised by leading scientific and public health experts, such as the Public Health England who conclude e-cigarettes are 95 percent less risky than conventional cigarettes and can help smokers to quit.</p>
GR-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.	There were no incidents of non-compliance with regulations concerning marketing communications.
GR-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	No complaints were received regarding breaches of customer privacy and losses of customer data.
GR-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.

A WINNING ORGANISATION IS ONE THAT IS FILLED WITH COMMITTED AND HIGHLY ENGAGED PEOPLE IN A FULFILLING, REWARDING AND RESPONSIBLE WORK ENVIRONMENT. A MAJOR CONTRIBUTOR TO THE GOOD PERFORMANCE OF THE GROUP IS OUR HIGHLY COMMITTED AND ENGAGED PEOPLE WHO USE THEIR EXPERTISE, EXPERIENCE AND PASSION TO RESPOND TO THE CHALLENGES OF THE MARKETPLACE TO DELIVER STRONG BUSINESS RESULTS.

GIVEN THE IMPORTANCE OF OUR PEOPLE, WE ARE COMMITTED TO CONTINUE TO DEVELOP THEM AS THEY WILL PUT TO PRACTICE THE DELIVERY OF OUR STRATEGY BOTH NOW AND IN THE FUTURE.



WINNING ORGANISATION

WINNING ORGANISATION

KEY HIGHLIGHTS IN 2015:

- Recognition for 38 recipients for long service.
- Recognition for 211 outstanding employees through our employee recognition awards.
- Conducted international, regional, and local training for our employees.
- Held activities to promote employees' wellbeing.

RECOGNISING LONG SERVICE EMPLOYEES

The Company's Long Service Awards celebrates and commemorates the long-term commitment, contribution and loyalty of British American Tobacco Malaysia's employees who have achieved significant milestone years of service. In 2015, 38 long-serving employees were presented with the award for achieving these momentous milestones during the Company's Annual Dinner in November 2015. Out of the total recipients, 10 were recipients for 10 years' service, 18 were for 20 years' service and 10 were for 30 years' service.



REWARD OUTSTANDING CONTRIBUTION

Keeping in tune with our commitment to develop a highly engaged, high performing workforce, British American Tobacco Malaysia also understands the importance of recognising the hard work, commitment and achievements of all our employees. Through a three-tiered employee recognition scheme, the Company aims to acknowledge exceptional employees for their remarkable achievements, aspirational work behaviours and inspiring leadership qualities especially in a highly demanding and challenging environment.

2015 was another great year for British American Tobacco Malaysia with a total of 211 well deserved high performers being rewarded for their excellent contributions to the Company.

WINNING ORGANISATION

Employee engagement: Employee benefits and wellbeing

It is the Company's belief that having an effective employee wellbeing strategy helps produce a healthier, happier and more productive workforce. It is for this reason that British American Tobacco Malaysia ensures a periodic review of our reward practices to promote the overall wellbeing of our people. Our employees currently enjoy loan interest subsidies, free meals, free company parking, medical coverage, dental and optical reimbursements, group life insurance coverage, and retirement benefits through additional EPF contribution, amongst others.

The Company also aims to encourage a healthier lifestyle and work-life balance for our employees. In 2015, the Company and the British American Tobacco Malaysia Sports Club had organised these fun and enriching activities as listed below:

- Recreational activities and competitions such as fishing, futsal, bowling and go-karting.
- Company excursion to Hanoi and Halong Bay, Vietnam.
- Treasure Hunt for employees at Damai Laut, Lumut.
- Celebration feasts for festive occasions and employee appreciation.
- Annual Dinner and Dance at Connexion, Nexus Bangsar South, Kuala Lumpur.
- Yoga classes.



HIGH PERFORMANCE LEADERSHIP

One of the recipes to our success in staying 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

At British American Tobacco Malaysia, we constantly endeavor to create a *Legacy of Leaders* and inspire our people to deliver outstanding results. *Legacy of Leaders* is a well-balanced combination of internally and externally focused initiatives that ensure we invest time and effort into internal talent development and external acquisition. Over the years, we have learnt to identify and develop great performance and leadership which is reflected in our recruitment initiatives.

In order to maintain the highest quality of our talent selection, a shift in focus has reshaped our direction and strategy into the *Direct Recruitment Model* which consists of three components.



Dedicated Recruiter Team

A dedicated recruitment role was created to implement the *Direct Recruitment Model*. The objective is to leverage on dedicated acquisition resources through cost effective channels, which have resulted in the Company achieving 91 percent in direct recruitment of management roles surpassing the global target of 70 percent. This has also translated to a 98 percent reduction in spend on search agencies compared to 2014.

New Selection and Assessment Tools

The new selection tools were launched on 1 April 2015. The highlight of this initiative is, for the first time, the on-line tools are now fully integrated on the Jobs@bat system.

The new on-line tools have the ability to measure a candidate's eligibility for a role through a *Job Specific Questionnaire*, measure if there is a match in terms of values and beliefs through the *Culture Match Questionnaire*, cognitive tests to measure ability and lastly, assess the work and leadership preference of the candidate via the *Leadership Preference Questionnaire*.

These online tools are further supported by phone interviews, face-to-face interviews and assessment centre exercises.

The new recruitment process is as follows:



WINNING ORGANISATION

Talent Brand

At British American Tobacco Malaysia, we see the importance for talents to first being aware and then attracted to what we have to offer. Talent branding is a key platform to communicating with external talents and impacting our ability in hiring the right candidates. Therefore, it is crucial that we invest in talent brand initiatives to further drive our employer value proposition.

The Recruitment Funnel: Talent Brand's Role



In 2015, the Company received numerous awards which were in recognition of good human resources strategy and practices. The Company is extremely proud in sharing our high achievements for the year.



Malaysia Best Employer Brand Award

- Winners of this award are employers who have been carefully researched by the Institute who:
 - Creates a culture of contribution and innovation at work.
 - Believes in consistent improvement in human resource policies by measuring organisational health and inculcating values that help to achieve the vision.
 - Promotes social and equal opportunities.
 - Develops and nurtures future leaders.

Asia Recruitment Awards

Gold Awards for *Best Candidate Experience* and *Best Recruitment Evaluation Technique*

- The awards acknowledge companies from around the Asia-Pacific region who are:
 - Leading the way in talent acquisition strategy and execution, raising recruitment standards and inspiring excellence.
 - Dedicated to recognising and celebrating the very best recruitment and talent acquisition work.



HR Excellence Awards 2015

- Asia's most respected award that recognises and celebrates excellence in outstanding human capital strategy and execution.



Gold Awards

- Excellence in Talent Management
- Excellence in Employee Engagement

Silver Awards

- Excellence in Employer Branding
- Excellence in Recruitment & Retention Strategy
- Excellence in Innovative Use of HR Technology
- Excellence in Employee Development

Bronze Awards

- Excellence in Leadership Development
- Excellence in Graduate Development



Malaysia HR Awards 2015 in partnership with JobStreet.com Silver for Employer of Choice Award

- Recognised for our sustained and continuous commitment for the development of our talents.

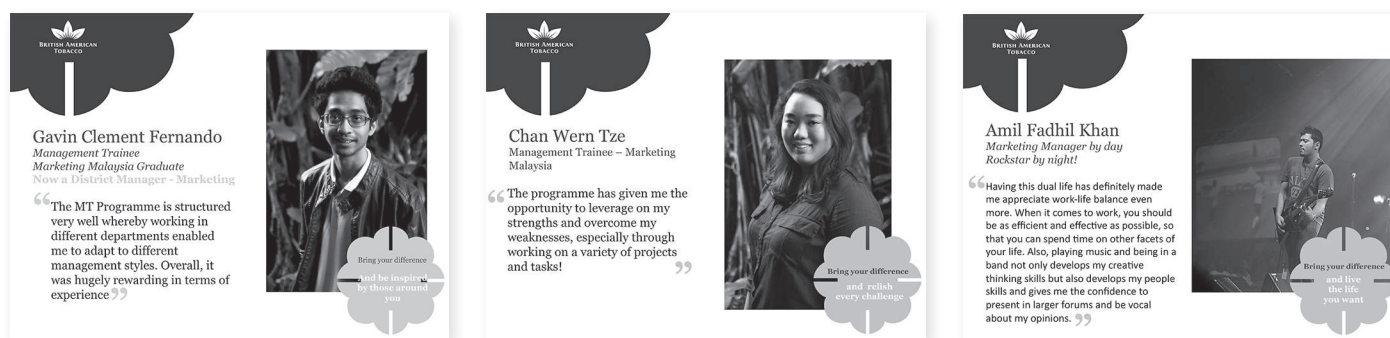
It is the aim of the Company to improve our talent brand presence especially at reputable career fairs which act as a good platform for the Company in seeking potential talent. In 2015, besides participating in the Graduan ASPIRE Career Fair to showcase our Company as an employer of choice, our Managing Director, Stefano Clini was also invited to be part of the panel at the ASPIRE Corporate Luncheon with CEOs. Such sessions give CEOs a chance to share their experience and expertise in the hopes of inspiring and shaping Malaysian talents into a more advanced and productive workforce in the future.



WINNING ORGANISATION

Social media and recruitment platforms

We have also leveraged on British American Tobacco p.l.c's social media and other recruitment platforms such as LinkedIn and Graduan to create awareness and increase engagement with a wider audience. Globally, we have achieved a total of over 20 million impressions through LinkedIn, Glassdoor, Facebook, Twitter, and Google. The content published on these platforms showcased our successes in Human Resources Awards, our Management Trainee Program, as well as shared leadership advice from our Managing Director and have collectively garnered over 100,000 impressions on social media.



Example of social media content published

Overall, we are extremely proud that our efforts in enhancing the Company's talent brand have resulted in a meaningful score in the 2015 LinkedIn Talent Brand Index and will continue with our strategies in setting our sights higher.

BAT TALENT BRAND INDEX IN MALAYSIA

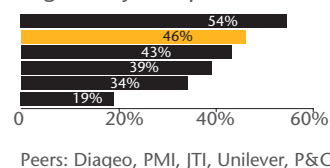


What percent of people who know about you show an interest?



$$\frac{\text{Talent Brand Engagement}}{\text{Talent Brand Reach}} = \text{Talent Brand Index} = 46\%$$

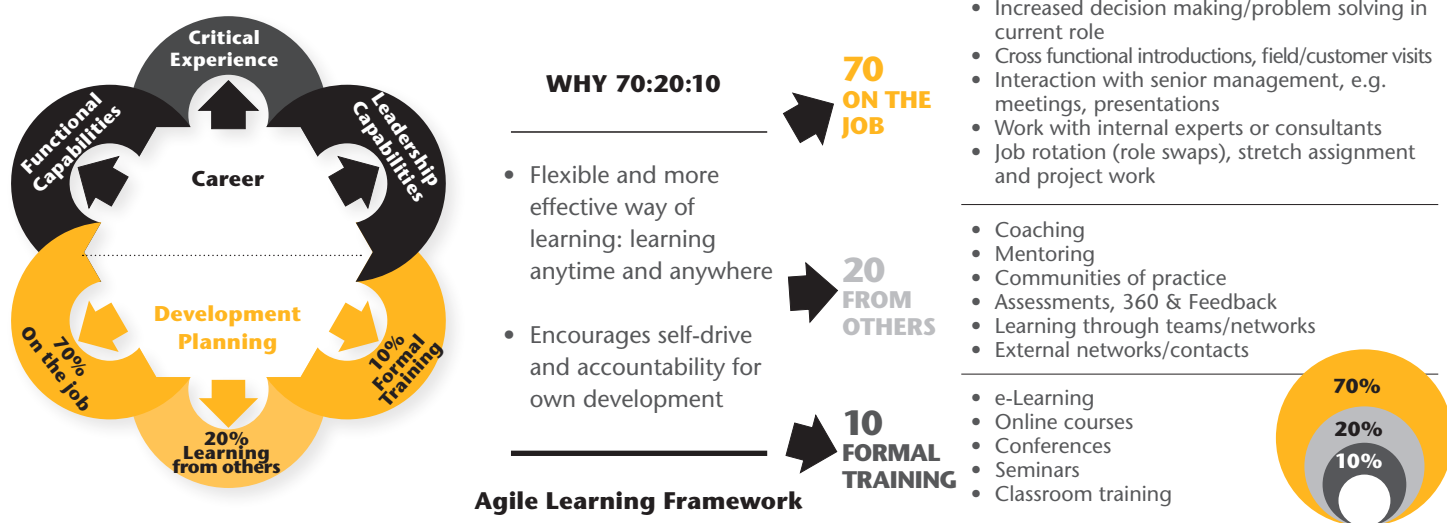
Benchmark your score, e.g. vs key competitors



Source : **LinkedIn**, Talent Solutions

LEARNING & ORGANISATIONAL DEVELOPMENT

Organisational Effectiveness: Investing in Our People through Continuous Talent Development



In 2015, the learning and development strategy leveraged on the *Agile Learning Framework* (70:20:10) to drive all initiatives in the learning space. The *Agile Learning Framework* comprises of 70 percent on-the-job learning, 20 percent learning from others, and 10 percent formal training. Our employees are encouraged to drive and own their professional development via the development planning discussion platform with their line managers.

As part of the initiatives to support the *Agile Learning Framework*, we conducted 15 sessions of development planning workshops for both employees and line managers, to reinforce the 70:20:10 learning framework as well as help employees to prepare and drive the development planning discussions. We received positive feedback from the 180 employees that participated in the workshops.

We believe that having strong managerial effectiveness will assist the organisation in our development journey. Therefore, embedding the coaching culture was critical to ensure that our line managers were equipped to facilitate the *Agile Learning Framework*.

WINNING ORGANISATION

Intensive coaching sessions were conducted for over 50 senior managers in 2015. The agenda of the workshops included *T-GROW* coaching skills, reframing techniques and Emotional Intelligence (EQ) application in managing employees. This was to ensure the readiness level of our pool of coaches and mentors who play an integral role in driving the 20 percent learning from others dimension of the *Agile Learning Framework*. British American Tobacco Malaysia will continue our coaching journey into 2016 and beyond to drive and achieve optimum quality in employee development that will lead to improved performance.

In addition to that, *PerformM* and *Talent Review Booster* workshops were conducted in 2015 to familiarise employees with the talent management process, as part of the Company's focus in delivering the *Legacy of Leaders* and supporting *The BAT Way*.

We also launched the Company's e-Learning program initiative to further support the 10 percent formal learning dimension. The e-Learning program triggers monthly email notifications to our employees, consisting of links to online webinars, business simulations and e-books/executive summaries on our *Talent Portal* for their ease of utilisation and reference.

How Do We Link It?

Develop
Leaders &
Team

Thinks
Strategically
& Prioritises

Leads,
Change &
Innovates



The WHAT: 3 focus areas that has been identified where we have to close the gap



70 ON THE JOB **20 FROM OTHERS** **10 FORMAL TRAINING**

The HOW: The *Agile Learning Framework* as a platform to strengthen the gap



Consistent application and on-going **Coaching** plays an integral role **(Fuel)** in ensuring a smooth and sustainable development journey for employees.

Long term journey: To drive and achieve optimum quality in employee development, resulting in improved performance



In 2015, the Company had invested significantly in the development of its employees by investing in a total of 8,725 training hours covering both management and non-management employees who participated in various types of training and development interventions. Some of the training offerings were as follows:

Leadership Training	Professional Skills Training	Technical Training
<ul style="list-style-type: none"> • Leading Self • Leading Teams • Leading Managers • Senior Development Programme (SDP) • Senior Transition Finance Programme • Building a Highly Productive Winning Team • PerforM and Talent Review Booster Sessions • The Malaysian Institute of Chartered Secretaries and Administrators Annual Conference Category Management Workshop • HR and Corporate Networking Events Mandatory Accreditation Programme for Directors of Public Listed Companies 	<ul style="list-style-type: none"> • Presentation Skills • Negotiation Skills • New Assessment Centre Training • Coaching Workshops • Asia Pacific Regional Security Workshop • Licensing Executives Society (LES) Malaysia's Asia Pacific Regional Conference • Finance Excellence Programme (FEP) • Integrated Supply Chain Management 	<ul style="list-style-type: none"> • POSITIVE Program • Delivering Business Value through Integrity • Occupational First Aid and CPR Training • Certified Environmental Professional in Scheduled Waste Management • Conference on Occupational, Safety, and Health 2015 • Behavioural Based Powered Pallet Truck Safety Operations • Classification, Labelling and Safety Data Sheet of Hazardous Chemicals (CLASS) at Workplace • Defensive Car Driving • Fire Safety Awareness & Procedures • In house customised MS Excel training for Supply Chain • Microsoft Excel – Intermediate • My Peak Performance • In-Dept Operational Security Know How • Vehicle Fleet Management

Onboarding Initiatives

When a new hire joins British American Tobacco Malaysia, it is important to us that they feel welcomed and are given a full induction to the culture and way of working of the Company. Two sessions of a two-day corporate on-boarding workshop were conducted in 2015, attended by 62 employees and more than 60 percent of the participants rated the sessions as *Good* and 34 percent rated it *Excellent*. In addition to that, the Company has further improved the onboarding experience with the launch of the 90-day functional onboarding program, designed specifically for new hires, which is driven by the line managers and HR business partners with the main objective to achieve integration in the shortest time possible to contribute optimally to a winning team.

WINNING ORGANISATION

EMPLOYEE ENGAGEMENT: YOUR VOICE SURVEY

Your Voice is British American Tobacco p.l.c Group's employee opinion survey that is conducted every two years. The responses of the survey are managed by a third party to ensure confidentiality is kept 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.

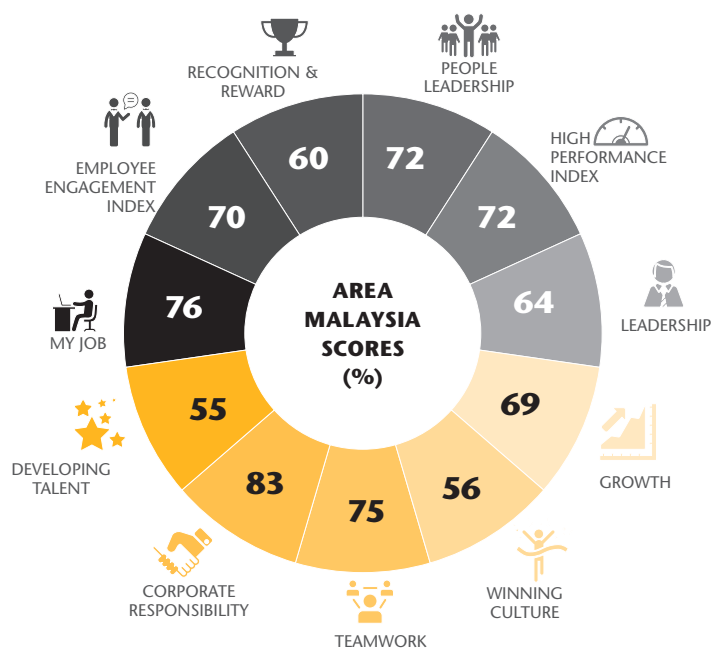
Last year, British American Tobacco Malaysia achieved significant improvement in our *Your Voice* results when the survey was conducted. There were positive increases in all dimensions and the participation rate was at a high 98 percent.

The areas identified to be improved on are *Developing Talent*, *Winning Culture* and *Reward and Recognition*.

Scores increased in all

2 9
INDICES and CATEGORIES
in comparison to 2012

High Performance Index	+11%
Employee Engagement Index	+7%
People Leadership	+13%
Leadership	+10%
Growth	+10%
Winning Culture	+10%
Teamwork	+10%
Corporate Responsibility	+9%
Developing Talent	+9%
My Job	+9%
Recognition and Reward	+7%



Your Voice Cycle Plan

1 Understand (Within one month)

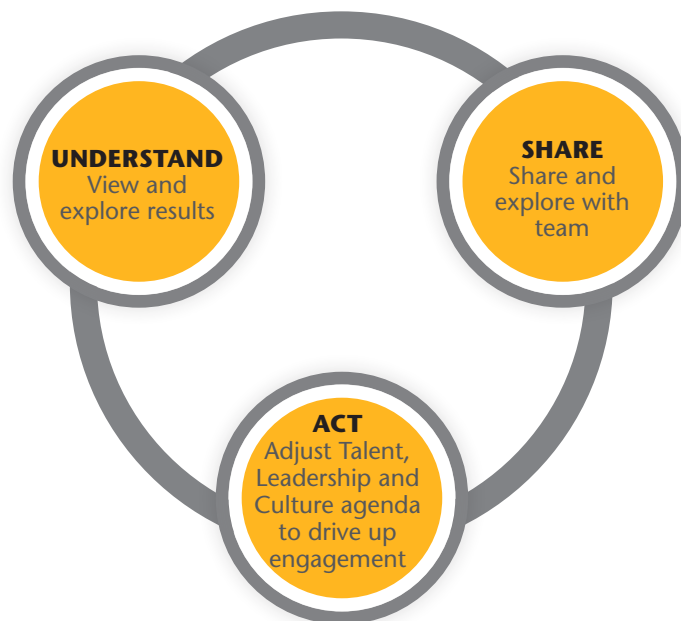
- Review survey results in detail ensuring understanding.

2 Share (Within two months)

- Share survey results openly with employees.
- Discuss and explore the survey results with employees - Dialogue.

3 Act (Within three months)

- Consolidate survey results with other relevant information (e.g. staff turnover, exit interviews, etc.).
- Understand how the results impact the Talent, Leadership and Culture Agenda.
- Agree what actions need to be aligned and incorporated into the Talent, Leadership & Culture agenda.
- Implement, follow up and track as part of BU Talent, Leadership and Culture agenda.



The main strategy of the *Your Voice* action plans was to ensure consistent communication with employees on the progress update for *Your Voice* activities. This is critical as it reflects our Leadership Teams' commitment in acknowledging and addressing, wherever possible, the issues that are important to employees, for British American Tobacco Malaysia to achieve a best-in-class and inspiring work environment.

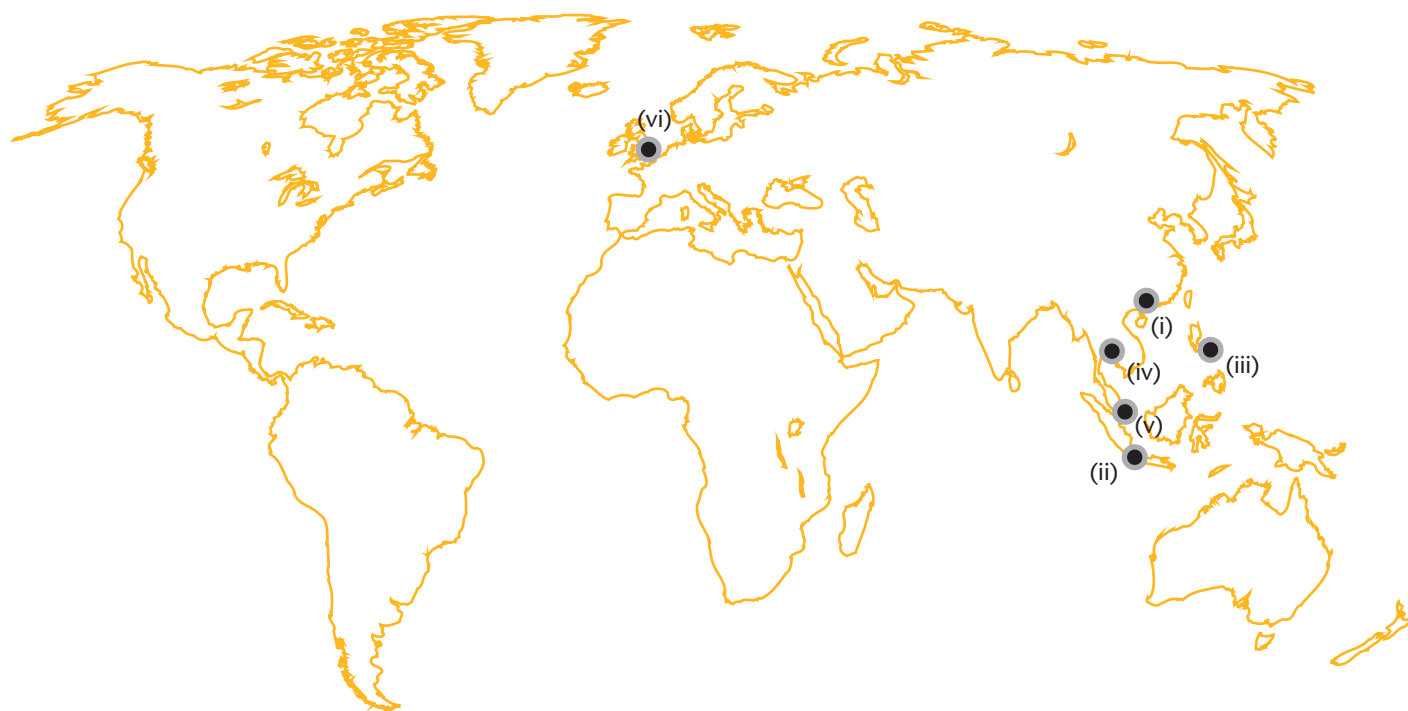
Some initiatives to support the *Your Voice* platform included quarterly business updates, *Let's Connect* campaign by HR as an alternative communication platform, cross-functional activities to facilitate more networking across functions and levels, coaching and leadership workshops and many more.

To further understand the areas of development, the Company conducted more than 30 focus group discussions with our employees across the business functions from February to May 2015. The feedback was then consolidated, analysed and shared with the functional Leadership Team for the development of action plans.

Coaching Workshop



WINNING ORGANISATION



DEVELOPING OUR TALENT ACROSS THE GLOBE

British American Tobacco Malaysia takes immense pride in the Malaysian talents who are currently contributing in other operating centres 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

iii) PHILIPPINES

Route to Market Deployment Manager
Head of Marketing, Philippines, Marketing

iv) CAMBODIA

Route to Market Manager

v) SINGAPORE

Senior Counsel, Asia Pacific, Operations
Head of Trade Marketing and Distribution, Marketing

vi) UNITED KINGDOM

Management Trainee

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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 2015.

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 12 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

	Group RM'000	Company RM'000
Profit before tax	1,230,998	998,451
Tax expense	(320,936)	(1,535)
Profit for the financial year	910,062	996,916

DIVIDENDS

The dividends paid or declared by the Company since 31 December 2014 were as follows:

In respect of the financial year ended 31 December 2014, as shown in the Directors' report of that year:

	RM'000
Fourth interim dividend of 78.0 sen per share, tax exempt under the single-tier system, paid on 26 March 2015	222,713
In respect of the financial year ended 31 December 2015:	
First interim dividend of 78.0 sen per share, tax exempt under the single-tier system, paid on 28 May 2015	222,713
Second interim dividend of 78.0 sen per share, tax exempt under the single-tier system, paid on 27 August 2015	222,713
Third interim dividend of 78.0 sen per share, tax exempt under the single-tier system, paid on 26 November 2015	222,713
	890,852

DIRECTORS' REPORT

DIVIDENDS (CONTINUED)

The Directors declared a fourth interim dividend of 78.0 sen per share at the Board of Directors' meeting on 17 February 2016 amounting to RM222,713,400 in respect of the financial year ended 31 December 2015 which will be paid on 24 March 2016 to shareholders registered in the Company's Register of Members at the close of business on 7 March 2016. These financial statements do not reflect the fourth interim dividend which will be accounted for in the financial year ending 31 December 2016.

The Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2015.

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 Clini
Pablo Daniel Sconfianza
Dato' Chan Choon Ngai
James Richard Suttie
Datuk Oh Chong Peng
Datuk Zainun Aishah Binti Ahmad
Datuk Lee Oi Kuan (f)

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 28 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 25 to the financial statements.

DIRECTORS' REPORT

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 1.1.2015	Bought	Sold	At 31.12.2015
<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 1.1.2015	Bought/ Granted	Sold	At 31.12.2015
<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)	–
Datuk Lee Oi Kuan (f)	19,055	2,152	(1,103)	20,104
Pablo Daniel Sconfianza	–	101	(10)	91

Number of ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.2015	Awarded	Vested	At 31.12.2015
<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:				
Datuk Lee Oi Kuan (f)	4,775	951	(1,902)	3,824
Stefano Clini	3,667	2,538	–	6,205
Pablo Daniel Sconfianza	3,366	940	(1,651)	2,655

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Number of options in ordinary shares of 25p each in British American Tobacco p.l.c					
	At 1.1.2015	Granted	Exercised	Lapsed	At 31.12.2015
<u>Ultimate Holding Company</u>					
<u>- British American Tobacco p.l.c</u>					
Shareholdings in the name of the Director:					
Datuk Lee Oi Kuan (f)					
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
LTIP – Nil (27 March 2025)	–	4,877	–	–	4,877
Stefano Clini					
LTIP – Nil (22 March 2023)	21,611	–	–	–	21,611
LTIP – Nil (28 March 2024)	12,154	–	–	–	12,154
LTIP – Nil (27 March 2025)	–	11,248	–	–	11,248
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
LTIP – Nil (27 March 2025)	–	4,689	–	–	4,689

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 28 to the financial statements.

DIRECTORS' REPORT

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:

- (a) 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
- (b) 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:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) 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.

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; or
- (b) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

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.

DIRECTORS' REPORT

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

Following the change in the ultimate holding company's auditors from PricewaterhouseCoopers to KPMG, the Board has nominated KPMG for appointment as the Auditors of the Company subject to shareholders' approval at the forthcoming Annual General Meeting in place of PricewaterhouseCoopers.

The Board would like to express their gratitude to PricewaterhouseCoopers for their services rendered to the Group.

Signed on behalf of the Board of Directors in accordance with a resolution dated 17 February 2016.



STEFANO CLINI
MANAGING DIRECTOR



PABLO DANIEL SCONFIANZA
FINANCE DIRECTOR

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

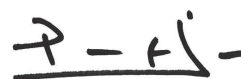
We, Stefano Clini and Pablo Daniel Sconfianza, being two of the Directors of British American Tobacco (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 149 to 214 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2015 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 215 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 17 February 2016.



STEFANO CLINI
MANAGING DIRECTOR

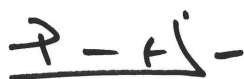


PABLO DANIEL SCONFIANZA
FINANCE DIRECTOR

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 149 to 214 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 17 February 2016.

Before me,



No. 34A(Tkt 1), Jalan SS2/67
47300 Petaling Jaya
Selangor Darul Ehsan

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 149 to 214 which comprise the balance sheets as at 31 December 2015 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 29.

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 2015 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 215 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
17 February 2016

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

		Group		Company	
	Note	2015	2014	2015	2014
		RM'000	RM'000	RM'000	RM'000
Revenue	2	4,581,547	4,795,991	1,022,409	1,053,733
Cost of sales		(2,907,401)	(3,084,147)	–	–
Gross profit		1,674,146	1,711,844	1,022,409	1,053,733
Other operating income		5,211	3,489	1,602	5,333
Distribution and marketing costs		(292,887)	(329,015)	–	–
Administrative expenses		(142,050)	(149,555)	(5,691)	(74,024)
Other operating expenses		(4,178)	(2,385)	(1,272)	(533)
Profit from operations	3	1,240,242	1,234,378	1,017,048	984,509
Finance cost - interest expense		(9,244)	(15,581)	(18,597)	(26,222)
Profit before tax		1,230,998	1,218,797	998,451	958,287
(Tax expense)/Tax credit	6	(320,936)	(316,766)	(1,535)	15,160
Profit for the financial year		910,062	902,031	996,916	973,447
Profit attributable to:					
Owners of the Company		910,062	902,031	996,916	973,447
Earnings per share (sen)	7	318.7	315.9	349.1	340.9

The accounting policies on pages 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Note	Group		Company	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Profit for the financial year		910,062	902,031	996,916	973,447
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
- Deferred tax on defined benefit plan actuarial gain	13	–	485	–	–
Items that may be subsequently reclassified to profit or loss					
- Changes in fair value of cash flow hedges		4,321	(5,855)	–	–
- Deferred tax on fair value changes on cash flow hedges	13	(1,078)	1,464	–	–
Total other comprehensive income for the financial year, net of tax		3,243	(3,906)	–	–
Total comprehensive income for the financial year		913,305	898,125	996,916	973,447
Total comprehensive income for the financial year attributable to:					
Owners of the Company		913,305	898,125	996,916	973,447

The accounting policies on pages 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2015

		Group		Company	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
NON CURRENT ASSETS					
Property, plant and equipment	9	291,894	325,385	4,752	6,195
Computer software	10	490	1,034	198	645
Goodwill	11	411,618	411,618	–	–
Subsidiaries	12	–	–	973,395	973,395
Deferred tax assets	13	30,536	25,736	15,246	16,439
		734,538	763,773	993,591	996,674
CURRENT ASSETS					
Assets held for sale	14	–	4,540	–	4,374
Inventories	15	234,413	263,296	–	–
Receivables	16	203,751	236,011	76,330	29,723
Derivative financial instruments	21	5,089	1,522	–	–
Tax recoverable		398	449	398	243
Cash and bank balances	17	28,811	14,469	10,842	1,547
		472,462	520,287	87,570	35,887
CURRENT LIABILITIES					
Payables	18	304,717	268,300	515,133	562,152
Deferred income	19	2,606	3,304	–	–
Derivative financial instruments	21	10,736	6,155	–	–
Current tax liabilities		3,368	74,512	–	–
Borrowings (interest bearing)	20	305,000	360,000	–	–
Bank overdraft	17	–	10,445	–	10,445
		626,427	722,716	515,133	572,597
NET CURRENT LIABILITIES					
		(153,965)	(202,429)	(427,563)	(536,710)
		580,573	561,344	566,028	459,964

The accounting policies on pages 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2015 (CONTINUED)

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
CAPITAL AND RESERVES					
Share capital	22	142,765	142,765	142,765	142,765
Cash flow hedge reserve		358	(2,885)	–	–
Retained earnings		403,500	384,290	423,263	317,199
SHAREHOLDERS' FUNDS		546,623	524,170	566,028	459,964
NON CURRENT LIABILITIES					
Deferred income	19	413	3,019	–	–
Deferred tax liabilities	13	33,537	34,155	–	–
		580,573	561,344	566,028	459,964

The accounting policies on pages 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

		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 2015		285,530	142,765	(2,885)	–	384,290	524,170
Profit for the financial year ended 31 December 2015		–	–	–	–	910,062	910,062
Other comprehensive income:							
- changes in fair value of cash flow hedges		–	–	4,321	–	–	4,321
- deferred tax on fair value changes on cash flow hedges	13	–	–	(1,078)	–	–	(1,078)
- deferred tax on defined benefit plan	13	–	–	–	–	–	–
Total comprehensive income		–	–	3,243	–	910,062	913,305
Transactions with owners:							
Expense arising from equity-settled share-based payment transactions	28	–	–	–	2,848	–	2,848
Recharge of share-based payment	28	–	–	–	(2,848)	–	(2,848)
Dividend for financial year ended 31 December 2014							
- fourth interim	8	–	–	–	–	(222,713)	(222,713)
Dividends for financial year ended 31 December 2015							
- first interim	8	–	–	–	–	(222,713)	(222,713)
- second interim	8	–	–	–	–	(222,713)	(222,713)
- third interim	8	–	–	–	–	(222,713)	(222,713)
Total transactions with owners		–	–	–	–	(890,852)	(890,852)
At 31 December 2015		285,530	142,765	358	–	403,500	546,623

The accounting policies on pages 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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 ended 31 December 2014	–	–	–	–	902,031	902,031
Other comprehensive income:						
- changes in fair value of cash flow hedges	–	–	(5,855)	–	–	(5,855)
- deferred tax on fair value changes on cash flow hedges	13	–	1,464	–	–	1,464
- deferred tax on defined benefit plan	13	–	–	–	485	485
Total comprehensive income	–	–	(4,391)	–	902,516	898,125
Transactions with owners:						
Expense arising from equity-settled share-based payment transactions	28	–	–	4,830	–	4,830
Recharge of share-based payment	28	–	–	(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 transactions 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 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

		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 2015	285,530	142,765		–	317,199	459,964
Profit for the financial year ended 31 December 2015		–	–	–	996,916	996,916
Other comprehensive income:						
- changes in fair value of cash flow hedges		–	–	–	–	–
- deferred tax on fair value changes on cash flow hedges	13	–	–	–	–	–
- deferred tax on defined benefit plan	13	–	–	–	–	–
Total comprehensive income		–	–	–	996,916	996,916
Transactions with owners:						
Expense arising from equity-settled share-based payment transactions	28	–	–	2,072	–	2,072
Recharge of share-based payment	28	–	–	(2,072)	–	(2,072)
Dividend for financial year ended 31 December 2014						
- fourth interim	8	–	–	–	(222,713)	(222,713)
Dividends for financial year ended 31 December 2015						
- first interim	8	–	–	–	(222,713)	(222,713)
- second interim	8	–	–	–	(222,713)	(222,713)
- third interim	8	–	–	–	(222,713)	(222,713)
Total transactions with owners		–	–	–	(890,852)	(890,852)
At 31 December 2015	285,530	142,765		–	423,263	566,028

The accounting policies on pages 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

		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		–	–	–	–	–
- deferred tax on fair value changes on cash flow hedges	13	–	–	–	–	–
- deferred tax on defined benefit plan	13	–	–	–	–	–
Total comprehensive income		–	–	–	973,447	973,447
Transactions with owners:						
Expense arising from equity-settled share-based payment transactions	28	–	–	2,792	–	2,792
Recharge of share-based payment	28	–	–	(2,792)	–	(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 transactions with owners		–	–	–	(882,287)	(882,287)
At 31 December 2014	285,530	142,765		–	317,199	459,964

The accounting policies on pages 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Note	Group		Company	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
OPERATING ACTIVITIES					
Cash receipts from customers and fellow subsidiaries		4,785,710	4,760,449	32,059	11,510
Cash paid to suppliers, employees and fellow subsidiaries		(3,407,605)	(3,453,454)	(72,864)	(98,327)
Dividends received from subsidiaries		–	–	1,015,003	1,047,262
Cash from operations	23	1,378,105	1,306,995	974,198	960,445
Income tax paid		(398,525)	(328,840)	(497)	(364)
Net cash flow from operating activities		979,580	978,155	973,701	960,081
INVESTING ACTIVITIES					
Property, plant and equipment					
- additions		(14,348)	(25,309)	(697)	(2,567)
- disposals		5,342	37,026	272	1,365
Assets held for sale					
- disposals		6,756	–	6,756	–
Computer software					
- additions		–	(4)	–	–
Repayment from a subsidiary		–	–	–	80,000
Interest income received		2,553	2,428	1,519	5,162
Net cash flow from investing activities		303	14,141	7,850	83,960

The accounting policies on pages 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

	Note	Group		Company	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
FINANCING ACTIVITIES					
Dividends paid to shareholders		(890,852)	(882,287)	(890,852)	(882,287)
Interest expense paid		(9,244)	(15,581)	(18,597)	(26,222)
(Repayment of)/Proceeds from revolving credit		(55,000)	100,000	–	–
Repayment of Medium Term Notes		–	(250,000)	–	(250,000)
(Repayment of)/Proceeds from subsidiary for cash pooling		–	–	(52,362)	62,494
Net cash flow used in financing activities		(955,096)	(1,047,868)	(961,811)	(1,096,015)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
		24,787	(55,572)	19,740	(51,974)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY					
		4,024	59,596	(8,898)	43,076
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER					
	17	28,811	4,024	10,842	(8,898)

The accounting policies on pages 159 to 173 and the notes on pages 174 to 214 form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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 29.

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 29.

The Group has applied the standards, amendments to standards and interpretations in financial year 2015.

- Annual Improvements to MFRSs 2010 – 2012 Cycle.
- Annual Improvements to MFRSs 2011 – 2013 Cycle.

Other than that, the adoption of these amendments did not have any impact on the current or any prior year and are not likely to affect future periods.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

A. BASIS OF PREPARATION (CONTINUED)

The Group will apply the new standards, amendments to standards and interpretations in the following period:

(i) Financial year beginning on/after 1 January 2018

- MFRS 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.
- 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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.

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 is 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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 statements 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 instalments 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.

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 write back on the asset values will be performed. The impairment loss is charged to income statements 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 statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

E. 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 statements 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 statements 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 statements 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 are depreciated over the shorter of the useful life of the asset and the lease term.

F. ASSETS HELD FOR SALE

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

On disposal of an asset held for sale, the difference between the net disposal proceeds and the carrying amount is recognised in income statements 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 2015

G. 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.

H. INVESTMENTS IN SUBSIDIARIES

In the Company's separate financial statements, investments in subsidiaries are 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

I. 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.

J. 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.

K. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, other short term, highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdraft are shown in current liabilities.

L. 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 Plans

The Group's contributions to defined contribution plans are charged to income statements 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

L. EMPLOYEE BENEFITS (CONTINUED)

(iii) 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.

(iv) 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 statements, with a corresponding credit to equity.

M. 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. Payables 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.

N. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

O. 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 Group's products for a minimum contract period of five years. The distribution rights fee is recognised into the income statements 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.

P. 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 statements, 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 2015

Q. 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 statements, 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 statements 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:

Foreign Currency	2015	2014
1 US Dollar	4.2935	3.4964
1 Pound Sterling	6.3282	5.4519
1 Euro	4.6640	4.2309

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

R. 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.

(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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

R. FINANCIAL ASSETS (CONTINUED)

(iii) Subsequent measurement - Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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 is reduced and the amount of the loss is recognised in the income statements. 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 statements.

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.

S. 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.

T. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

U. SHARE CAPITAL

Ordinary shares are classified as equity.

V. 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.

W. 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.

X. 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 remeasured 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 21. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

X. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

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 operating expenses'.

Amounts accumulated in equity are reclassified to the income statements in the periods when the hedged item affects the income statements. 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 operating expenses'.

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 Market 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

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Sale of semi finished goods, cigarettes, pipe tobaccos and cigars	4,581,547	4,795,991	–	–
Dividend income from unquoted subsidiaries	–	–	1,015,003	1,047,262
Management fee received from subsidiaries	–	–	4,852	2,802
Fee for usage of property, plant and equipment received from subsidiaries	–	–	2,554	3,669
	4,581,547	4,795,991	1,022,409	1,053,733

NOTES TO THE FINANCIAL STATEMENTS

3. PROFIT FROM OPERATIONS

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Profit from operations is arrived at:				
After charging:				
Raw materials and consumables used	512,685	502,996	–	–
Excise duties	2,020,980	2,051,599	–	–
Auditors' remuneration:				
- statutory audit	400	400	225	225
- non-audit fees	192	157	142	157
Property, plant and equipment:				
- depreciation (Note 9)	39,038	44,107	1,761	2,563
- loss on disposal	296	–	76	245
- written off	3,163	–	31	–
Computer software:				
- amortisation (Note 10)	544	940	447	729
Rental of land and buildings	5,654	7,520	–	–
Inventories written off	4,304	1,732	–	–
Net foreign exchange loss	–	–	1,206	472
Allowance for doubtful debts written off	214	221	20	–
Interest expense	9,244	15,581	20,952	37,924
Staff costs (Note 5)	126,983	144,726	24,332	32,212
And crediting:				
Gain on disposal:				
- assets held for sale	2,658	–	2,658	–
- property, plant and equipment	–	473	–	–
Net foreign exchange gain	12,685	2,929	–	–
Interest income on loan to subsidiary	–	–	–	3,120
Interest income on cash pooling	–	–	2,355	11,702
Interest income on deposits	2,553	2,428	1,519	2,042

NOTES TO THE FINANCIAL STATEMENTS

4. DIRECTORS' REMUNERATION

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Fees	745	762	745	762
Other emoluments	8,100	13,219	8,100	13,219
	8,845	13,981	8,845	13,981

The estimated monetary value of benefits in kind provided to Directors of the Group and Company during the financial year amounted to RM1,203,182 (2014: RM6,410,963) and RM1,203,182 (2014: RM6,410,963) respectively.

Included within other emoluments are share-based payments amounting to RM118,367 (2014: RM1,348,642) 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 28) 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 2015, 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.

	Number of ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.2015	Awarded in 2015	Vested in 2015	Other movements*	At 31.12.2015
Executive Directors					
Deferred Share Bonus Scheme	10,971	4,318	(1,902)	(1,552)	11,835
International Share Reward Scheme	303	111	(99)	–	315
	11,274	4,429	(2,001)	(1,552)	12,150

* 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 1.1.2015	Granted in 2015	Exercised in 2015	Other movements*	At 31.12.2015
£ 32.08	4,482	–	–	(4,482)	–
£ 32.58	18,968	–	–	–	18,968
£ 35.05	25,881	–	–	–	25,881
£ 36.25	–	20,814	–	–	20,814
	49,331	20,814	–	(4,482)	65,663

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

5. STAFF COSTS

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Wages, salaries and bonuses	84,682	96,932	16,119	23,424
Defined contribution plan	13,243	14,815	1,720	1,766
Voluntary redundancy package	11,821	8,054	1,523	1,299
Other staff related expenses	17,237	24,925	4,970	5,723
	126,983	144,726	24,332	32,212

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

Included in staff costs is an amount for other emoluments as part of Directors' remuneration disclosed in Note 4 to the financial statements.

Voluntary redundancy package is a result of factory rightsizing.

Staff costs recharged by the Company to the subsidiaries amounted to RM18,510,191 (2014: RM17,614,462).

NOTES TO THE FINANCIAL STATEMENTS

6. TAX EXPENSE/(TAX CREDIT)

The tax charge on the profit for the financial year consists of the following:

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
<u>In respect of current year</u>				
Current tax				
- Malaysian income tax	324,314	321,287	342	660
Deferred tax (Note 13 (i))	(6,496)	(16,288)	1,193	(15,762)
<u>In respect of prior years</u>				
Under/(Over) provision in respect of prior years				
- Malaysian income tax	3,118	11,767	–	(58)
	320,936	316,766	1,535	(15,160)

The average effective tax rates of the Group and Company are reconciled to the statutory tax rate as follows:

	Group		Company	
	2015	2014	2015	2014
	%	%	%	%
Statutory tax rate	25	25	25	25
Expenses not deductible for tax purposes	1	–	1	1
Income not subject to tax	–	–	(25)	(27)
Under provision in respect of prior years	–	1	–	–
Average effective tax rate	26	26	1	(1)

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.

	Group		Company	
	2015	2014	2015	2014
Profit for the financial year (RM'000)	910,062	902,031	996,916	973,447
Number of ordinary shares of 50 sen each in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	318.7	315.9	349.1	340.9

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:

	Group and Company					
	2015			2014		
	Gross per share sen	Net per share sen	Amount of dividend RM'000	Gross per share sen	Net per share sen	Amount of dividend RM'000
First interim dividend, single-tier, tax exempt	78.0	78.0	222,713	75.0	75.0	214,148
Second interim dividend, single-tier, tax exempt	78.0	78.0	222,713	78.0	78.0	222,713
Third interim dividend, single-tier, tax exempt	78.0	78.0	222,713	78.0	78.0	222,713
Fourth interim dividend, single-tier, tax exempt	78.0	78.0	222,713	78.0	78.0	222,713
	312.0	312.0	890,852	309.0	309.0	882,287

The first, second and third interim dividends are paid and accounted for in shareholders' equity as an appropriation of retained earnings in the financial year they are declared.

The Directors declared a fourth interim dividend of 78.0 sen per share at the Board of Directors' meeting on 17 February 2016 amounting to RM222,713,400 in respect of the financial year ended 31 December 2015 which will be paid on 24 March 2016 to shareholders registered in the Company's Register of Members at the close of business on 7 March 2016. These financial statements do not reflect the fourth interim dividend which will be accounted for in the financial year ending 31 December 2016.

The Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2015.

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 2014	67,044	252,167	6,478	26,615	28,432	380,736
Additions	–	6,913	3,330	6,087	8,979	25,309
Disposals	(923)	(17,427)	(33)	(4,512)	(13,658)	(36,553)
Depreciation charge	(2,982)	(33,214)	(4,259)	(3,652)	–	(44,107)
Reclassifications	–	15,202	356	–	(15,558)	–
Net book value at 31 December 2014	63,139	223,641	5,872	24,538	8,195	325,385
Additions	–	2,470	1,516	1,542	8,820	14,348
Disposals/written off	–	(7,529)	(33)	(1,239)	–	(8,801)
Depreciation charge	(2,818)	(29,522)	(2,768)	(3,930)	–	(39,038)
Reclassifications	–	7,257	–	–	(7,257)	–
Net book value at 31 December 2015	60,321	196,317	4,587	20,911	9,758	291,894
<u>At 31 December 2014</u>						
Cost	128,542	647,166	63,003	36,674	8,195	883,580
Accumulated depreciation and impairment	(65,403)	(423,525)	(57,131)	(12,136)	–	(558,195)
Net book value	63,139	223,641	5,872	24,538	8,195	325,385
<u>At 31 December 2015</u>						
Cost	128,542	634,811	63,006	34,907	9,758	871,024
Accumulated depreciation and impairment	(68,221)	(438,494)	(58,419)	(13,996)	–	(579,130)
Net book value	60,321	196,317	4,587	20,911	9,758	291,894

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 2014	105	16,642	50,297	67,044
Disposal	–	–	(923)	(923)
Depreciation charge	–	(604)	(2,378)	(2,982)
Net book value at 31 December 2014	105	16,038	46,996	63,139
Depreciation charge	–	(594)	(2,224)	(2,818)
Net book value at 31 December 2015	105	15,444	44,772	60,321
At 31 December 2014				
Cost	105	26,629	101,808	128,542
Accumulated depreciation and impairment	–	(10,591)	(54,812)	(65,403)
Net book value	105	16,038	46,996	63,139
At 31 December 2015				
Cost	105	26,629	101,808	128,542
Accumulated depreciation and impairment	–	(11,185)	(57,036)	(68,221)
Net book value	105	15,444	44,772	60,321

NOTES TO THE FINANCIAL STATEMENTS

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 2014	1,481	237	3,836	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	1,225	188	2,428	2,354	6,195
Additions	–	–	697	–	697
Disposals/written off	–	–	(31)	(348)	(379)
Depreciation charge	(117)	(30)	(1,328)	(286)	(1,761)
Net book value at 31 December 2015	1,108	158	1,766	1,720	4,752
At 31 December 2014					
Cost	2,329	777	16,988	3,198	23,292
Accumulated depreciation	(1,104)	(589)	(14,560)	(844)	(17,097)
Net book value	1,225	188	2,428	2,354	6,195
At 31 December 2015					
Cost	2,329	777	16,214	2,204	21,524
Accumulated depreciation	(1,221)	(619)	(14,448)	(484)	(16,772)
Net book value	1,108	158	1,766	1,720	4,752

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 2014	105	347	1,029	1,481
Depreciation charge	–	(21)	(235)	(256)
Net book value at 31 December 2014	105	326	794	1,225
Depreciation charge	–	(10)	(107)	(117)
Net book value at 31 December 2015	105	316	687	1,108
At 31 December 2014				
Cost	105	434	1,790	2,329
Accumulated depreciation	–	(108)	(996)	(1,104)
Net book value	105	326	794	1,225
At 31 December 2015				
Cost	105	434	1,790	2,329
Accumulated depreciation	–	(118)	(1,103)	(1,221)
Net book value	105	316	687	1,108

NOTES TO THE FINANCIAL STATEMENTS

10. COMPUTER SOFTWARE

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Net book value at 1 January	1,034	1,970	645	1,488
Additions	–	4	–	–
Amortisation charge	(544)	(940)	(447)	(729)
Transfer to subsidiary	–	–	–	(114)
Net book value at 31 December	490	1,034	198	645
Cost	35,605	35,605	30,187	30,187
Accumulated amortisation and impairment	(35,115)	(34,571)	(29,989)	(29,542)
Net book value at 31 December	490	1,034	198	645

11. GOODWILL

	Group	
	2015	2014
	RM'000	RM'000
Carrying amount at 31 December	411,618	411,618

Goodwill arose from the acquisition of the business of Malaysian Tobacco Company Berhad, which represents the cash generating units, and represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the net assets of the subsidiary companies (i.e. Commercial Marketers and Distributors Sdn. Bhd. for the marketing business and Tobacco Blenders and Manufacturers Sdn. Bhd. for the tobacco manufacturing business) acquired on 2 November 1999, the date of acquisition.

The carrying amount of goodwill is reviewed for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculations. The key assumptions for the recoverable amount of all units are management's current estimates of net cash flows over a period of five years (2014: five years) based on historical growth rate, taking into account industry developments and at the discount rate of 9.6 percent (2014: 8.3 percent). Based on the assessment, the recoverable amount exceeded the carrying amount of the goodwill. Accordingly, no impairment charges were recognised in 2015 (2014: nil). Any reasonable change in the key assumptions used will not result in any significant change to the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

12. SUBSIDIARIES

	Company	
	2015	2014
	RM'000	RM'000
Unquoted investments, at cost	975,262	975,262
Impairment losses	(1,867)	(1,867)
	973,395	973,395

The reduction in the cost of investments in the subsidiaries is due to the capital reduction in Rothmans Brands Sdn. Bhd.

The subsidiaries, all of which are wholly-owned, are as follows:

Incorporated in Malaysia

Operating

Commercial Marketers and Distributors Sdn. Bhd.

Rothmans Brands Sdn. Bhd.

Tobacco Importers and Manufacturers Sdn. Berhad

Principal activities

Marketing and importation of cigarettes, pipe tobaccos and cigars

Holding of trademarks

Manufacture and sale of cigarettes and other tobacco related products

Non-operating

Commercial Importers and Distributors Sdn. Bhd.

The Leaf Tobacco Development
Corporation of Malaya Sdn. Berhad

Tobacco Blenders and Manufacturers Sdn. Bhd.

Principal activities

The Company has been placed under member's voluntary liquidation on 1 September 2015

The Company has been placed under member's voluntary liquidation on 1 September 2015

The Company has been placed under member's voluntary liquidation on 1 September 2015

Incorporated in Negara Brunei Darussalam

Commercial Marketers and Distributors Sdn. Bhd.

Dormant

NOTES TO THE FINANCIAL STATEMENTS

13. DEFERRED TAX

The amounts below have been reconciled to the income statements and statement of changes in equity is as follows:

	Note	Group		Company	
		2015	2014	2015	2014
		RM'000	RM'000	RM'000	RM'000
<u>Deferred tax assets</u>					
At 1 January		25,736	10,806	16,439	677
Credited/(Charged) to income statements	13 (i)	5,329	14,303	(1,193)	15,762
(Charged)/Credited to statements of comprehensive income	13 (ii)	(529)	627	–	–
At 31 December		30,536	25,736	15,246	16,439
<u>Represented by:</u>					
Property, plant and equipment		4,980	8,086	3,164	5,940
Tax losses		6,744	8,726	6,744	8,726
Provisions		24,865	15,883	5,555	2,495
Cash flow hedge		14,560	4,437	–	–
Deferred tax assets (before offsetting)		51,149	37,132	15,463	17,161
Offsetting		(20,613)	(11,396)	(217)	(722)
Deferred tax assets (after offsetting)		30,536	25,736	15,246	16,439
<u>Deferred tax liabilities</u>					
At 1 January		34,155	37,462	–	–
Credited to income statements	13 (i)	(1,167)	(1,985)	–	–
Charged/(Credited) to statements of comprehensive income	13 (ii)	549	(1,322)	–	–
At 31 December		33,537	34,155	–	–

NOTES TO THE FINANCIAL STATEMENTS

13. DEFERRED TAX (CONTINUED)

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
<u>Deferred tax liabilities (continued)</u>				
Represented by:				
Property, plant and equipment	39,475	41,433	217	722
Accruals	–	644	–	–
Cash flow hedge	14,675	3,474	–	–
Deferred tax liabilities (before offsetting)	54,150	45,551	217	722
Offsetting	(20,613)	(11,396)	(217)	(722)
Deferred tax liabilities (after offsetting)	33,537	34,155	–	–

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

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
<u>Deferred tax assets:</u>				
- Deferred tax assets to be recovered after more than 12 months	11,507	15,278	9,691	14,666
- Deferred tax assets to be recovered within 12 months	19,029	10,458	5,555	1,773
	30,536	25,736	15,246	16,439
<u>Deferred tax liabilities:</u>				
- Deferred tax liabilities to be recovered after more than 12 months	22,467	28,955	–	–
- Deferred tax liabilities to be recovered within 12 months	11,070	5,200	–	–
	33,537	34,155	–	–
Deferred tax (liabilities)/assets (net)	(3,001)	(8,419)	15,246	16,439

NOTES TO THE FINANCIAL STATEMENTS

13. DEFERRED TAX (CONTINUED)

		Group		Company	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
(i) Credited/(Charged) to income statements:					
Credited/(Charged) in respect of deferred tax assets		5,329	14,303	(1,193)	15,762
Credited in respect of deferred tax liabilities		1,167	1,985	–	–
Net credit/(charge) to income statements	6	6,496	16,288	(1,193)	15,762
(ii) (Charged)/Credited to statements of comprehensive income:					
(Charged)/Credited in respect of deferred tax assets		(529)	627	–	–
(Charged)/Credited in respect of deferred tax liabilities		(549)	1,322	–	–
Net (charge)/credit to statements of comprehensive income		(1,078)	1,949	–	–

14. ASSETS HELD FOR SALE

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At 1 January	4,540	4,605	4,374	4,374
Transfer to property, plant and equipment (Note 9)	–	(65)	–	–
Disposed during the year	(4,540)	–	(4,374)	–
At 31 December	–	4,540	–	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 was completed in April 2015.

NOTES TO THE FINANCIAL STATEMENTS

15. INVENTORIES

	Group	
	2015	2014
	RM'000	RM'000
Raw materials	127,648	156,260
Work-in-progress	9,719	18,822
Finished goods	94,803	77,992
Consumable stores	2,243	10,222
	234,413	263,296

16. RECEIVABLES

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Trade receivables	116,473	154,836	–	–
Allowance for doubtful debts	(80)	(273)	–	–
Trade receivables (net)	116,393	154,563	–	–
Amounts due from fellow subsidiaries*	55,174	48,152	76,126	29,489
Prepayments	28,787	31,327	42	19
Other receivables	1,954	770	–	20
Deposits	1,443	1,199	162	195
	87,358	81,448	76,330	29,723
Total receivables	203,751	236,011	76,330	29,723

Prepayments of the Group mainly relating to leaf purchases from a fellow subsidiary in the current financial year of RM28,650,000 (2014: RM30,484,000).

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

NOTES TO THE FINANCIAL STATEMENTS

16. RECEIVABLES (CONTINUED)

(a) Related party balances

As of 31 December 2015, the Group's amounts due from fellow subsidiaries amounting to RM3,797,000 (2014: RM1,997,000) were overdue. The aging of these receivables is as follows:

	Group	
	2015	2014
	RM'000	RM'000
Past due within 1 month	–	458
Past due more than 1 month but within 1 year	3,797	1,539
	3,797	1,997

The Group's amounts due from fellow subsidiaries arose mainly from export sales which have a credit term of 30 to 60 days (2014: 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:

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
US Dollar	50,085	47,475	–	176
Pound Sterling	4,712	504	–	504
Others	56	–	–	–
	54,853	47,979	–	680

NOTES TO THE FINANCIAL STATEMENTS

16. RECEIVABLES (CONTINUED)

(b) Trade receivables

Credit terms of trade receivables range from 1 to 60 days (2014: 1 to 60 days).

As of 31 December 2015, the Group's trade receivables amounting to RM2,298,000 (2014: RM5,664,000) were overdue. The amount of provisions was RM80,000 (2014: RM273,000). The aging of these receivables is as follows:

	Group	
	2015	2014
	RM'000	RM'000
1 to 2 months*	2,298	5,524
Over 6 months	–	140
	2,298	5,664

* Trade receivables amounting to RM2,298,000 (2014: RM5,524,000) 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:

	Group	
	2015	2014
	RM'000	RM'000
At 1 January	273	506
Provision for receivables impairment	422	273
Receivables written off during the year	(413)	(454)
Unused amounts reversed	(202)	(52)
At 31 December	80	273

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.

NOTES TO THE FINANCIAL STATEMENTS

16. RECEIVABLES (CONTINUED)

(b) Trade receivables (continued)

The Group does not hold any collateral as security.

The currency profile of trade receivables is as follows:

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
US Dollar	1,010	3,673	–	–

All other amounts within receivables are mostly denominated in Ringgit Malaysia.

17. CASH AND BANK BALANCES

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	28,811	14,469	10,842	1,547
Bank overdrafts used for cash management purposes	–	(10,445)	–	(10,445)
	28,811	4,024	10,842	(8,898)

The currency profile of cash and bank balances is as follows:

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
US Dollar	11,707	3,298	1,139	370
Pound Sterling	2,855	2,887	151	1,161
Euro	423	491	–	–
	14,985	6,676	1,290	1,531

NOTES TO THE FINANCIAL STATEMENTS

18. PAYABLES

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Trade payables	47,201	50,361	–	–
Trade accruals	65,597	60,824	–	–
Amounts due to subsidiaries	–	–	482,652	535,014
Amounts due to fellow subsidiaries	56,100	60,234	4,468	2,153
Other payables	135,819	96,881	28,013	24,985
	304,717	268,300	515,133	562,152

Other payables comprised the following:

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Accruals for employee expenses	21,899	30,566	6,567	10,103
Accruals for administrative expenses	101,982	56,634	19,949	8,614
Provision for employee expenses	10,717	8,643	276	5,230
Other non-operating creditors	1,221	1,038	1,221	1,038
	135,819	96,881	28,013	24,985

(a) Related party balances

The Group's amounts due to fellow subsidiaries are repayable within credit terms of 30 to 60 days (2014: 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	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
US Dollar	15,842	8,695	57	–
Pound Sterling	8,177	5,181	4,196	673
Euro	96	1,332	–	–
Others	219	–	211	–
	24,334	15,208	4,464	673

NOTES TO THE FINANCIAL STATEMENTS

18. 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 (2014: no credit to 120 days).

The currency profile of trade payables is as follows:

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
US Dollar	2,051	1,104	–	–
Pound Sterling	182	48	–	–
Euro	1,335	1,694	–	–
Others	–	156	–	–
	3,568	3,002	–	–

All other amounts within payables are mostly denominated in Ringgit Malaysia.

19. 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.

20. BORROWINGS (INTEREST BEARING)

(a) The Group's borrowings as at 31 December 2015 amounting to RM305,000,000 are revolving credits with tenure of two weeks.

(b) (i) Maturity of the Group and Company borrowings is as follows:

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
<u>Total borrowings</u>				
Revolving credit	305,000	360,000	–	–

NOTES TO THE FINANCIAL STATEMENTS

20. BORROWINGS (INTEREST BEARING) (CONTINUED)

(b) (i) Maturity of the Group and Company borrowings is as follows (continued):

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Maturity of borrowings:				
Within one year	305,000	360,000	–	–

(b) (ii) Classification of the Group and Company borrowings is as follows:

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
<u>Unsecured</u>				
Current:				
Revolving credit	305,000	360,000	–	–

(c) The Group and Company's borrowings are denominated in Ringgit Malaysia.

(d) The fair value of borrowings are detailed in Note 27(b).

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2015	2015	2015	2015
	Assets	Liabilities	Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000
Forward foreign exchange contracts – cash flow hedges	5,089	10,736	–	–

	Group		Company	
	2014	2014	2014	2014
	Assets	Liabilities	Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000
Forward foreign exchange contracts – cash flow hedges	1,522	6,155	–	–

NOTES TO THE FINANCIAL STATEMENTS

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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 RM9,893,390 (2014: RM782,479).

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 as at 31 December 2015 are as follows:

Hedged item	Currency	RM'000 equivalent	Average contracted rate
<u>2015</u>			
<u>Group</u>			
Currency to be paid over the next 12 months USD 7,700,000 (net)	US Dollar	25,716	1 USD = RM3.3397
Currency to be received over the next 12 months GBP 6,100,000 (net)	Pound Sterling	36,877	1 GBP = RM6.0454
<u>2014</u>			
<u>Group</u>			
Currency to be paid over the next 12 months USD 20,100,000 (net)	US Dollar	66,416	1 USD = RM3.3043
Currency to be received over the next 12 months GBP 2,000,000 (net)	Pound Sterling	10,888	1 GBP = RM5.4440

NOTES TO THE FINANCIAL STATEMENTS

22. SHARE CAPITAL

	Group and Company	
	2015	2014
	RM'000	RM'000
<u>Authorised</u>		
770,000,000 ordinary shares of 50 sen each	385,000	385,000
<u>Issued and fully paid</u>		
285,530,000 ordinary shares of 50 sen each	142,765	142,765

23. CASH FROM OPERATIONS

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Profit for the financial year	910,062	902,031	996,916	973,447
Adjustments for:				
Interest income	(2,553)	(2,428)	(1,519)	(5,162)
Property, plant and equipment:				
- depreciation	39,038	44,107	1,761	2,563
- loss/(gain) on disposal	296	(473)	76	245
- written off	3,163	–	31	–
Computer software:				
- amortisation	544	940	447	729
Assets held for sale:				
- gain on disposal	(2,658)	–	(2,658)	–
Allowance for doubtful debts written off	214	221	20	–
Inventories written off	4,304	1,732	–	–
Interest expense	9,244	15,581	18,597	26,222
Tax expense/(credit)	320,936	316,766	1,535	(15,160)
Changes in working capital:				
- inventories	24,579	28,950	–	–
- receivables	32,474	(35,319)	(46,587)	(24,900)
- payables	38,462	34,887	5,579	2,461
Cash from operations	1,378,105	1,306,995	974,198	960,445

NOTES TO THE FINANCIAL STATEMENTS

24. CAPITAL COMMITMENTS AND CONTINGENT LIABILITY

(a) Capital Commitments

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

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment:				
- Authorised but not contracted for	2,277	5,587	39	644

(b) Contingent Liability - unsecured

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

On 16 April 2014, the Group received a bill of demand from Royal Malaysian Customs for RM12.9 million in respect of sales tax and penalties (sales tax RM8.8 million and penalties RM4.1 million) for the period from October 2012 through December 2013. The Group 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 and/or decision date for the Judicial Review application would most likely take place at the end of the first quarter of 2016.

As such, with respect to this matter, no adjustment has been made to the 2015 results. Should a liability crystallise the estimated value as at 31 December 2015 is RM24.9 million (2014: RM22.3 million).

NOTES TO THE FINANCIAL STATEMENTS

25. SIGNIFICANT RELATED PARTY DISCLOSURES

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions.

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

	Group	
	2015	2014
	RM'000	RM'000
(i) Sale of goods		
Sale of cigarettes and tobacco products to:		
- British-American Tobacco Company (Hong Kong) Limited	30,434	24,613
- Rothmans(Far East)B.V. - Louisville	1,047	1,549
- British-American Tobacco (Singapore) Private Limited	48,948	–
- British-American Tobacco Marketing (Singapore) Private Limited	12,148	47,596
- British American Tobacco Sales & Marketing (Singapore) Pte. Ltd.	5,746	–
- B.A.T. China Limited	11,409	10,081
- British American Tobacco International Limited	91,186	61,416
- British American Tobacco Korea Manufacturing Limited	32,508	36,782
- British American Tobacco Taiwan	26,753	36,850
- BATUS Japan, INC.	29,716	50,684
- British American Tobacco (New Zealand) Limited	5,962	11,724
- British American Tobacco (Australia) Limited	16,024	12,638
- British American Tobacco Manufacturing Australia Pty Ltd.	34,766	97,052
- British American Tobacco (PNG) Limited	23,576	24,841
- Solomon Islands Tobacco Company Limited	7,138	7,880
- British American Tobacco (Samoa) Limited	5,065	2,446
- British American Tobacco Western Europe Commercial Trading Limited (formerly known as BAT Supply Chain WE Ltd)	209	228
- Central Manufacturing Company Ltd	3,528	747
- PT Bentoel Prima	9,008	17,966
- Ceylon Tobacco Company Limited	242	102
- British American Tobacco Philippines Limited	13,846	27,164
- Rothmans Far East B.V. Korea Branch Office	788	–
- British American Tobacco UK and Export	47,018	–
	457,065	472,359

NOTES TO THE FINANCIAL STATEMENTS

25. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(a) Group's transactions (continued)

	Group	
	2015	2014
	RM'000	RM'000
(ii) Purchase of goods		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
- British-American Tobacco (Singapore) Private Limited	34,833	30,354
- British American Tobacco (GLP) Limited	200,514	295,844
- PT. Export Leaf Indonesia	56,279	45,529
- CTBAT International Co. Limited	204	–
- PT Bentoel Internasional Investama, Tbk.	1,500	–
- British American Tobacco South Africa (Pty) Limited	–	5
- Koninklijke Theodorus Niemeyer B.V.	–	517
- PT Perusahaan Dagang dan Industri Tresno	–	293
- British American Tobacco Korea Manufacturing Limited	3,780	660
- Ceylon Tobacco Company Limited	–	138
- British American Tobacco Western Europe Commercial Trading Limited (formerly known as BAT Supply Chain WE Ltd)	8,872	4,055
	305,982	377,395
(iii) Procurement of services		
Procurement of information technology services from:		
- British American Shared Services (GSD) Limited	28,339	34,253
(iv) Technical and advisory (includes share-based payment charges)		
Payment for technical and advisory support services to:		
- BAT Investments Ltd	38,549	44,984
- BAT Aspac Service Centre Sdn Bhd	9,450	9,718
- BAT (Holdings) Limited	2,793	4,873
- British-American Tobacco (Singapore) Private Limited	8,826	9,528
- British American Tobacco UK and Export	–	20
	59,618	69,123

NOTES TO THE FINANCIAL STATEMENTS

25. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(a) Group's transactions (continued)

	Group	
	2015	2014
	RM'000	RM'000
(v) Royalties		
Royalties paid/payable to:		
- British American Tobacco (Holdings) Ltd*	136,895	116,837
- Dunhill Tobacco of London Limited*	2,648	2,800
- Benson & Hedges (Overseas) Limited*	3,730	4,215
- The American-Cigarette Company (Overseas) Ltd*	10,215	8,127
- Turmac Tobacco Company B.V.*	60	63
- B.A.T. China Limited**	49	46
	153,597	132,088
(vi) Sale and purchase of equipments		
(Sale)/purchase of equipments (to)/from:		
- British American Tobacco Bangladesh Company Limited	–	(9,338)
- British American Tobacco (Australasia Holdings) Pty Limited	–	(8,125)
- British-American Tobacco Polska S.A.	–	2,148
- British American Tobacco Korea Manufacturing Limited	(618)	(2,678)
- British-American Tobacco (Singapore) Private Limited	(3,393)	–
- British American Tobacco Manufacturing Australia Pty Ltd.	5	–
- Pakistan Tobacco Company Limited	(366)	–
	(4,372)	(17,993)

* Payments in respect of royalty agreements with these entities were made to B.A.T. International Finance p.l.c.

** Payments in respect of royalty agreement with this entity were made to CTBAT International Co. Limited.

NOTES TO THE FINANCIAL STATEMENTS

25. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(a) Group's transactions (continued)

	Group
	2015
	RM'000
(vii) Provision of technical and advisory support services to:	2014
	RM'000
- British American Tobacco Sales & Marketing Singapore Pte. Ltd.	1,348 983
(viii) Rental of space from:	
- Jutaria Gemilang Sdn Bhd	74 –

(b) Company's transactions

	Company
	2015
	RM'000
(i) Management fee	2014
	RM'000
Management fee received from:	
- Commercial Marketers and Distributors Sdn. Bhd.	4,042 2,233
- Tobacco Importers and Manufacturers Sdn. Berhad	810 569
	4,852 2,802
(ii) Fee for usage of property, plant and equipment	
Fee for usage of property, plant and equipment received from:	
- Commercial Marketers and Distributors Sdn. Bhd.	1,734 2,491
- Tobacco Importers and Manufacturers Sdn. Berhad	820 1,178
	2,554 3,669
(iii) Procurement of services*	
Procurement of information technology services from:	
- British American Shared Services (GSD) Limited	6,623 8,327

NOTES TO THE FINANCIAL STATEMENTS

25. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Company's transactions (continued)

	Company	
	2015	2014
	RM'000	RM'000
(iv) Technical and advisory (includes share-based payment charges)*		
Payment of fees for technical and advisory support services to:		
- BAT Investments Ltd	4,551	1,129
- BAT Aspac Service Centre Sdn Bhd	8,150	8,157
- BAT (Holdings) Limited	2,013	2,808
- British American Tobacco UK and Export	–	20
	14,714	12,114
(v) Provision of technical and advisory support services to:		
- British American Tobacco Sales & Marketing Singapore Pte. Ltd.	688	553
(vi) Interest income		
Interest income from loan to a subsidiary:		
- Commercial Marketers and Distributors Sdn. Bhd.	–	3,120
Interest income on cash pooling:		
- Tobacco Importers and Manufacturers Sdn. Berhad	2,355	11,702
(vii) Interest expense		
Interest expense on cash pooling:		
- Commercial Marketers and Distributors Sdn. Bhd.	21,133	31,136

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.

NOTES TO THE FINANCIAL STATEMENTS

26. SEGMENT REPORTING

The Company is domiciled in Malaysia. The revenue from external customers in Malaysia is RM4,115,663,000 (2014: RM4,310,260,000), and the total revenue from external customers and fellow subsidiaries from other countries is RM465,884,000 (2014: RM485,731,000). 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 2015 and 31 December 2014.

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.

27. 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 risks, 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.

(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 floating rate borrowings as disclosed in Note 20, and a possible 10 percent increase or decrease in interest rates on borrowings will not result in any significant change in the Group's pre-tax profit.

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Factors (continued)

(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 18 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 15. 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.

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 illegal cigarette 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.

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Factors (continued)

(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 62 percent of the Group's trade receivables are derived from its sales to three of its key customers. The Group closely monitors collections from these customers. In addition, the Group's historical experience in collection of trade receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in the Group's trade receivables.

The age analysis of trade receivables is disclosed in Note 16.

(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 maximum mobilisation of cash within the Group. The key objectives of Treasury in respect of cash and cash equivalents are to concentrate cash at the centre for better cash management.

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

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Maturity of borrowings:				
- Within 1 year	305,167	361,641	–	–
Payables within 1 year	304,717	268,300	515,133	562,152
Derivative financial instruments:				
- Within 1 year	10,736	6,155	–	–

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 21. The fair values of forward foreign exchange contracts are determined based on the quoted market price of similar derivatives, as they are not traded on an active market. These derivatives are classified as Level 2 financial instruments 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 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.

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE-BASED PAYMENTS

The Group operates a number of British American Tobacco p.l.c share-based payment arrangements of which the two principal ones are:

Long-Term Incentive Plan ('LTIP')

Nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. Payout is subject to performance conditions based on earnings per share relative to inflation (50 percent of grant) and total shareholder return (25 percent of grant) and net turnover (25 percent of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to a comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled LTIPs are granted in March each year.

Prior to 2014, payout was subject to performance conditions based on earnings per share relative to inflation (50 percent of grant) and total shareholder return, combining the share price and dividend performance of the Company by reference to two comparator groups (50 percent of grant).

Deferred Share Bonus Scheme ('DSBS')

Free ordinary shares released three years from date of grant and may be subject to forfeit if participant leaves employment before the end of the three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled grants are granted in March each year.

The Group also has a number of other arrangements which are not material for the Group and these are as follows:

Share Reward Scheme ('SRS') and International Share Reward Scheme ('ISRS')

Free shares granted in April each year (maximum £3,000 in any year) under the equity-settled scheme are subject to a three year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Share-based Payment Expense

The amounts recognised in the income statement in respect of share-based payments were as follows:

	2015 Equity- settled in RM'000	2014 Equity- settled in RM'000
Group		
LTIP (note a)	1,158	1,822
DSBS (note b)	1,648	2,970
Other Schemes (note c)	42	38
Total recognised in the income statement	2,848	4,830

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE-BASED PAYMENTS (CONTINUED)

	2015 Equity- settled in RM'000	2014 Equity- settled in RM'000
<u>Company</u>		
LTIP (note a)	890	1,299
DSBS (note b)	1,152	1,455
Other Schemes (note c)	30	38
Total recognised in the income statement	2,072	2,792

(a) Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2015 and 31 December 2014, were as follows:

	2015 Equity- settled Number of options in thousands	2014 Equity- settled Number of options in thousands
<u>Group</u>		
Outstanding at start of financial year	44	82
Granted during the period	30	32
Exercised during the period	–	(44)
Forfeited during the period	(13)	(26)
Outstanding at end of financial year	61	44
Exercisable at end of financial year	3	3

The weighted average of British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was nil (2014: £34.82) for equity-settled options.

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE-BASED PAYMENTS (CONTINUED)

(a) Long-Term Incentive Plan (continued)

The outstanding shares for the year ended 31 December 2015 had a weighted average contractual life of 8.31 years (2014: 8.33 years) for the equity-settled scheme.

	2015 Equity- settled Number of options in thousands	2014 Equity- settled Number of options in thousands
<u>Company</u>		
Outstanding at start of financial year	25	52
Granted during the period	23	24
Exercised during the period	–	(29)
Forfeited during the period	(4)	(22)
Outstanding at end of financial year	44	25
Exercisable at end of financial year	–	1

The weighted average of British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was nil (2014: £34.80) for equity-settled options.

The outstanding shares for the year ended 31 December 2015 had a weighted average contractual life of 8.62 years (2014: 8.68 years) for the equity-settled scheme.

NOTES TO THE FINANCIAL STATEMENTS

28. 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 2015 and 31 December 2014, were as follows:

	2015 Equity- settled Number of options in thousands	2014 Equity- settled Number of options in thousands
<u>Group</u>		
Outstanding at start of financial year	27	43
Granted during the period	9	17
Exercised during the period	(8)	(32)
Forfeited during the period	(2)	(1)
Outstanding at end of financial year	26	27
Exercisable at end of financial year	–	–

The weighted average of British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was £36.68 (2014: £33.69) for equity-settled options.

The outstanding shares for the year ended 31 December 2015 had a weighted average contractual life of 1.30 years (2014: 1.39 years) for the equity-settled scheme.

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE-BASED PAYMENTS (CONTINUED)

(b) Deferred Share Bonus Scheme (continued)

	2015 Equity- settled Number of options in thousands	2014 Equity- settled Number of options in thousands
<u>Company</u>		
Outstanding at start of financial year	10	19
Granted during the period	6	9
Exercised during the period	(3)	(18)
Outstanding at end of financial year	13	10
Exercisable at end of financial year	–	–

The weighted average of British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was £37.00 (2014: £34.03) for equity-settled options.

The outstanding shares for the year ended 31 December 2015 had a weighted average contractual life of 1.48 years (2014: 1.5 years) for the equity-settled scheme.

(c) Other Schemes

SRS and ISRS

Group

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 632 (2014: 823).

Company

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 223 (2014: 303).

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE-BASED PAYMENTS (CONTINUED)

(c) Other Schemes (continued)

Valuation Assumptions

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

	2015		2014	
	LTIP	DSBS	LTIP	DSBS
<u>Group and Company</u>				
Expected volatility (%)	17	17	18	18
Average expected term to exercise (years)	3.5	3.0	3.5	3.0
Risk-free rate (%)	0.8	0.7	1.2	0.9
Expected dividend yield (%)	4.0	4.0	4.2	4.2
Share price at date of grant (£)	36.25	36.25	32.60	32.60
Fair value at grant date (£)	14.29	32.15	17.72	19.55

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:

	2015 %	2014 %
<u>Group and Company</u>		
Average share price volatility FMCG comparator group	19	20
Average correlation FMCG comparator group	33	31

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

The expected British American Tobacco p.l.c share price volatility was determined taking account of the return index, (the share price index plus the dividend reinvested) over a five year period. The respective FMCG and FTSE 100 share price volatility and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE-BASED PAYMENTS (CONTINUED)

(c) Other Schemes (continued)

Valuation Assumptions (continued)

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This payout calculation is based on expectations published in analysts' forecasts.

29. 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 judgment 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 13.

(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 Bursa Malaysia Securities Berhad.

	Group		Company	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries				
- Realised profits	536,857	522,090	408,696	301,168
- Unrealised (loss)/profits	(2,420)	(6,529)	14,567	16,031
Less: Consolidation adjustments	(130,937)	(131,271)	–	–
Total retained profits	403,500	384,290	423,263	317,199

The unrealised portion within unappropriated profits (retained earnings) for the Group as at 31 December 2015 predominantly relates to net deferred tax liability of RM3,001,000 (2014: RM8,419,000).

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 2015 predominantly relates to net deferred tax asset of RM15,246,000 (2014: RM16,439,000).

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

ANALYSIS OF SHAREHOLDINGS

As at 29 February 2016

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	733	12.493	9,932	0.003
100 – 1,000	3,120	53.178	1,281,368	0.448
1,001 – 10,000	1,368	23.316	5,167,379	1.809
10,001 – 100,000	472	8.044	14,747,718	5.165
100,001 – 14,276,499 (*)	172	2.931	102,507,001	35.900
14,276,500 AND ABOVE (**)	2	0.034	161,816,602	56.672
Total	5,867	100.00	285,530,000	100.000

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%

SUBSTANTIAL SHAREHOLDERS BASED ON THE REGISTER OF SUBSTANTIAL SHAREHOLDERS

Name	Direct Interest		Indirect / Deemed Interest	
	Number of shares held	% of issued shares	Number of shares held	% of issued shares
British American Tobacco Holdings (Malaysia) B.V. ¹	142,765,000	50.000	-	-
Employees Provident Fund Board	20,999,402	7.355	-	-
Mitsubishi UFJ Financial Group ²	-	-	18,663,837	6.537
Aberdeen Asset Management PLC (Aberdeen) and its subsidiaries	-	-	17,615,497	6.169

¹ Deemed interested in shares of British American Tobacco (Malaysia) Berhad by virtue of Section 6A of the Companies Act, 1965.

² Deemed interested in shares of British American Tobacco (Malaysia) Berhad by virtue of holding more than 15 percent shares in Aberdeen.

TOP THIRTY (30) SECURITIES ACCOUNT HOLDERS

(without aggregating the securities from different securities accounts belonging to the same person)

No	Name	Number of shares held	% of issued shares
1	BRITISH AMERICAN TOBACCO HOLDINGS (MALAYSIA) B.V.	142,765,000	50.000
2	CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EMPLOYEES PROVIDENT FUND BOARD	19,051,602	6.672
3	DB (MALAYSIA) NOMINEE (ASING) SDN BHD - SSBT FUND 4545 FOR LAZARD EMERGING MARKETS PORTFOLIO	4,623,500	1.619
4	HSBC NOMINEES (ASING) SDN BHD - EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	4,249,725	1.488
5	HSBC NOMINEES (ASING) SDN BHD - EXEMPT AN FOR THE BANK OF NEW YORK MELLON (MELLON ACCT)	4,201,785	1.471
6	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD - GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	3,801,100	1.331
7	HSBC NOMINEES (ASING) SDN BHD - BNP PARIBAS SECS SVS LUX FOR ABERDEEN GLOBAL	3,745,120	1.311
8	HSBC NOMINEES (ASING) SDN BHD - BBH AND CO BOSTON FOR MATTHEWS ASIAN GROWTH AND INCOME FUND	3,498,400	1.225
9	CARTABAN NOMINEES (ASING) SDN BHD - EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	3,453,115	1.209
10	CARTABAN NOMINEES (ASING) SDN BHD - GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	2,958,400	1.036
11	AMANAHRAYA TRUSTEES BERHAD - AMANAH SAHAM MALAYSIA	2,600,400	0.910
12	DB (MALAYSIA) NOMINEE (ASING) SDN BHD - BNYM SA/NV FOR MURRAY INTERNATIONAL TRUST PLC	2,400,000	0.840
13	HSBC NOMINEES (ASING) SDN BHD - BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	2,293,887	0.803

ANALYSIS OF SHAREHOLDINGS

As at 29h February 2016

14	VALUECAP SDN BHD	2,114,800	0.740
15	CARTABAN NOMINEES (ASING) SDN BHD - EXEMPT AN FOR EASTSPRING INVESTMENTS BERHAD	1,806,500	0.632
16	HSBC NOMINEES (ASING) SDN BHD - EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (JPMELAB AIF APG)	1,798,300	0.629
17	AMANAHRAYA TRUSTEES BERHAD - AS 1MALAYSIA	1,511,800	0.529
18	HSBC NOMINEES (ASING) SDN BHD - BNP PARIBAS SECS SVS PARIS FOR ABERDEEN ASIA PACIFIC EQUITY FUND	1,438,300	0.503
19	CARTABAN NOMINEES (ASING) SDN BHD - EXEMPT AN FOR RBC INVESTOR SERVICES TRUST (CLIENTS ACCOUNT)	1,237,792	0.433
20	CARTABAN NOMINEES (ASING) SDN BHD - RBC INVESTOR SERVICES BANK FOR VONTOBEL FUND – EMERGING MARKETS EQUITY	1, 208,895	0.423
21	DB (MALAYSIA) NOMINEE (ASING) SDN BHD - STATE STREET AUSTRALIA FUND 7FAF FOR MONETARY AUTHORITY OF SINGAPORE	1,168,000	0.409
22	HSBC NOMINEES (ASING) SDN BHD - BNP PARIBAS SECS SVS JERSEY FOR ABERDEEN ASIAN INCOME FUND LIMITED	1,109,800	0.388
23	CITIGROUP NOMINEES (TEMPATAN) SDN BHD - EXEMPT AN FOR AIA BHD.	1,095,100	0.383
24	CARTABAN NOMINEES (ASING) SDN BHD - SSBT FUND SWFE FOR CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM	1,046,100	0.366
25	CITIGROUP NOMINEES (ASING) SDN BHD - CBHK FOR KUWAIT INVESTMENT AUTHORITY (FUND 221)	1,010,100	0.353
26	CITIGROUP NOMINEES (ASING) SDN BHD - UBS AG	834,169	0.292
27	CITIGROUP NOMINEES (ASING) SDN BHD - CBHK FOR KUWAIT INVESTMENT AUTHORITY	810,700	0.283
28	HSBC NOMINEES (ASING) SDN BHD - MORGAN STANLEY & CO. INTERNATIONAL PLC (FIRM A/C)	792,539	0.277
29	CITIGROUP NOMINEES (ASING) SDN BHD - MERRILL LYNCH INTERNATIONAL	790,473	0.276
30	DB (MALAYSIA) NOMINEE (ASING) SDN BHD - DEUTSCHE BANK AG LONDON	783,274	0.274
Total		220,198,676	77.119

PARTICULARS OF PROPERTIES

The properties held by the Group at 31 December 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
Freehold					
No. 36A, Jalan Lengkok Canning, Ipoh Garden, Ipoh, Perak.	30.11.1989	shop and office	27	143.07	69
No. A79, Jalan Telok Sisek, Kuantan, Pahang.	28.4.1994	shop and office	24	110.59	198
Leasehold					
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	54	46,905.44	55,336
No. 2, Jalan Foochow, Kuching, Sarawak. (999 year lease expiring 31.12.2923)	3.10.1991	shop and office	26	156.10	144
No. 120, Jalan Semangat, Petaling Jaya, Selangor. (99 year lease expiring 12.7.2061)	24.5.1993	office and store	40	6,119.00	4,341
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	22	136.56	361
No. 8, Jalan Melaka Raya 13, Taman Melaka Raya, Melaka. (99 year lease expiring 7.7.2093)	30.3.1996	shop and office	21	143.00	256

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, 1st Floor
Kawasan Perindustrian Pengkalan Chepa 2
Seksyen 39 Kemumin
16100 Kota Bharu
Kelantan
Tel : +60 (9) 773 8831/773 8873
Fax : +60 (9) 773 8968

Kota Kinabalu

Lot L180-101/100
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
Fax : +60 (82) 335 490

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-Fifth Annual General Meeting of British American Tobacco (Malaysia) Berhad (“the Company”) will be held at Ballroom 1, 1st Floor, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Monday, 25 April 2016 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2015 and the Reports of the Directors and Auditors thereon. **Note A**
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) Stefano Clini **Resolution 1**
 - (b) Dato’ Chan Choon Ngai **Resolution 2**
3. To consider and, if thought fit, to pass the following resolution pursuant to Section 129(6) of the Companies Act, 1965:

“THAT Datuk Oh Chong Peng, who has attained the age of over seventy (70) years, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting.” **Resolution 3**
4. To appoint Messrs. KPMG as Auditors of the Company in place of the retiring Auditors, Messrs. PricewaterhouseCoopers, and to authorise the Directors to fix their remuneration. **Resolution 4**

Notice of Nomination pursuant to Section 172(11) of the Companies Act, 1965, a copy of which is annexed hereto and marked “Annexure A” has been received by the Company for the nomination of Messrs. KPMG, who has given their consent to act, for appointment as Auditors of the Company.

The Company hereby proposes the following ordinary resolution:

“THAT Messrs. KPMG, having consented to act, be appointed Auditors of the Company in place of the retiring Auditors, Messrs. PricewaterhouseCoopers for the financial year ending 31 December 2016 at a remuneration to be fixed by the Directors and to hold office until the conclusion of the next Annual General Meeting.”

NOTICE OF ANNUAL GENERAL MEETING

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following as Ordinary Resolutions:

Retention of Independent Director

5. "THAT subject to the passing of Resolution 3, approval be and is hereby given for the Company to retain Datuk Oh Chong Peng who has served as an Independent Non-Executive Director of the Company for more than nine (9) years in accordance with the Malaysian Code on Corporate Governance 2012."

Resolution 5

6. **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")**

"THAT, the Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 1 April 2016) 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 1 April 2016 which are necessary for the British American Tobacco Malaysia Group's day to day operations, be and is hereby renewed and approved, provided that:

Resolution 6

- (i) the transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders to the Company; and
- (ii) disclosure of the aggregate value of the transactions conducted during a financial year will be made in the annual report for the said financial year,

AND THAT the authority conferred by such renewed mandate shall continue to be in force until:

- (i) the conclusion of the next Annual General Meeting ("AGM") of the Company following the AGM at which the Proposed Renewal of the Recurrent RPT Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM the mandate is again renewed;
- (ii) the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 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 RPTs Mandate.”

7. To transact any other business of the Company of which due notice shall have been given.

By Order of the Board

DAVID CHIAM JOY YEOW

LS0009734

Secretary

Petaling Jaya

1 April 2016

Notes:

1. Only members whose names appear in the Record of Depositors as at 15 April 2016 (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 & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than forty-eight (48) hours before the time set for holding the Meeting or any adjourned meeting thereof.

NOTICE OF ANNUAL GENERAL MEETING

8. Registration of Members/Proxies

Registration of Members/Proxies attending the Meeting will commence at 8.00 a.m. on the day of the meeting and will close at 10.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration.

9. Explanatory Notes on Ordinary Business

Note A

The Audited Financial Statements for the financial year ended 31 December 2015 under Agenda 1 are meant for discussion only in accordance with the provisions of Section 169(1) and (3) the Companies Act, 1965, and it does not require a formal approval of the shareholders. Hence, this agenda will not be put forward for voting.

Resolution 3 – Re-appointment of Director who has attained the age of over seventy (70) years pursuant to Section 129(6) of the Companies Act, 1965

Datuk Oh Chong Peng, who has attained the age of over seventy (70) years, has offered himself for re-appointment as Director of the Company and to hold office until the next annual general meeting. The re-appointment is only effective if this proposed resolution is passed by a majority of not less than three-fourths of such members of the Company who are entitled to vote in person or, where proxies are allowed, by proxy at this forthcoming Annual General Meeting.

Resolution 4 – Appointment of External Auditors

The Notice of Nomination from the major shareholder pursuant to Section 172(11) of the Companies Act, 1965, a copy of which is annexed in the Annual Report, has been received by the Company for the nomination of Messrs. KPMG, who has given their consent to act, for appointment as Auditors of the Company.

10. Explanatory Notes on Special Business

Resolution 5 – Retention of Independent Director pursuant to the Malaysian Code on Corporate Governance 2012

Datuk Oh Chong Peng was appointed as Non-Executive Director of the Company in January 1998, has served for more than nine (9) years. He has met the independence guidelines as set out in Chapter 1 of Bursa Malaysia Securities Berhad Main Market Listing Requirements. The Board has determined that Datuk Oh Chong Peng is able to bring independent and objective judgements to the Board as a whole and strongly recommended him be retained as Independent Non-Executive Director of the Company.

Resolution 6 – Recurrent Related Party Transactions Mandate

This proposed resolution, if passed, will enable British American Tobacco Malaysia Group to enter into any of the recurrent related party transactions of a revenue or trading nature which are necessary for the British American Tobacco Malaysia Group's day to day operations, subject to the transactions being in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Further information on the Proposed Renewal of the Recurrent RPTs Mandate is set out in the Circular to Shareholders dated 1 April 2016, which is despatched together with the Company's 2015 Abridged Annual Report.

Annexure A



The Board of Directors
British American Tobacco (Malaysia) Berhad (the "Company")
Virginia Park, Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan
Malaysia

Handelsweg 53 A,
1181 ZA Amstelveen,
The Netherlands

13th January 2016

Dear Sirs

NOTICE OF NOMINATION OF MESSRS. KPMG AS AUDITORS

Pursuant to Section 172(11) of the Companies Act, 1965, we, being the major shareholder of the Company, hereby give notice of our intention to nominate the appointment of Messrs. KPMG as Auditors of the Company in place of the retiring auditors, Messrs. PricewaterhouseCoopers and of our intention to propose the following resolution as an ordinary resolution to be tabled at the forthcoming Fifty-Fifth (55th) Annual General Meeting of the Company:

"THAT Messrs. KPMG, having consented to act, be appointed as Auditors of the Company in place of the retiring auditors, Messrs. PricewaterhouseCoopers for the financial year ending 31 December 2016 at a remuneration to be fixed by the Directors and to hold office until the conclusion of the next Annual General Meeting."

Yours faithfully

NAME: J E P Bollen
DESIGNATION: Director
BRITISH AMERICAN TOBACCO HOLDINGS (MALAYSIA) B.V.

British American Tobacco Holdings (Malaysia) B.V. Registered in Amsterdam no. 33251114
A member of the British American Tobacco Group

ADMINISTRATIVE DETAILS FOR BRITISH AMERICAN TOBACCO MALAYSIA FIFTY-FIFTH ANNUAL GENERAL MEETING

Date/Day : 25 April 2016, Monday
Time : 10.00 a.m.
Place : Ballroom 1, 1st Floor, Sime Darby Convention Centre,
1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur.

Registration

1. Registration will start at 8.00 a.m. at the entrance of Ballroom 1, 1st Floor, Sime Darby Convention Centre and will close at **10.00 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. Shareholders/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 15 April 2016** (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 2015 must be completed and signed, sent and delivered to the Company's Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur by 23 April 2016 at 10.00 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.

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 revokes the proxy;
 - ii. notice of revocation of the Form of Proxy or the authority served by 23 April 2016 at 10.00 a.m.;
 - iii. appointing new proxy by depositing a new Form of Proxy in favour of another person by 23 April 2016 at 10.00 a.m.; or
 - 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 & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur by 23 April 2016 at 10.00 a.m.

Annual Report 2015

17. The Annual Report 2015 is available on Bursa Malaysia Securities Berhad's website at www.bursamalaysia.com under Company Announcements and also at the British American Tobacco Malaysia's website at www.batmalaysia.com

Other Meeting Details

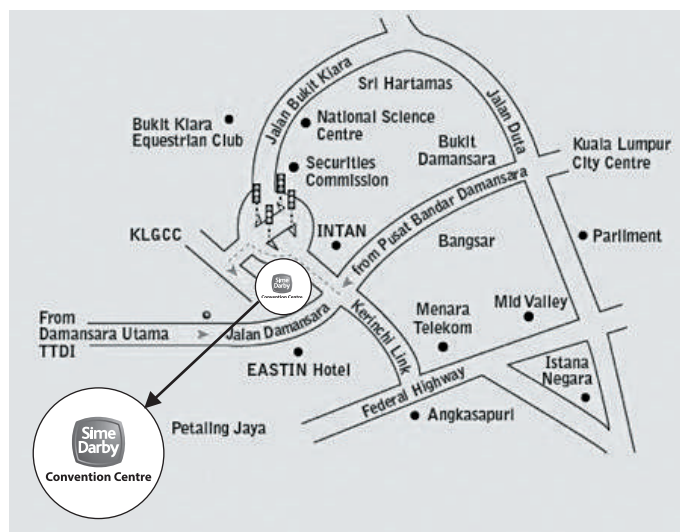
18. Free WIFI is available at the Sime Darby Convention Centre for the convenience of shareholders/proxies.
19. Indoor and outdoor parking is freely available at the Sime Darby Convention Centre (subject to availability).
20. A medical doctor is available on standby for any emergency. Please refer to 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 +60(3) - 7491 7100 or the following person during office hours:

Name : Ms. Lim Lay Kiow
 Share Registrar : Tricor Investor & Issuing House Services Sdn Bhd
 Telephone number : +60(3) – 2783 9299

Location map to Sime Darby Convention Centre



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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-Fifth Annual General Meeting of the Company, to be held at Ballroom 1, 1st Floor, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Monday, 25 April 2016 at 10.00 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
Resolution 1	Re-election of Stefano Clini who retires by rotation in accordance with Articles 97 (1) and (2) of the Company's Articles of Association.		
Resolution 2	Re-election of Dato' Chan Choon Ngai who retires by rotation in accordance with Articles 97 (1) and (2) of the Company's Articles of Association.		
Resolution 3	Re-appointment of Datuk Oh Chong Peng who retires pursuant to Section 129 of the Companies Act, 1965.		
Resolution 4	Appointment of Messrs. KPMG as Auditors of the Company in place of Messrs. PricewaterhouseCoopers and to authorise the Directors to fix their remuneration.		
Resolution 5	Re-election of 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.		
Resolution 6	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 2016

Signature(s) of Member(s)/Common Seal

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

	No. of Shares	Percentage
Proxy 1		
Proxy 2		
TOTAL		100

Notes:

1. Only members whose names appear in the Record of Depositors as at 15 April 2016 (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 & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 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 8.00 a.m. on the day of the meeting and will close at 10.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration.

Please fold here to seal

affix
postage
stamp

The Share Registrar
Tricor Investor & Issuing House Services Sdn Bhd
(Company No. 11324-H)
Unit 32-01, Level 32, Tower A,
Vertical Business Suite, Avenue 3, Bangsar South,
No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia.

Please fold here to seal



**BRITISH AMERICAN
TOBACCO**
MALAYSIA

British American Tobacco (Malaysia) Berhad (4372-M)



Virginia Park, Jalan Universiti,
46200 Petaling Jaya, Selangor,
Malaysia



+60 (3) 7956 6899/7491 7100



+60 (3) 7955 8416



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