

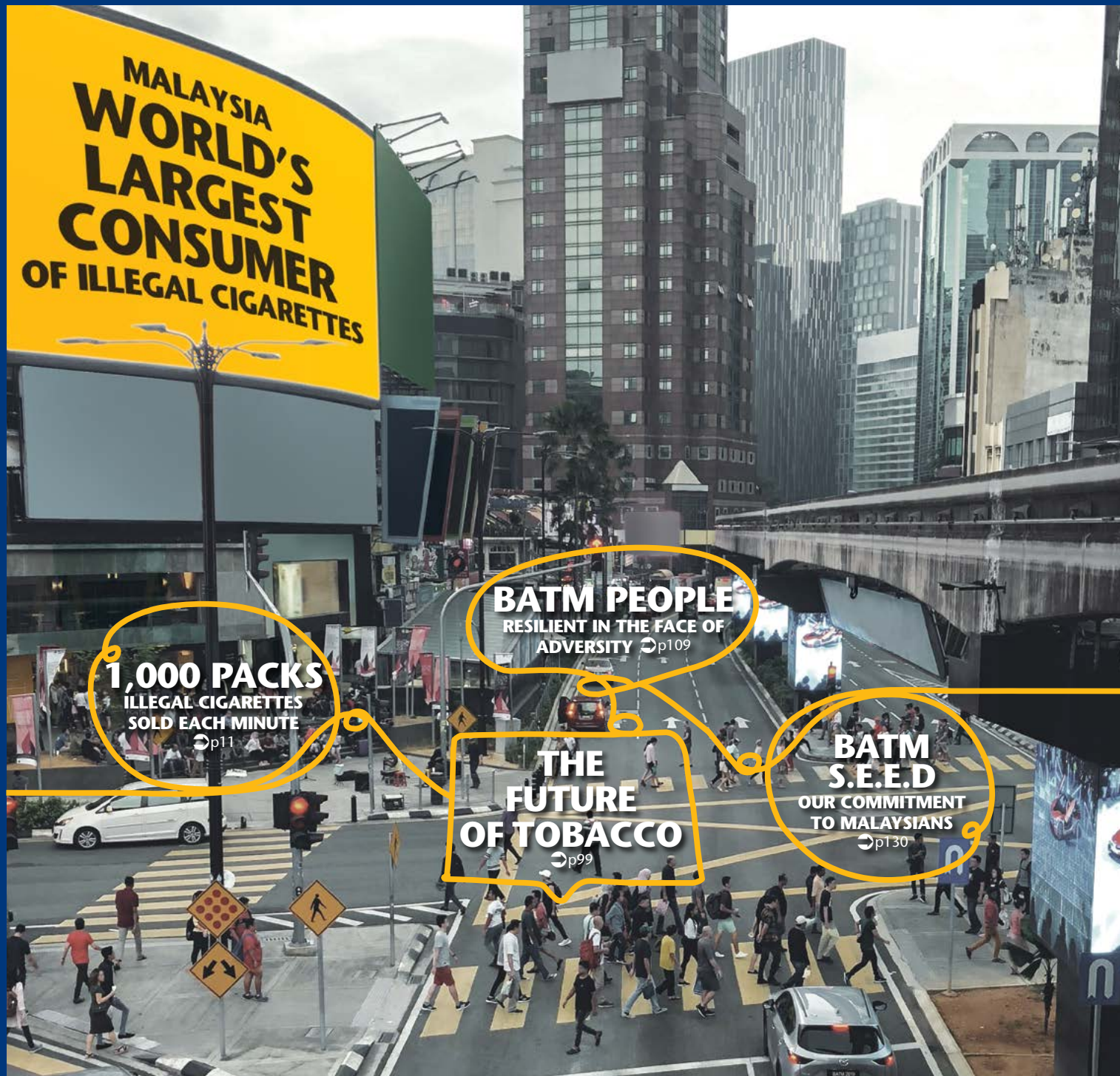
The Annual Report 2019

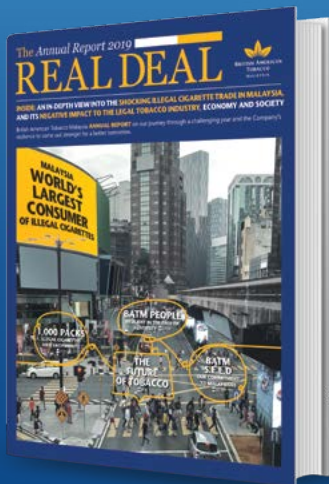
REAL DEAL



INSIDE: AN IN-DEPTH VIEW INTO THE SHOCKING ILLEGAL CIGARETTE TRADE IN MALAYSIA, AND ITS NEGATIVE IMPACT TO THE LEGAL TOBACCO INDUSTRY, ECONOMY AND SOCIETY

British American Tobacco Malaysia **ANNUAL REPORT** on our journey through a challenging year and the Company's resilience to come out stronger for a better tomorrow.





The Annual Report 2019 REAL DEAL

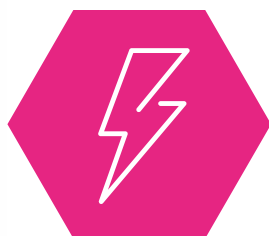
British American Tobacco Malaysia has invested heavily in this country for over a century, building a business that has created value for shareholders, employees, business partners and society as a whole. Today, the Company faces an unprecedented threat from a growing illegal cigarette trade. The Real Deal aims to establish an honest narrative about operating in this highly regulated industry and our efforts in ensuring the sustainability of our business for a better tomorrow.



Scan and download the
full copy of the
Annual Report 2019 here

OUR Ethos

At British American Tobacco, our efforts in securing a better tomorrow requires the organisation to adopt new ways of working to be simpler, stronger and faster. To that effect, our ethos are rooted in the following five behaviours.



BOLD

- dreaming big and developing innovative ideas
- making tough decisions quickly and proudly, while standing accountable for them
- being resilient & fearless



FAST

- setting a clear direction and moving fast to achieve them
- keeping it simple, and focusing on outcomes
- learning quickly and always sharing knowledge



EMPOWERED

- set the context for our teams and trust their expertise
- challenge each other and once in agreement, we commit collectively
- collaborate and hold each other accountable to deliver



DIVERSE

- value different perspectives
- build on each other's ideas, knowledge and experiences
- challenge ourselves to be open-minded recognising unconscious bias



RESPONSIBLE

- take action to reduce the health impact of our business
- ensure the best quality products for our consumers, the best place to work for our people and the best results for our shareholders
- act with integrity, never compromising our standards and ethics



59th

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

ANNUAL GENERAL MEETING

Venue

Connexion Conference & Event Centre
Nexus 2 & 3, Level 3A, Nexus
Bangsar South City
No. 7, Jalan Kerinchi
59200 Kuala Lumpur

Date & Time

Tuesday // 21 April 2020 // 9.30 a.m.

Website

www.batmalaysia.com



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Overview

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FEATURE STORY:

How Malaysia Became the World's Largest Consumer of Illegal Cigarettes



EDITOR'S Letter

Dear Shareholders

British American Tobacco (Malaysia) Berhad ("the Company") is at a critical juncture. The Company is operating in a pressurised environment caused by the rising levels of cheap contraband cigarettes and illegal vaping.

This has eroded the legal market share of tobacco players, and consequently, the Company's revenue and profitability took a severe hit in 2019. The Company's share price closed the year at less than half its price at the beginning of 2019.

The Real Deal Laid Bare

In this year's annual report, we are laying bare *The Real Deal* for shareholders. We will zoom into the realities of the Company operating as a legal player in a market where almost seven out of 10 cigarettes sold are illegal. The Chairman and Managing Director reinforced this reality when they sat down with us to share their message to shareholders.

Our conversation with the Managing Director in the Management Discussion and Analysis section will also give shareholders a clear picture of the challenges we faced during the year, which led the Company to make difficult decisions in ensuring sustainability. This is the Real Deal, and it was necessary to preserve profitability and dividend pay-outs, while investing in new skills and processes in order to secure a sustainable future for the Company.

Rounding up the discussion on illegal cigarettes, the feature, "*How Malaysia Became the World's Largest Consumer of Illegal Cigarettes*," sets out how the Company has fought hard against the illegal cigarette trade throughout 2019.

Tobacco Hall of Shame

The Real Deal also includes a feature story of how Malaysia gained the dubious honour of being the #1 global market for illegal cigarettes. We delve into how these syndicates operate and the threat they pose to our society. Shockingly, Malaysia has also gained an international reputation of being an "exporter" of illegal cigarettes and can now also claim the 'honour' of being the #1 supplier of illegal cigarettes sold in Australia.

Future of Tobacco

Sometimes challenges bring out the best in us. This was certainly the case for the Company and was evident in our commitment to find new and innovative ways to propel the business to a better tomorrow. This is at the centre of the "*The Future of Tobacco for a Better Tomorrow*" feature which offers an overview into the Company's efforts to turnaround its business to ensure long-term sustainability. The piece explains the Company and British American Tobacco p.l.c Group's efforts to lead change in the tobacco industry through next generation products.

Despite the business challenges faced, the Company continues to have an unwavering commitment to attracting the best talents and nurturing leaders. We have also been passionate about giving back to society through meaningful community investments. Our efforts in these areas are set out in the "Winning Organisation" and "Sustainability" sections.

Join The Fight

The Real Deal provides you with a front-row seat of our journey throughout 2019. It is meant to offer an eye-opening perspective of the operating conditions, constraints, challenges and opportunities faced by a legitimate player in a market.

We urge shareholders to join us in our fight against illegal tobacco. Help us spread the word of the realities and dangers that the illegal tobacco trade poses to the Company, consumers, investors and Malaysians as a whole. We look forward to your support in helping us move the needle against illegal cigarettes.

Thank you.

The Editorial Team

CORPORATE Profile

British American Tobacco (Malaysia) Berhad (“the Company”) is Malaysia’s most established tobacco company with approximately 54 percent market share in the legal market. The Company envisions to be the “world’s best at satisfying consumer moments in tobacco and beyond”.

Established in 1912, the Company’s legacy spans more than 100 years. The Company’s high-quality tobacco brands cater to a diverse set of consumer needs. They include DUNHILL, PETER STUYVESANT, PALL MALL, ROTHMANS, KENT and BENSON & HEDGES – world-famous market leaders with a rich heritage in Malaysia.

The Company grew from strength to strength combining local expertise and talent, consumer insights and market knowledge with British American Tobacco p.l.c. Group’s (“the Group”) international best practices, and advanced research and development.

Today, the Company together with Commercial Marketers and Distributors Sdn. Bhd., Rothmans Brands Sdn. Bhd., Tobacco Importers and Manufacturers Sdn. Berhad, Commercial Marketers and Distributors Sdn. Bhd. (Brunei) (“its Subsidiaries”) are on a journey of revolutionising tobacco for a better tomorrow, in alignment with the global ambition of the Group. While cigarettes continue to be its main product, the Company is committed to a multicategory approach. The commitment is marked by investments to introduce potentially reduced risk products (“PRRP”) into its portfolio in Malaysia.



The Company and its Subsidiaries has leveraged on the Group’s research and development on tobacco harm reduction, and the development of potentially reduced risk tobacco and nicotine products. In 2019, the Company introduced Tobacco Heating Product, GLO™, and its tobacco sticks, NEO™ to the market.

The Company has been listed on the Malaysian stock exchange since 1961. The Company is a part of British American Tobacco p.l.c. Group’s investments in Malaysia, which also includes the British American Tobacco Asia Pacific Finance Shared Services, the British American Tobacco Asia Pacific Regional Product Centre and the British American Tobacco Global Services Delivery.

The Company is also active in giving back to the community through various corporate social investments via the British American Tobacco Malaysia (“BATM”) Foundation through its outreach platform the British American Tobacco Malaysia Social Engagement, Empowerment and Development (“BATM S.E.E.D”) platform. BATM S.E.E.D was established in 2018 as part of our commitment towards building a fair society with a primary objective to provide

social engagement, empowerment and fair opportunities to disenfranchised communities.

The Company and its Subsidiaries is an employer of choice with 452 direct employees and 1657 indirectly via external distributors and dedicated shared services. The Company has an outstanding track record garnering multiple awards for developing Malaysian talent. Our people thrive in a work environment where we are committed to building a fair society. At the workplace, diversity is treasured, positive action is encouraged, freedom of choice is respected, and fairness is expected.

The Company has adopted a bold and vocal stance against illegal tobacco in Malaysia. Illegal tobacco is a grave national issue that impacts Malaysia’s economy, revenues and reputation. It is also linked to high levels of corruption, criminal activity and higher incidences of youth smoking. The Company works tirelessly to communicate issues around illegal tobacco to stakeholders and the general public with the aim of advocating for a sustainable regulatory framework for the tobacco industry.

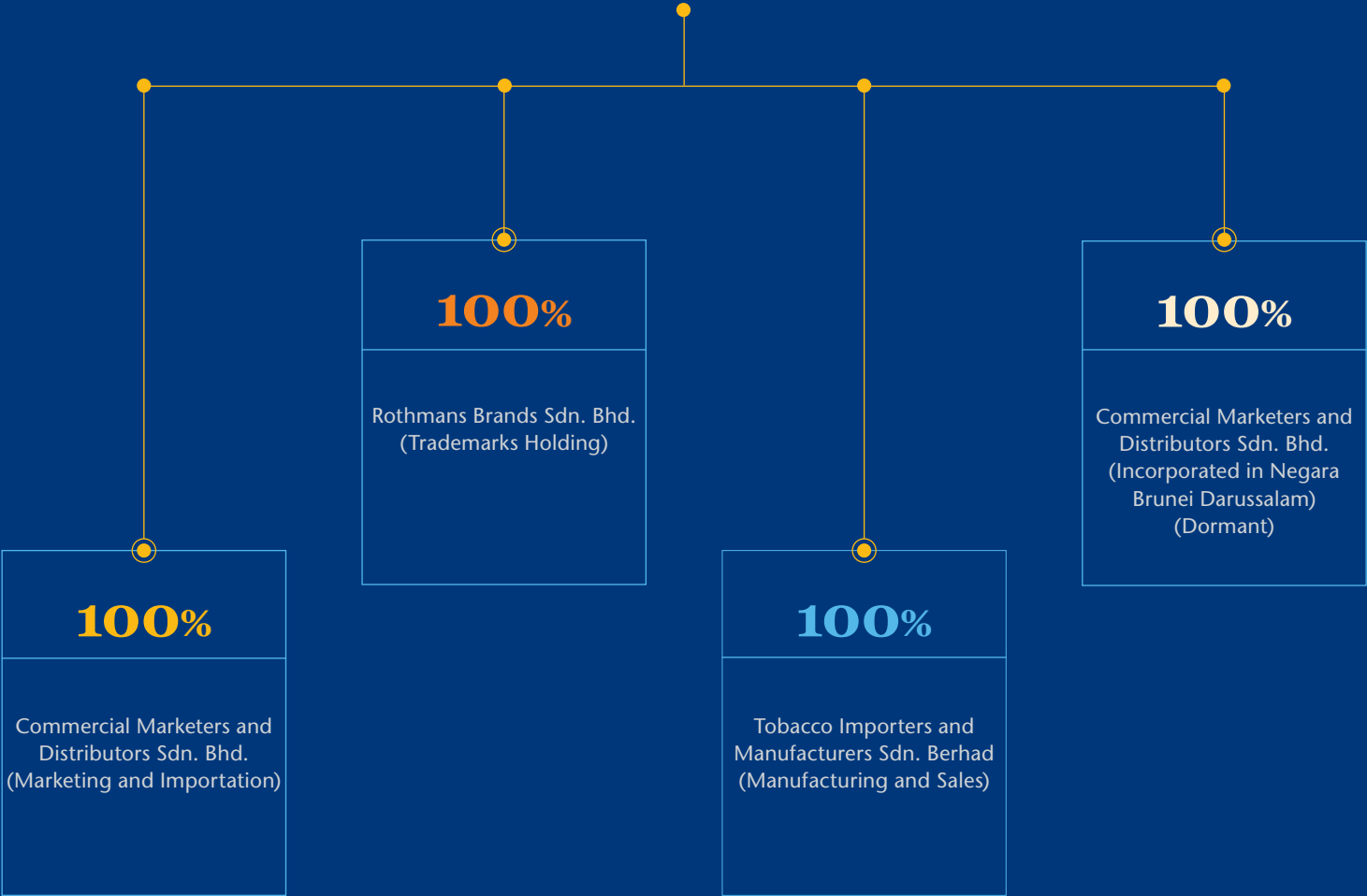
CORPORATE PROFILE



CORPORATE
Structure



BRITISH AMERICAN
TOBACCO
MALAYSIA



OVERVIEW OF British American Tobacco Malaysia

At British American Tobacco Malaysia, we stand for being more than just a leading and legal tobacco company in Malaysia.

We are recognised as a respectable corporate citizen with an excellent track record in corporate governance and are known as a leading employer with a multitude of awards and recognitions for best-in-class talent development. Apart from being a responsible corporate citizen, we also understand the importance of community development and British American Tobacco Malaysia has been an active contributor to the community we operate in through our various corporate social investments since our inception.

Years of History in Malaysia

100+

Employees

452

Market Share

54.4%

Earnings Per Share (sen)

121

Certified Top Employer



RESULTS AT A Glance

Revenue

RM2,509 mil

Shareholder's Fund

RM389 mil

Profit Before Tax

RM462 mil

Net Profit

RM346 mil

Net Returns on Shareholder's Fund

89%

Net Dividend Per Share

RM118 sen

MESSAGE TO Shareholders

Delivering Value Despite Challenges

This year, we sit down with Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat, Chairman of British American Tobacco Malaysia ("the Company") and Erik Stoel, the Managing Director of the Company as they share their honest views on how the company performed during the year under review and our plans moving forward.

So, what's the 'Real Deal' for British American Tobacco Malaysia?

Tan Sri: Well, the real deal is that it's not a pretty picture right now for a legal tobacco company like us. The levels of illegal cigarettes are at an all-time high of 63% and this is further complicated by the rise of illegal vaping by 9% which eroded into legal tobacco volumes.

Erik: 2019 was certainly a 'rollercoaster' year for the Company. Aside from being under constant siege from illegal cigarettes, we faced additional challenges from regulatory authorities which resulted in an extended delay to the launch of GLO™ our Tobacco Heating Product ("THP") and a surprise U-turn decision by the Ministry Of Health ("MOH") recategorising our mini-cigars (DUNHILL HTL-Cigarillo) as a cigarette. This resulted in a revocation of approval for sale as a non-cigarette tobacco product and dealt us a major setback in the fight against illegal cigarettes.

It seems like the industry is going from bad to worse – how did it get to this point? Why does Malaysia have such high levels of illegal cigarettes?

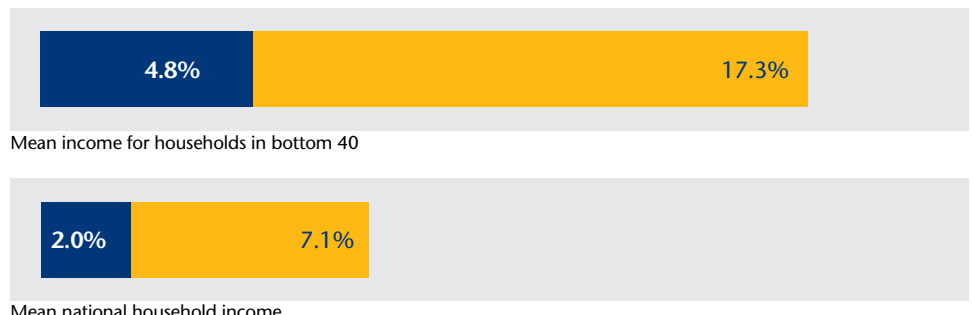
Tan Sri: Since the surprise excise increase on tobacco in 2015, the Company's performance has been greatly affected by diminishing legal volumes year-after-year due to the unchecked and uncurbed rise of illegal tobacco. While it is not uncommon for cheap contraband products to exist alongside legal, in the Malaysian context – the extraordinarily high levels of illegal cigarettes are unnatural and highly alarming.

Erik: The reason why the levels of illegal cigarettes are so high is because legal cigarettes are expensive. We're not just the only company facing this industry. In fact, affordability is the main issue that ALL legitimate tobacco companies in Malaysia are facing. Since excise duties skyrocketed in 2015, more and more Malaysians have turned to cheaper illegal cigarettes, fuelling a runaway black market. The easy access and low cost of these illegal cigarettes continue to turn consumers away from legitimate products, more so as the cost of living continues to rise.

Legal cigarettes have become unaffordable for the lowest income household

Share of household daily income required to purchase a pack of cigarettes by income level, 2016

Legal pack at average weighted price Average illegal price



0 5 10 15 20
SHARE OF DAILY INCOME

Source: Oxford Economics



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

ERIK STOEL
Managing Director

MESSAGE TO SHAREHOLDERS

Against this grim scenario, how did the Company perform in 2019?

Erik: The combination of legal market contraction and downtrading led to a decline of 11.7% in the Company's volume as well as a 11.1% decline in our revenue compared with last year. Consequently, our profit from operations fell by 24.9% to RM478 million. Despite the tough conditions, we maintained our position as the market leader in the Factory Manufactured Cigarettes ("FMC") segment with a 54% market share of total legal tobacco volumes.

The Company's Premium brand DUNHILL remains stable in the premium segment despite impacts from Sales and Service Tax ("SST") and increasing affordability stretch on consumers leading to downtrading to the Value For Money ("VFM") segment and illegal cigarettes. The business recorded growth within the VFM segment as it pivoted attention from the Aspirational Premium segment to focus on building VFM brand ROTHMANS into growth, quarter-on-quarter, through the year.

Our profit from operations and revenue took a hit, but the results would have been worse if not for the hard calls made to rationalise investments and aggressively manage our cost base in order to optimise on expenses.

2019 also marked the Company's entry into the Potentially Reduced Risk Product ("PRRP") category with the launch of the Group's flagship THP GLO™ and NEO™. This made Malaysia the first market in Southeast Asia to offer GLO™ to technology savvy consumers seeking alternative tobacco products.

But these efforts have not paid off the reality is that the Company's share price is decreasing.

Erik: The cold hard truth is that legal market volumes have experienced a 40% contraction in 2019 as compared to 2015. Today's legal tobacco volumes only comprise 37% of the entire industry volume. The rest totally comprises cheap, contraband cigarettes or cigarettes with fake tax stamps and illegal vaping!

But let's look at the positives. The positive is that despite the strong external headwinds, we have managed to retain the lion-share of what's leftover of the legal tobacco volumes as well as 90% of profit pool. This is reflective of our grit and resilience to stay firm despite constricting legal volumes.

Tan Sri: The second positive is that we have and continue to uphold our commitment to you, our shareholders. As with previous years, we have not shirked on delivering value and declared a dividend for shareholders of 118 sen per share for the year.

I must stress that the low share price is not a fair reflection of the strength and quality of our Company. This dividend pay-out is achieved on the back of aggressive cost management and our strong will to thrive despite the lack of a level playing field. If anything, the recent share price development is a loud clarion call to the government that action must be taken before it's too late.

Given this landscape, did the Company undertake any cost-saving measures?

Erik: Yes. It wasn't easy but we arrived at the difficult decision to reduce our workforce by 20%. This cost-based initiative will impact approximately 100 roles and be completed by the first quarter of 2020. This is the largest reorganisation for us since we closed our factory in 2017.

This reorganisation not only aligns with the realities of the prevailing market conditions but also ties in with global efforts undertaken by the Group to simplify our ways of working and unlock costs that can then be reinvested behind new categories comprising our THP GLO™ and vapour upon regulatory approvals being granted in market.

Beyond cost-saving measures, did Company do anything differently to tackle its business issues?

Erik: Definitely. In 2019, we changed out our playbook and opted to be bolder, louder and more vocal on structural market issues. Working in collaboration with British

American Tobacco p.l.c., we engaged a leading independent advisory group Oxford Economics to study the impact of the illegal cigarette trade on the Malaysian economy and its reputation. With this report, we could present facts and research-based positions to clearly show that illegal tobacco was a burning platform in Malaysia.

Beyond the Oxford Economics report we also provided several studies and recommendation papers on the solutions that the government could adopt in order to effectively crackdown on this black economy.

So, where is the Company going to go from here? Will the company pull out of the market?

Erik: We believe that Malaysia still has much more to offer. The good thing is, we are not ready to throw in the towel. Admittedly, a radical action plan is needed to tackle the illegal cigarette landscape. So, it only makes good business sense for us to invest in efforts to 'shift the needle' and looking into activities, initiatives that will help ensure the business's sustainability.

Tan Sri: If you ask me, being resilient is the key. That too, is the 'real deal'. We have to remember that the Company has a long-standing history in Malaysia. Even the famous ROTHMANS roundabout in Petaling Jaya was named after ROTHMANS of PALL MALL Malaysia (pre-merger in 1999) which was located close to the roundabout. This is not our first tough year.

Let's look to the future. What is your take on 2020?

Erik: In Malaysia, the tobacco industry's operating environment outlook remains bleak. In fact, we foresee the grip that illegal tobacco has on the country to remain the same, if not grow even larger in 2020. This pessimism stems from our observation that despite enforcement efforts, the levels of illegal cigarettes have not reduced.

The tobacco industry is at a critical juncture where urgent and radical government actions is required in tackling illegal trade. The Malaysian Government must be held

MESSAGE TO SHAREHOLDERS

accountable and radical actions such as demand driven solutions that includes a tax reform needs to be explored. Otherwise, we foresee that the entire legal industry will soon give way to illegal cigarette syndicates who do not abide by any laws nor pay taxes.

On our end, as the leading player within the legal category we have the will to thrive, and our growth ambition is built upon the expansion of our business model from a single to a multicategory approach. But this expansion will only come on the back of a stabilising legal market.

Tan Sri: Malaysia simply cannot 'wait and see' any longer and hope that things will get better. If we are to maintain long-term sustainable value creation for shareholders and stakeholders, we would definitely need a sustainable tobacco framework that protects the rights of legitimate, legal tax-paying companies.

It is clear that the government needs to deal a critical strike against illegal cigarettes. To that effect, radical and bold actions like reviewing current excise structures are imperative. Everyone – from shareholders, policymakers and bodies involved in the legal tobacco industry also need to work together towards a common goal. And for this, we need you, our shareholders to roll up your sleeves and join us as advocates for change and reform.

Any other updates that you can share with us from a Board level?

Tan Sri: We bid farewell to Datuk Oh Chong Peng, who retired from our Board in April 2019. Datuk Oh has served on our board for 21 years and it has been a pleasure working with him.

I would also like to announce Mr Erik Stoel's retirement from the company as the Managing Director of British American Tobacco (Malaysia) on 31 March 2020 after almost four years helming the company. We credit Mr Stoel for his tenacity and dedicated leadership in steering the Company through a supremely challenging period when the legal tobacco industry was left reeling from an unprecedented growth in the illegal tobacco trade.

Under Mr Stoel's exemplary stewardship, the Company has not only weathered a period of critical business transformation but has consistently delivered on its commitment to shareholders despite diminishing legal volumes. This feat has garnered Mr Stoel the respect not only of his peers and employees, but also of key stakeholders from within the investment, corporate and media community. We thank Mr Stoel for his dedication and fighting spirit to ensure a sustainable future for the business and for his collective years of service to the organisation.

Through his time spent in market, Mr Stoel has come to call Malaysia his home. We wish him well in his retirement here in Malaysia and in all future endeavours.

It is also my pleasure to welcome Mr Jonathan Reed who will take on the role of Managing Director on 1 April 2020 who will continue the fight in securing a sustainable future for the business.

The year also saw the departure of BATM's Finance Director, Mr Ricardo Guardo as his 3-year tenure in the country came to an end. Mr Guardo, who was appointed as Finance Director of the Company in 2016 had worked tirelessly to steer the Company through many challenges over the years and we thank Mr Guardo for his service and wish him well in his new role within the Group. Replacing Mr Guardo, we welcome Mr Ignacio Ballester who has been appointed to the role of Finance Director for the company since December 2019.

Erik: As mentioned earlier, a key reflection of the Company's reorganisation is a change to the marketing structure of the Company. This restructuring aligns with the need to build agile teams that are stronger, simpler and faster in responding to the pressures of the current environment. To that effect, the role of Marketing Director will be replaced by individual heads of marketing overseeing the Company's key business areas of Activations and New Categories, Trade Marketing and Distribution and Brands and Strategic Planning & Insights.

Consequently, Mr Karl Yap, Marketing Director will be stepping down from his position on 31 March 2020 and he will be replaced by Mr Christopher Lim Shean Yik (Activations and New Categories Director), Mr Damian William Bruty (Trade Marketing and Distribution Director) and Ms Genevieve Hiew (Brands and Strategic, Planning & Insights Director).

I would also like to take this opportunity to extend a warm welcome to another new member of the Leadership Team – Ms Felicia Teh Sook-Ching (Human Resources Director) who replaced Ms. Samanmali Chandrasiri.

BOTH: On behalf of the Board of Directors, we would like to thank the management team and all employees for their commitment and dedication throughout the year. Their efforts have enabled British American Tobacco Malaysia to maintain market leadership and deliver greater value to shareholders despite the pressurised environment.

We would also like to thank our shareholders, customers, distributors, business partners and other stakeholders for their support and confidence in the Company throughout 2019.

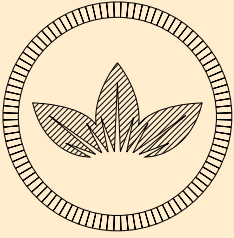
Thank you.



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



ERIK STOEL
Managing Director



HOW MALAYSIA BECAME THE WORLD'S LARGEST CONSUMER OF ILLEGAL CIGARETTES

Malaysians received a rude awakening when the country was named the #1 market for illegal cigarettes. What happened? How did we get there? It is time Malaysians learn how this dubious 'honour' was earned.

Many people are unaware that the illegal tobacco trade is a cash-rich business that has generated huge sums of profit for illegal players. By using various ways to work around the system, the syndicates have managed to capture 63 percent of the market, as reported in the Illicit Cigarettes Study ("ICS") by the Confederation of Malaysian Tobacco Manufacturers ("CMTM"). This shows that the illegal trade has not only grown, but also evolved over the years to ensure that their 'business' thrives, depriving Malaysia of an estimated RM5.1 billion in tax revenues yearly.

Here are five facts about the flourishing trade in illegal cigarettes:

1 November 2015 surprise excise opened the floodgates for cheap contraband cigarettes

In November 2015, the government announced a surprise excise duty hike on tobacco products by 40 percent. This raised the price of a pack of 20 cigarettes from RM13.80 to RM18.00. This 'overnight' increase in the price of cigarettes served as a catalyst for cheap, contraband cigarettes to flood into the country.

Left with limited choices, consumers soon turned to more affordable options in the form of cheap contraband cigarettes. Fast forward to 2019 and in just a short span of four years, illegal cigarettes have grown by

double-digits and now dominate industry volumes at a staggeringly high 63% (Source: Illicit Cigarettes Survey 2019).

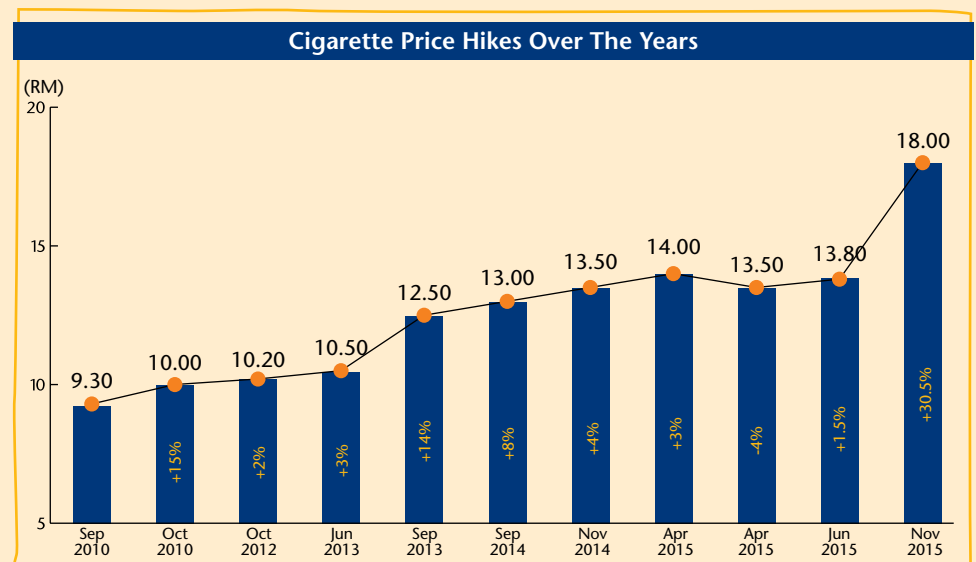
2 **Illegal cigarettes are the new 'norm'**
It is easy to see why illegal cigarettes have become the 'product of choice' for consumers. The price difference between a pack of illegal cigarettes at RM4.50 versus legal cigarettes at RM17.40 is significant. This phenomenon, coined as 'affordability stretch' explains that there is a connection between the proportion of daily income and the amount of money spent on a pack of cigarettes.

A study by Oxford Economics, which was commissioned by British American Tobacco p.l.c. Group, pointed out that for households

in the bottom 40 percent ("B40") of Malaysia's income distribution, a pack of legal cigarettes costs over 17 percent of their daily income. This is why when a pack of legal cigarettes competes directly with their illegal counterpart, the legal pack fails in the price factor straightaway.

The rapid acceptance of illegal cigarettes in the local market, especially by the B40 community, has made smoking illegal cigarettes a normal part of everyday life. Consumers have no qualms to be seen smoking an illegal brand as illegals make up almost two-thirds of the market.

This is the "new normal", with Malaysians purchasing 1,000 illegal cigarettes packs every minute.



Source: <https://www.imoney.my/articles/smokers-face-drastic-cigarette-price-hike-the-vaping-limbo>

3 Malaysia's public health policies are being compromised

The wide availability of cheap contraband and lack of enforcement have led to the rise in youth smoking. In 2016, a survey by the Institute for Public Health and the Ministry of Health Malaysia found that shockingly, 78.7 percent of the respondents had tried their first cigarette before they reach 14 years of age.

The New Straits Times cites a 2019 Malaysian Perception of Smoking and Vaping Survey by The Green Zebras research agency which concluded that 93 percent of Malaysians believe the increased availability of cheap illegal cigarettes in the country is a threat to the health of children, specifically minors under the age of 18.

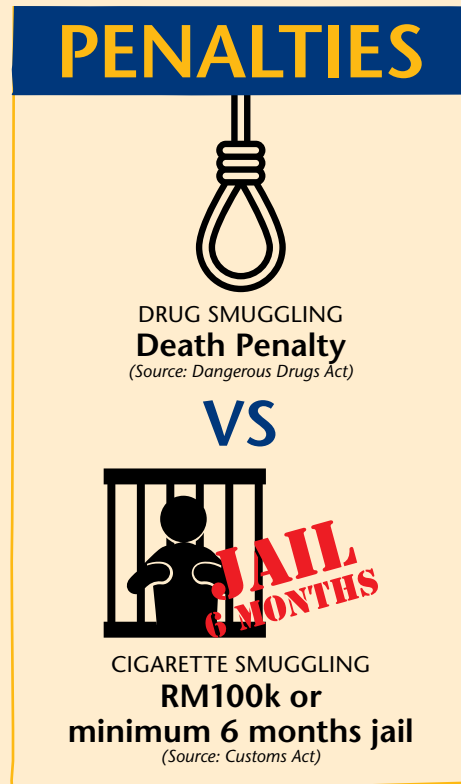
In the same survey, 49 percent of young adults between the age of 19 to 29 said it is easier to get illegal cigarettes today compared to five years ago. The survey also found that eight in ten Malaysians agree that easy access to cheap contraband cigarettes are undermining efforts to reduce the overall smoking rate.

4 Low risk, high returns – illegal cigarettes are a lucrative source of income for organised crime syndicates

The illegal cigarette trade has evolved into a sophisticated, well-organised crime. Through a wide network and vast funding, the syndicates are responsible for the sale of about 12 billion sticks in 2019 alone. (Source: New Straits Times, 21 November 2019: *The contraband crisis: 12 billion illicit cigs to be consumer this year*)

Illegal cigarettes are a lucrative source of income for organised crime syndicates simply because when compared to drugs or human trafficking, the penalties associated with the smuggling of illegal cigarettes are relatively light. This makes smuggling illegal cigarettes a low risk, high return criminal enterprise.

As such, these criminals are willing to go to extreme lengths to protect and perpetuate their lucrative source of income. This includes bribery and intimidation of law enforcement agencies as well as violent crimes such as grievous harm and even murder of those who stand in their way. (Source: The Star, 10 October 2016: *Customs officer in tonto attack case dies*) Often the proceeds from illegal cigarettes go towards funding more criminal activities like corruption, smuggling of firearms and



terrorist activities. (Source: Oxford Economics: *The Economics of The Illicit Tobacco Trade in Malaysia*)

5 Agile criminal syndicates, getting ahead of the game with sophisticated use of the latest technologies

While it is common for the illegal trade to employ 'tontos' or informants who tip off the syndicates on enforcement activity, this is now supplemented by the use of the latest technology. In their efforts to evade authority, the syndicates now use Global Positioning Systems ("GPS") trackers and drones to monitor law enforcement agencies. (Source: Malaysiakini, 12 May 2019: *Tontos placing GPS devices on Aksem vehicles*)

Sales and marketing of illegal cigarettes are also done on the internet via social media sites, complete with home delivery services. This reinforces how illegal cigarettes have become the new normal. Malaysian consumers have no misgivings whatsoever about exposing their social media profiles, telephone numbers and home addresses to these organised crime syndicates.

CONCLUSION:

Illegal cigarettes are a burning platform in Malaysia

Earning the top spot in any field does not happen overnight. With the opportunity presented by the surprise excise tax hike in 2015, organised crime syndicates peddling in cheap contraband cigarettes were able to achieve a breakthrough and establish a foothold in the country.

Since then, the illegal players have been able to rapidly build up a base and their resources to expand their business and protect their 'market share'. This fact coupled with a standard textbook approach adopted by the government to cripple this black economy has resulted in a perfect storm that has catapulted Malaysia to the top spot for illegal market penetration among global tobacco markets.

The far-reaching impact of this black economy cascades far beyond the tobacco industry. Not only have legal players been forced to reconsider their investment in the country, the government's revenues, reputation and public health policies have also been undermined. On an international front, it has also been reported that these syndicates are now using Malaysia to export illegal cigarettes to Australia and other countries, spreading Malaysia's notoriety to other markets.

“

“In Australia, over 40 percent of illegal tobacco come from, or tranships through, Malaysia. We regularly see news reports in Australian dailies of Malaysians being arrested and jailed for illegal cigarette smuggling.”

Rohan Pike, former Australian Federal Police Officer and leader of Australian Border Force Tobacco Strike Team, in an article published in New Straits Times, 21 November 2019.

”

02

Leadership

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CORPORATE Information

Board of Directors

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

PSM, SPSK, SSAP, SPTJ, SPDK, DPCM, DSAP, DIMP, KMN, AMN
Independent Non-Executive Director
(Chairman)

Hendrik Stoel

Non-Independent Executive Director
(Managing Director)

Datuk Zainun Aishah binti Ahmad

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

Dato' Chan Choon Ngai

DSNS
Independent Non-Executive Director

Eric Ooi Lip Aun

Independent Non-Executive Director

Datuk Christine Lee Oi Kuan

DPSM
Non-Independent Non-Executive Director

Ignacio Ballester

Non-Independent Executive Director
(Finance Director)

Jonathan Darlow Reed

Non-Independent Non-Executive Director

Company Secretary

Sharifah Thaherah Syed Taha (MACS01735)

Tel : +60 (3) 2720 8150
Fax : +60 (3) 2720 8106
Email : sharifah_thaherah@bat.com

Registered Office

Level 19, Guoco Tower
Damansara City
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel : +60 (3) 2720 8188
Fax : +60 (3) 2720 8106
Email : bat_malaysia@bat.com

Company Website

www.batmalaysia.com

Share Registrar

Tricor Investor & Issuing House Services Sdn Bhd

Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Tel : +60 (3) 2783 9299
Fax : +60 (3) 2783 9222
Email : lay.kiow.lim@my.tricorglobal.com

Auditors

KPMG PLT

Chartered Accountants
Level 10, KPMG Tower
8, First Avenue
Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan
Tel : +60 (3) 7721 3388
Fax : +60 (3) 7721 3399

Principal Bankers

Citibank Berhad
Deutsche Bank (Malaysia) Berhad
HSBC Bank Malaysia Berhad
Malayan Banking Berhad
Sumitomo Mitsui Banking Corporation Malaysia Berhad
Standard Chartered Bank Malaysia Berhad

Stock Exchange Listing

Main Market of Bursa Malaysia Securities Berhad

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

BOARD OF Directors



Front (From Left) :

Datuk Christine Lee Oi Kuan
Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat
Datuk Zainun Aishah binti Ahmad
Dato' Chan Choon Ngai


Back (From Left) :


Eric Ooi Lip Aun
Jonathan Darlow Reed
Hendrik Stoel
Ignacio Ballester


PROFILE OF DIRECTORS

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

PSM, SPSK, SSAP, SPTJ, SPDK, DPCM, DSAP,
DIMP, KMN, AMN

 Age : 68
Gender : Male
Nationality : Malaysian

 Independent Non-Executive Director
Chairman

 Date Appointed to the Board
1 January 2017

Qualifications:

- Degree in Economics from University of Malaya
- Masters in Public Administration from University of Southern California, USA
- Certificate in International Financial Administration (USA)
- PhD (Honorary) (International Relation) from Limkokwing University of Creative Technology, Cyberjaya
- PhD (Honorary) (Management) from Infrastructure University Kuala Lumpur

Membership of Board Committee:

- Nomination and Remuneration Committee (Chairman)

Number of Board Meetings Attended in the Financial Year:

- 5/5

Present Directorship(s):

- Nil

Other Public Company:

- Nil



Working Experience:

- Tan Sri Dato' Seri (Dr.) Aseh is active in community service with his roles as Trustee and Chairman of Football Association of Malaysia Vetting, Monitoring and Integrity Committee, Chairman of Yayasan Pesara Kerajaan and President of Tiara Golf & Country Club, Melaka. He is also the Chairman of Infrastructure University Kuala Lumpur. He has also been active in the Administrative and Diplomatic Service and was its longest serving President. He was the Chairman of the University Council of Limkokwing University of Creative Technology (2008-2017), Social Security Organisation (2017-2018) and MWE Holdings Berhad (2008-2018). He was also a board member of Lion Diversified Holdings Berhad (2007-2019).
- Tan Sri Dato' Seri (Dr.) Aseh joined the civil service at Ministry of Finance, Malaysia in March 1974 and subsequently held various positions as Assistant Secretary, Secretary and Principal Assistant Secretary of the Education Services Commission in Kuala Lumpur, Sarawak and Sabah.
- From 1984, he served in the Ministry of Home Affairs, Malaysia in various positions including Principal Assistant Secretary of the Security and Police Affairs Division; Undersecretary of the Security and Preventive Division, and the Management Division; and Deputy Director General and Director General of the Department of Immigration, Malaysia.
- In February 2001, Tan Sri Dato' Seri (Dr.) Aseh was appointed Secretary General of the Ministry of Home Affairs, Malaysia, a post he held until his retirement on 22 October 2007.
- Post retirement from civil service, he held the position of Chairman of Pos Malaysia from July 2008 to 2011 and President of Putrajaya Corporation from August 2012 to July 2015. In September 2015, Tan Sri Dato' Seri (Dr.) Aseh was appointed non-executive Chairman of Fujitsu (Malaysia) Sdn. Bhd.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF DIRECTORS

Hendrik Stoel (Erik)

Age : 51
Gender : Male
Nationality : Dutch



Non-Independent Executive Director
Managing Director



Date Appointed to the Board:
1 June 2016

Qualifications:

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

Membership of Board Committee:

- Nil

Number of Board Meetings Attended in the Financial Year:

- 5/5

Present Directorship(s):

- Nil

Other Public Company:

- Nil

**Working Experience:**

- Erik was appointed as Managing Director of the Company in June 2016.
- Prior to his appointment, he was the Area Director North Asia Area, responsible for Korea, Taiwan, Hong Kong and Macau.
- He has now more than twenty (20) years of international experience in the British American Tobacco p.l.c. Group that spans across the London Head Office, Eastern Europe, Middle East and Asia Pacific markets. One of Erik's assignments was to serve as the Marketing Director of the Company in 2010-2012 before moving to Korea as British American Tobacco Korea's Marketing Director.

Note:

Erik retires as the Managing Director and resign as the Non-Independent Executive Director on 31 March 2020.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF DIRECTORS

Datuk Zainun Aishah binti Ahmad

KMN, PMP, DPMP, JSM, PJN



Age : 73
Gender : Female
Nationality : Malaysian



Senior Independent Non-Executive
Director



Date Appointed to the Board:
1 March 2012

Qualification:

- Bachelor of Economics degree from University of Malaya

Membership of Board Committees:

- Nomination and Remuneration Committee
- Risk Management Committee
- Audit Committee

Number of Board Meetings Attended in the Financial Year:

- 5/5

Present Directorship(s):

Listed Entities:

- Degem Berhad
- Berjaya Food Berhad
- Boustead Holdings Berhad

Other Public Company:

- Pernek Corporation Berhad



Working Experience:

- Datuk Zainun began her career with Malaysian Industrial Development Authority ("MIDA"), an agency under Ministry of International Trade and Industry in relation to the promotion and coordination of industrial development in the country where she worked for thirty-five (35) years.
- In her years of service, Datuk Zainun held various key positions in MIDA as well as in some of the country's strategic councils, notably her pivotal role as the National Project Director in the formulation of the first Malaysian Industrial Master Plan. She was the Deputy Director-General of MIDA for eleven (11) years and Director-General for nine (9) years before her retirement from MIDA in September 2004.
- Whilst in MIDA, she also sat on various committees or authorities at national level, including being a member of the Industrial Coordination Act Advisory Council, Defence Industry Council and National Committee on Business Competitiveness Council, Malaysia Incorporated and the National Project for Majlis Penyalarsan Perindustrian before retiring in September 2004.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF DIRECTORS

Dato' Chan Choon Ngai

DSNS



Age : 64
Gender : Male
Nationality : Malaysian



Independent Non-Executive Director



Date Appointed to the Board:
1 February 2011

Qualification:

- Degree in Mechanical Engineering from University of Birmingham, United Kingdom

Membership of Board Committees:

- Nomination and Remuneration Committee
- Risk Management Committee
- Audit Committee

Number of Board Meetings Attended in the Financial Year:

- 5/5

Present Directorship(s):

- Nil

Other Public Company:

- Nil

**Working Experience:**


- Dato' Chan was appointed to the Board of the Company since 1 February 2011 after his retirement on 31 December 2010 as Operations Director of the Company. He was re-designated as Non-Independent Non-Executive Director of the Company on 1 January 2013 following the expiry of his contract of service on 31 December 2012. Subsequently, he was re-designated as Independent Non-Executive Director of the Company on 23 May 2016.
- He was appointed as the Operations Director in July 2000 of the Company and his portfolio expanded to include Business Development Services effective 15 November 2010.
- Dato' Chan joined Rothmans of Pall Mall (Malaysia) Berhad ("Rothmans Malaysia") in 1979, as a Production Management Trainee and held various positions in the production division including Production Executive Make and Pack (1980-1982), Personal Assistant to Rothmans International World Production Director, Rothmans International United Kingdom (1982-1984), Acting Factory Manager Rothmans Malaysia (1984-1986), Factory Manager Rothmans Malaysia (1986-1994) and Production Director (Designate) of Rothmans Malaysia (1994-1995). Dato' Chan was then appointed Production Director of the then Rothmans Malaysia in October 1995. He was a director of Tien Wah Press Holdings Berhad from May 1997 to June 2003.


Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF DIRECTORS

Eric Ooi Lip Aun

 Age : 62
Gender : Male
Nationality : Malaysian

 Independent Non-Executive Director

 Date Appointed to the Board:
1 March 2019

Qualifications:

- Member of the Malaysian Institute of Accountants
- Member of the Malaysian Institute of Certified Public Accountants

Membership of Board Committees:

- Risk Management Committee (Chairman)
- Audit Committee (Chairman)

Number of Board Meetings Attended in the Financial Year:

- 5/5

Present Directorship(s):

Listed Entity:

- Genting Berhad

Other Public Company:

- Nil



Working Experience:

- Eric was a partner of PricewaterhouseCoopers ("PwC"), Malaysia until his retirement in June 2015 after thirty eight (38) years of service. He joined the firm of Price Waterhouse (PW) (now known as PricewaterhouseCoopers) in 1977, qualified as a Certified Public Accountant in 1981 and was admitted to the partnership of PwC in Malaysia in 1991.
- In 2012, Eric assumed the responsibility to lead the middle market practices of the Asia Pacific cluster of PwC firms, focused on working with entrepreneurs, high net worth individuals and families.
- During the period from 2002 until 2008, Eric was the Assurance leader for PwC's regional grouping in Asia, and was a member of PwC's Global Assurance leadership team.
- In 1996, he assumed management and leadership positions for different parts of PW/PwC within Malaysia, across Asia and globally. He was PW Malaysia's leader for Audit and Business Advisory Services, and continued in the role following the merger between PW and Coopers & Lybrand to form PwC in 1998, a position he held through 2008.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF DIRECTORS

**Datuk Christine
Lee Oi Kuan**

DPSM



Age : 61
Gender : Female
Nationality : Malaysian



Non-Independent
Non-Executive Director



Date Appointed to the Board:
1 March 2012

Qualification:

- Degree in Law from University of Malaya

Membership of Board Committee:

- Nil

**Number of Board Meetings Attended in the
Financial Year:**

- 4/5

Present Directorship(s):

- Nil

Other Public Company:

- Nil

**Working Experience:**


- Datuk Christine was the Legal and External Affairs Director of the Company from September 2006 until her retirement in 31 December 2018. Datuk Christine was responsible for corporate and regulatory affairs and legal matters of the Company. She was re-designated as Non-Independent Non-Executive Director of the Company on 1 January 2019 after her retirement.
- Datuk Christine started out as the Head of Legal and Company Secretary at the Company in 2001. She was appointed to the Top Team, now known as the Leadership Team of the Company in 2006.
- Prior to joining the Company, Datuk Christine was the Head of Legal and Company Secretary of two public listed companies, Hong Leong Industries Berhad and Malaysian Pacific Industries Berhad.
- She was with the Attorney General's Chambers of Malaysia from 1983, serving in the Prosecution and Advisory and International Law Divisions.


Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF DIRECTORS

Ignacio Ballester

 Age : 46
Gender : Male
Nationality : Italian

 Non-Independent Executive Director
Finance Director

 Date Appointed to the Board:
9 December 2019

Qualifications:

- Degree in Business Administration from School of Economics University of Buenos Aires (Bs As, Argentina)
- Masters in Business Administration from IDEA, (Instituto para el Desarrollo Empresarial de la Argentina) Graduate School of Business (Bs As, Argentina)
- General Management Programme from INSEAD The Business School for the World (Fontainebleau, France)

Membership of Board Committee:

- Risk Management Committee

Number of Board Meetings Attended in

- N/A

Present Directorship(s):

- Nil

Other Public Company:

- Nil



Working Experience:

- From 2015 to 2019, Ignacio was the Area Finance Director, Chief Financial Officer (“CFO”) and Chief Information Officer for British American Tobacco South America Cluster where he lead the Finance & Information Technology departments for a group of seven companies/ countries (Argentina, Chile, Peru, Paraguay, Uruguay, Bolivia, and Ecuador). He was also the President of the Board for British American Tobacco Chile.
- Prior to his current role Ignacio was the Managing Director for BAT Aspac Service Centre, the Regional Shared Services Unit for Asia Pacific Region based in Kuala Lumpur from 2012 to 2015.
- He also served as Finance Director for B.A.T. (U.K. and Export) Limited and Regional Finance Manager in BAT East Europe, Africa, Middle East based in London, U.K. from 2008 to 2011.
- He was the Area CFO and Head of IT for BAT Southern African Markets (Stellenbosch, South African) from 2007 to 2008.
- He was the CFO and Head of IT for Mozambique (Maputo, Mozambique) from 2005 to 2007.
- After completing his management trainee program in 1998, he also served in various Finance positions with assignments in Argentina and Western Europe until 2005. He started his career in British American Tobacco Argentina as a Management Trainee under the Finance Management Trainee Program from 1996 to 1998.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF DIRECTORS

Jonathan Darlow Reed

Age : 49
Gender : Male
Nationality : British

Non-Independent
Non-Executive Director

Date Appointed to the Board:
20 February 2020

Qualification:

- Degree in Biochemistry from North East Surrey University

Membership of Board Committee:

- Nil

Number of Board Meetings Attended in the Financial Year:

- N/A

Present Directorship(s):

- Nil

Other Public Company:

- Nil

**Working Experience:**

- Prior to his appointment, Jonathan was the Marketing Director in British American Tobacco Middle East South Asia since 2017. He was responsible for the sales and marketing efforts across seventeen (17) countries, where he focused on building a strong portfolio, route to market and activation capabilities across the Area on both FMC and New Categories as well as simplifying ways of working to deliver performance and efficiency.
- He has more than twenty (20) years international experience in British American Tobacco p.l.c. Group spanning across multiple markets in Europe, Middle East, Asia and Australasia. Prior to his time in Dubai, he served in the Australasia market in 2015 and was responsible for driving the business turnaround in the South Pacific markets.
- He was the Head of Brands in Bentoel Indonesia (2010-2015) and Marketing Director North Europe in British American Tobacco Denmark (2006-2010).
- Jonathan started his career in British American Tobacco UK in 1997 and held various marketing positions across all disciplines.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

A CONVERSATION WITH Jonathan Reed

British American Tobacco Malaysia's Incoming Managing Director

Jonathan Reed succeeds Erik Stoen as the Managing Director of British American Tobacco Malaysia ("the Company") effective 1 April 2020. Prior to Malaysia, Jonathan was Marketing Director – Middle East South Asia for British American Tobacco p.l.c Group ("the Group") based in Dubai, United Arab Emirates. We caught up with the Londoner who is a 23-year veteran of the Group to find out more about his background and his plans for the Company.

EARLY DAYS AT BAT

Tell us about how you got started at British American Tobacco ("BAT").

After graduating from university with a Bachelor of Science in Biochemistry, I started work at BAT in the United Kingdom as a Sales Representative.

Within a year, I moved into customer management. These roles have helped me grasp the key skills of customer management and an understanding of consumer and shopper behaviour in relation to Fast-Moving Consumer Goods ("FMCG") marketing. These are critical skills to have in developing a sound foundation for the commercial side of the business.

Coming from a Science background, that's quite a leap into your current role. How did you get into Marketing?

Despite an education focused on the sciences, it became clear to me that I had a greater interest for business and commerce. The FMCG industry became my goal post-graduation. Naturally, British American Tobacco p.l.c. being a top 10 FTSE* company became my first and only application. I've been fortunate to have had a fulfilling and successful career with the Group for the last 23 years.

*FTSE – The Financial Times Stock Exchange 100 Index, a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation.



CAREER HIGHLIGHTS

What's your most memorable accomplishment career-wise?

23 years have passed by, and over that time, there have been many moments that I find memorable. Personally, the recent appointment as Managing Director of the Company has got to be the icing on the cake. I am honoured to have been given the responsibility to lead a great organisation and to shape its future as it's been my ambition to lead a business like the Company since I first started at BAT.

Professionally, two accomplishments stand out. I was part of the team that led the business turnarounds, first in Indonesia, and more recently, in the South Pacific Islands. For me, it's not just about the delivery of great business results, but it's also very satisfying to be able to release the potential of teams and our people. Seeing them flourish and progress through the BAT organisation is a sense of accomplishment on its own.

Tell us about your most challenging market, and how you overcame it.

My last role as Marketing Director – Middle East South Asia was the most challenging role and group of markets I have managed. The group of 17 markets is geographically large and diverse; and is home to 50% of the

world's conflicts. On top of that, the socio-economic environments are unstable and coupled with the rapid regulatory changes in these countries have certainly brought new and significant business challenges on a daily basis.

To tackle these challenges, we needed to prioritise and focus on the big-ticket game-changing opportunities. We must allocate our resources to match the right investments with the challenges accordingly. It helps a lot that in BAT, we have great teamwork, we empower our employees to make bold decisions fast and we have the resilience to keep going when times get tough. With all these ingredients, great things can happen.

Coming from the Middle East, how does the market compare with Malaysia?

There are lots of similarities in terms of high illegal trade and challenging regulatory and operating environments. The big difference in the Middle East is the scale of the area and as a result, the number of different challenges that you would need to manage across 17 countries.

*My goal is to turn
business performance
around to deliver
sustainable growth...*

WHAT'S IN STORE FOR BATM?

What are your personal opinions surrounding the high illegal incidence in the country?

Illegal trade is not just a Malaysian phenomenon, it is in fact now one of our biggest global competitors. Illegal trade incidence is something that must be addressed but there are no quick fixes to this. It takes time and requires a change in mindset across a broad range of stakeholders. Fortunately, there have been successes across the Group, which should give us hope that this can be done in Malaysia. It will require us to continue the great work already done and continue to drive the anti-illicit trade agenda to deliver a win for consumers, government, society and the Group.

In your opinion, what are the biggest challenges that await you as the new MD of the Company?

I think my biggest challenge would be to turn around the business to deliver sustainable growth, and this remains my top priority. To achieve this, we would need structural reform to reduce illicit trade whilst also creating the platform to win in new categories. But all of this wouldn't be possible if we don't simplify our business so we can continue to move bolder and faster to tackle the headwinds that await us.

What do you feel is the biggest strength of the Company right now?

Its brands and its people – and those are good foundations to build upon. I admire the resilience BAT Malaysia employees have displayed in the face of adversity. It's no easy job working in a country with the largest consumer of illegal cigarettes, and I think they have performed incredibly well given the circumstances.

What are your goals for the Company?

My goal is to turn business performance around to deliver sustainable growth, and ensure we continue to have an organisation where people can fulfil their potential, grow personally and professionally and have fun doing it.

LEADING WITH CHANGE

Who, or what has shaped you to become who you are today?

My career has brought me across the globe. In total, I've lived and worked in eight different countries, with commercial oversight of over 50 markets. This has certainly had a big influence on who I am today. All these different locations and cultures have allowed me to see the world from different perspectives, and it has certainly helped shape the person I've become today. I believe in diversity, and I think the richness that diversity brings to life and to the workplace is very important, especially for a global organisation like BAT.

Who inspires you?

My wife and kids - they keep me honest; they keep me real; and they make me proud. Particularly, I am proud of the way they have adapted to moving to many new countries and learning how to adapt to new cultures on a very regular basis. They are my source of inspiration, driven by their can-do attitude, their resilience to these regular changes, and their ability to thrive irrespective of what life throws at them.

AN AVID TRAVELLER WITH A LOVE FOR SPORTS AND FOOD

How many countries have you travelled to?

I have travelled to over 70 countries, which is approximately 30% of the world's countries.

How many languages can you speak? What are they?

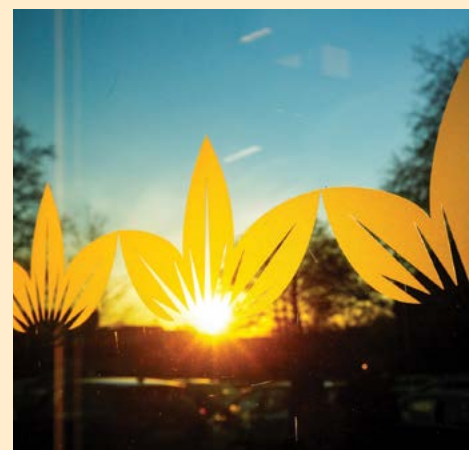
Well, to be honest with you, I can speak exactly one language properly. And as an Englishman, I'm sure you can guess which one! However, I do speak a little German, French and Italian.

Do you enjoy sports? Are you a fan of any football teams?

I am a big fan of rugby, cricket and golf – and I heard that there are plenty of excellent golf courses in Malaysia; I don't watch much football, but I must say that as a Londoner, I support my local club, West Ham United.

What experiences are you looking forward to in Malaysia?

As you can see by now, I have travelled to a lot of different countries, but I am always excited to meet new people and explore new cultures. I heard that Malaysians are proud of their excellent cuisine, which is a good thing because I love food!



LEADERSHIP Team 2019

as at 31 December 2019



Front (From Left) :
Hendrik Stoel
Linda Song Yik Lin
Karl Yap Chee Keong

Back (From Left) :
Felicia Teh Sook-Ching
Ignacio Ballester
C K Remeena Prabhakaran

PROFILE OF Leadership Team 2019



Hendrik Stoel (Erik)

Managing Director

Age: 51 | Gender: Male | Nationality: Dutch

Date Appointed to the Leadership Team:

- 1 June 2016

Note:

Erik retires as the Managing Director and resigns as the Non-Independent Executive Director on 31 March 2020.

For details of Erik's profile, please refer to page 17 of this Annual Report.



Ignacio Ballester

Finance Director

Age: 46 | Gender: Male | Nationality: Italian

Date Appointed to the Leadership Team:

- 9 December 2019

For details of Ignacio's profile, please refer to page 22 of this Annual Report.



Linda Song Yik Lin

Legal and External Affairs Director

Age: 53 | Gender: Female | Nationality: Malaysian

Date Appointed to the Leadership Team:

- 1 August 2018

Qualification:

- Degree in Law from University of Buckingham, United Kingdom

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

- Linda was appointed as the Legal and External Affairs Director of the Company on 1 August 2018.
- Prior to her current role, she was the Regional Head of Commercial Legal for the Asia Pacific Middle East ("APME") Region based in Hong Kong.
- Linda first joined British American Tobacco Singapore in 2001 as Legal Manager.
- She has held various roles in the Legal function within the APME Region including Vietnam, Cambodia and Hong Kong.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF LEADERSHIP TEAM 2019



Karl Yap Chee Keong

Marketing Director

Age: 46 | Gender: Male | Nationality: Malaysian

Date Appointed to the Leadership Team:

- 1 October 2016

Qualification:

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

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

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



C K Remeena Prabhakaran

Operations Director

Age: 56 | Gender: Female | Nationality: Malaysian

Date Appointed to the Leadership Team:

- 1 March 2018

Qualification:

- Bachelor of Science in Mathematics, Microbiology & Genetics from University of Malaya

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

- Remeena was appointed as the Operations Director of the Company on 1 March 2018.
- Prior to her current role, she was the Head of British American Tobacco's Asia Pacific Supply Service Center from July 2014 to February 2018.
- Remeena joined British American Tobacco in 2012 as the Asia Pacific Middle East Head of Category & Sourcing Manager within the Procurement function. In 2013, she was promoted as the Regional Head of Procurement.
- She was with Philip Morris International from 1997 until 2012 with her last role being the Director of Supply Chain South Cluster.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF LEADERSHIP TEAM 2019

***Felicia Teh Sook-Ching****Human Resources Director*

Age: 43 | Gender: Female | Nationality: Malaysian

Date Appointed to the Leadership Team:

- 15 July 2019

Qualifications:

- Masters of Business Administration (MBA), University of Nottingham, United Kingdom
- Bachelor of Commerce, University of Western Australia

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

- Felicia was appointed as the Human Resources Director of the Company on 15 July 2019.
- Prior to her current role, she was the Regional HR Director South East Asia for Carlsberg where she oversaw the HR Agenda for Singapore, Myanmar and Laos in addition to leading the people and organisation strategy in Malaysia.
- Before her move to the Company, Felicia had successfully led many initiatives to enhance employee engagement, culture and productivity enabling strong business results. She is also passionate about people development.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

LEADERSHIP Team 2020



Front (From Left) :

Linda Song Yik Lin
Ignacio Ballester
Genevieve Hiew
Felicia Teh Sook-Ching

Back (From Left) :

C K Remeena Prabhakaran
Jonathan Darlow Reed
Damian William Bruty
Christopher Lim Shean Yik

PROFILE OF Leadership Team 2020



Jonathan Darlow Reed

Managing Director

Age: 49 | Gender: Male | Nationality: British

Date Appointed to the Leadership Team:

- 1 April 2020

For details of Jonathan's profile, please refer to page 23 of this Annual Report.



Linda Song Yik Lin

Legal and External Affairs Director

Age: 53 | Gender: Female | Nationality: Malaysian

Date Appointed to the Leadership Team:

- 1 August 2018

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



Ignacio Ballester

Finance Director

Age: 46 | Gender: Male | Nationality: Italian

Date Appointed to the Leadership Team:

- 9 December 2019

For details of Ignacio's profile, please refer to page 22 of this Annual Report.



C K Remeena Prabhakaran

Operations Director

Age: 56 | Gender: Female | Nationality: Malaysian

Date Appointed to the Leadership Team:

- 1 March 2018

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

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF LEADERSHIP TEAM 2020



Felicia Teh Sook-Ching

Human Resources Director

Age: 43 | Gender: Female | Nationality: Malaysian

Date Appointed to the Leadership Team:

- 15 July 2019

For details of Felicia's profile, please refer to page 29 of this Annual Report.



Genevieve Hiew

Brands and Strategic, Planning & Insights Director

Age: 35 | Gender: Female | Nationality: Malaysian

Date Appointed to the Leadership Team:

- 1 January 2020

Qualification:

- Degree in Chemical Engineering from University of Nottingham

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

- Genevieve was appointed as the Brands and Strategic, Planning & Insights Director of the Company on 1 January 2020.
- Prior to her current role, she was the Divisional Sales Manager for the entire Java Island and East Nusa Tenggara under the Bentoel Group based in Indonesia.
- Genevieve first joined the Company in 2008 as a Management Trainee. She has held various roles in the Marketing function within the Malaysian and Indonesian region.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

PROFILE OF LEADERSHIP TEAM 2020

***Damian William Bruty****Trade Marketing and Distribution Director*

Age: 34 | Gender: Male | Nationality: Australian

Date Appointed to the Leadership Team:

- 1 January 2020

Qualification:

- Degree in Business Administration (Marketing and Human Resource Management) from University of La Trobe, Australia

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

- Damian was appointed as the Trade Marketing and Distribution Director of the Company on 1 January 2020.
- Prior to his current role, he was the Area Head of Trade for Malaysia.
- Before his move to Malaysia, he held various roles in British American Tobacco Australia as the State Manager of New South Wales and the National Field Operations Manager.
- Damian first joined British American Tobacco Australia in 2010 as Area Sales Manager. He has held various roles in the Marketing function within the South East Asia Region including Australia.

***Lim Shean Yik @ Christopher****Activations and New Categories Director*

Age: 41 | Gender: Male | Nationality: Malaysian

Date Appointed to the Leadership Team:

- 1 January 2020

Qualification:

- Degree in International Business Studies and Accountancy from Middlesex University London, United Kingdom

Directorship in Public Companies and Listed Issuers:

- Nil

Working Experience:

- Christopher was appointed as the Activations and New Categories Director of the Company on 1 January 2020.
- Prior to his current role, he was the Head of New Categories based in Malaysia.
- Before that, he held various positions in the Company as Head of Brands and the Area Manager of the Company's Direct Sales Services managing Kuala Lumpur Area.
- Christopher first joined the Company in 2003 as a brand executive. He has held various roles in the brand and trade function within Marketing department.

Additional Information:

- Does not have any family relationships with any directors and/or major shareholders of the Company.
- Does not have any conflict of interest with the Company.
- Does not have any convictions for offences within the past five (5) years and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2019.

03

Performance

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MANAGEMENT

Discussion & Analysis

Fighting
Smart &
Hard For
A Better
Tomorrow

In this management discussion and analysis (MD&A) section, Erik Stoel, Managing Director of British American Tobacco (Malaysia) Berhad ("the Company"), offers shareholders commentary and insights into the company's financial performance and operations as well as business issues and mitigating efforts during the financial year ending 31 December 2019. Through this Q&A, shareholders can also get a better understanding of the company's outlook for the coming financial year and the Company strategic plans moving forward.

Can you paint the operating landscape for the Malaysian tobacco industry in 2019?

ES: Well, if I were to be honest, it certainly would not be a rosy picture. 2019 can be summed up as a highly energetic yet turbulent year for the industry as legal volumes continue to contract in the face of strong external headwinds ranging from:

- a market where 63% of volumes are dominated by illegal, non-compliant cigarettes;
- navigating a highly restrictive and inconsistent regulatory environment;
- and consumers continuing to down-trade to illegal cigarettes or illegal vaping products due to affordability stretch.

I would be hard pressed to name any legal company that can successfully operate in an environment where close to seven out of 10 products are black market. When you combine all these factors together, I would say that a



perfect storm has been created penalising all legitimate tobacco manufacturers across the country.

Interesting observation. Given the prevailing external headwinds, what were the Company's achievements and challenges in 2019?

ES: Among the key achievements were the Company holding its market leadership position as well as maintaining over 90% in value terms of the legal tobacco industry. This year has also seen the entry of the company into the Potentially Reduced Risk Products ("PRRP") category with the launch of GLO™ in Quarter 4 of 2019, making Malaysia the first country in Southeast Asia to launch British American Tobacco p.l.c. Group ("the Group") flagship Tobacco Heating Products (THP).

We have also changed our ways of working and taken on a bold and vocal stance against illegal, non-compliant cigarettes. To that end, working with British American Tobacco

p.l.c. we commissioned Oxford Economics in the United Kingdom (UK) to highlight the severity and impact that illegal tobacco has on the Nation's economy, revenues and reputation. This is a grave national issue which impacts all Malaysians. High levels of corruption, unrestrained criminal activities and higher incidences of youth smoking can all be linked to this multibillion-ringgit problem. Through the Oxford Economics report, we have worked tirelessly to galvanise stakeholders against the critical threat illegal tobacco poses to Malaysia.

Another key achievement and mark of pride reflects in the way we operate as a corporate citizen of Malaysia. As a public listed entity, we continue to uphold good corporate governance. Our transparency and our commitment to exemplary people development despite the difficult operating landscape has been acknowledged as we garnered accolades from recognised industry bodies in the areas of delivering best shareholder value (The Edge Billion Ringgit Club), corporate governance (MSWG Awards) and human resources best practices (HR Asia, Top Employers).

MANAGEMENT DISCUSSION & ANALYSIS

Critically, how have the strong prevailing external headwinds impacted the Company?

ES: Firstly, looking at it from the standpoint of the business, it is clear that the industry currently finds itself in a 'lose-lose' situation. Since 2015's surprise and sudden increase in tobacco excise – legal market volumes have contracted by more than 40% (2019) as compared to 2015. This is primarily due to an unchecked and dramatic increase in the volumes of cheap contraband cigarettes flowing into the market. As a result, the Company's performance has been on a decline year-on-year while the illegal tobacco trade skyrocketed to record highs.

As one of the leading legal players in this space, our Company's bottom-line and more notably, the performance of our share price has been impacted by the uncurbed and unchecked rise of this black economy. To put things into perspective, dialing back to 2015, illegal tobacco trade was only at 37%, (already considerably high at that point in time) and yet the Company was still able to achieve profit from operations of RM1.24 billion in that year.

Today, the illegal tobacco trade in Malaysia has climbed to world record highs of 63%, and in tandem, our profit from operations have declined to RM478 million in 2019.

Basically, we have turned in less than half of what we used to because of ultra-high levels of illegal tobacco in the country and the government's unwillingness to adopt radical actions that will effectively curb this black economy.

The Company's share price has dropped so drastically since 2015. Are you not concerned at its current performance?

ES: We are as concerned as our shareholders. In 2014, the Company's share price reached a historic high of RM74 and as at 31 December 2019, the counter closed at RM15.08. That is an 80% decline in value, losing close to RM 17 billion in market capitalisation in just a five-year period due to the uncontrolled influx of cheap contraband cigarettes flooding into the market.

Imagine, that market capitalisation loss could have easily funded three Penang Second Bridges! Seeing the share price at the level it is now, we are now more driven to find solutions on how to convince the government to tackle the endemic illegal cigarette trade problem. However, as a corporate entity, we cannot go at it alone to resolve what essentially is a deeply rooted national crisis.

On that note, how has the Company adapted to this difficult operating landscape in order to create value for shareholders?

ES: Firstly, we do not feel that the current price is a fair reflection of the strength and quality of our company. But the reality is that legal market volumes have been shrinking due to the illegal cigarettes. Legal market volumes in 2019 are now at 37% of the total industry!

Secondly, while this year has certainly not been 'business as usual' for the Company, we have been consistent and committed in delivering value to our shareholders. With the prevailing external headwinds, the Board

of Directors and the Company's leadership team had to undertake some hard decisions in order to safeguard our business.

These measures include aggressively optimising costs and restructuring our business operations to reduce overall operational expenses. The 'real deal' is that the impact to our performance would have been more acute if not for the hard calls made.

Can you share more details on how the Company optimised its operational expenditure during the year under review?

ES: In view of the contraction of legal volumes and the realities of the current operating conditions, we arrived at the difficult decision to reduce our workforce by 20%. This cost-based initiative will affect the lives of approximately 100 individuals and will be completed by 2020. This is the largest reorganisation exercises for the Company since we closed our factory in 2017.

I can still vividly recall our former headquarters in Petaling Jaya that had lent its name to the Rothman's Roundabout landmark. Now, we are left with no iconic factory in PJ and less employees because of cheap, contraband cigarettes.

What remains intact however, is our commitment to fight against this illegal trade and our hunger to crack down on this issue. We believe that with continued engagement and awareness – we will be able to find champions with the government who understands that illegal tobacco is a burning platform in Malaysia that requires urgent interventions and will stand up against this black economy.

The Company's reorganisation not only aligns with the realities of the prevailing market conditions but also synchronises with global efforts undertaken by the Group to simplify our ways of working and unlock costs that can then be reinvested behind new categories comprising our THP GLO™ and vapour upon regulatory approvals being granted in market.



Illegal tobacco trade in Malaysia has climbed to world record highs of 63%



Our profit from operations in 2019 declined by 25% vs 2018

MANAGEMENT DISCUSSION & ANALYSIS

You mentioned a reorganisation earlier. Will this reorganisation impact the leadership of the Company?

ES: Our internal reorganisation is centred on roles and team structures not individuals in leadership positions. I would like to point out that talent movement within our organisation, even at the highest level, is not extraordinary and is to be expected. We believe that it facilitates talent growth and diversity within the organisation.

The Company's senior leadership positions are based on a three to five-year assignment period. This is part and parcel of how the Group, as a multinational company, cultivates and develops talent. So, despite the challenges we faced in the market, we are committed to continue with the best corporate and human capital best practices. Some things you just can't do away with!

My departure is part of the normal cycle of change within the company and on that note, I am happy to welcome Mr. Jonathan Reed to the helm of the Company. Jonathan, with his 23 years of international experiences in the Group spanning eight countries with commercial oversight for over 50 markets, including Indonesia, the South Pacific Islands and the Middle East is a capable and apt successor for the business in Malaysia. I believe that he would be able to drive forward the Company's business agenda with a fresh perspective and renewed vigour.



Find out more about Jonathan in
A Conversation With Jonathan Reed
on page 24

MOVING FORWARD: TURNING UP THE HEAT ON ILLEGAL TOBACCO

Let's be honest. Seems like most of the issues plaguing the tobacco industry is caused by the high levels of illegal tobacco. Isn't the illegal tobacco issue more of the company's issue rather than a national issue?

ES: It would not be fair to quantify this issue as just a tobacco industry or the company's issue. There's clearly more at stake here than just our business. The wider impact that this black economy has on the government's revenues, the country's reputation and health policy (incidences of smoking and youth smoking has increased since the 2015 excise increase) has been published in the likes of an independent report from Oxford Economics ("OE") UK titled 'The Economics of the Illicit Tobacco Trade in Malaysia'.

Scan the QR code to access the OE report ►



Clearly, the high levels of illegal cigarette trade remain a bane for the industry. What has the Company done to address this in 2019?

ES: It is indeed a watershed year for the Company in our endeavor to tackle the ever-growing illegal cigarette trade in Malaysia. As an organisation, we believe that we had to do something more tangible to address this grave socio-economic problem. Staying quiet about it is not an option!

We brought to the forefront what has always been a 'taboo' subject for policymakers. We worked with British American Tobacco p.l.c. to engage an independent analyst, Oxford Economics UK to highlight the seriousness and impact that the illegal tobacco trade has on the Malaysian economy and society at large.

We aimed to prove that illegal cigarettes are a burning platform in Malaysia with wide-reaching impact to Malaysians. This is not a victimless crime! High levels of corruption, unrestrained criminal activities and higher incidences of youth smoking can all be linked to this multibillion-ringggit problem.

Based on the Oxford Economics report, we carried out an integrated awareness and education campaign, ranging from an international panel discussion to strategic stakeholder engagements throughout 2019. We really went all out to move the needle and highlight that the illegal cigarette trade is a burning platform in Malaysia that cannot be ignored any longer and requires urgent, radical intervention.

Beyond the Oxford Economics report we also provided several studies and recommendation papers on the solutions that the government could adopt in order to effectively crackdown on this black economy.

Did it work?

ES: Yes and no. Yes, in the sense that the campaign did ignite conversations and debates across different audiences, communities and groups in Malaysia. Policymakers, media publications and important opinion leaders have also cited the findings of the report. Most Malaysians do concur that something needs to be done!

No, because even though awareness of this issue ranks high in the headspace of Malaysians, the Malaysian Government seems to have little or no appetite to consider radical solutions that can effectively stall and reduce the high volumes of illegal tobacco. It is unfortunate that four years on, despite the ever increasing levels of illegal tobacco year after year, the lense of the government still focuses solely on deploying conventional counter strategies against this black economy like enforcement which up till today has been proven to be ineffective in stemming the influx of cheap contraband cigarettes into the country.

Worryingly, the latest industry report, titled Illicit Cigarettes Study in Malaysia ("ICS")

MANAGEMENT DISCUSSION & ANALYSIS



2019 showed that the levels of illegal cigarettes in the market are climbing even higher!



Scan QR code to access the ICS report ►

What about from a brand perspective? Were there any actions taken to enhance the competitiveness of your products to safeguard profitability?

ES: Despite the legal market contraction, we have never lost sight of our aim to consistently maintain the leadership of our products in the legal market. In 2019, through sharp marketing activities our portfolio of brands has remained resilient. We maintained our position as the market leader in the FMC segment in Malaysia with 54.4% share of the legal market. That took a lot of hard work!

Similarly, our brands continue to perform well in their respective segments. In the premium segment, we continue holding 60% share of the premium segment with our flagship brand, DUNHILL. This is significant as we maintained our leadership – holding flat

versus 2018 despite shrinking legal volumes and consumers downtrading to Value for Money segment or illegal cigarettes due to affordability stretch.

In the Aspirational Premium segment, our brands PETER STUYVESANT and PALL MALL remained strong, relevant and competitive. Combining PETER STUYVESANT and PALL MALL, the Company remained as the segment leader with market shares of 6.8% and 2.8% respectively. In the Value for Money segment, ROTHMANS continued to perform well, growing its market share by 2 percentage points in 2019.

Unfortunately, from a 'big picture' point of view, while we successfully maintained our position as the market leader, the reality is that 63% of the industry volumes are dominated by cheap contraband cigarettes. What good is it holding on to a lion's share of an ever-shrinking legal market which is being severely compromised by ultra-high levels of illegal cigarettes?

Clearly, high excise tax on cigarettes coupled with ineffective enforcements have led to record levels of illegal

cigarette trade in Malaysia. Is there any way to address this from a product standpoint?

ES: To put it into context, at the end of 2015, there was an excise tax hike of 40% on cigarettes, resulting in a drastic price increase. Consequently, a large group of consumers found themselves in an affordability stretch and turned to readily available illegal cigarettes.

We know that given an affordable legitimate alternative, Malaysians would more likely purchase a legitimate product. As such, we took a novel approach and obtained approvals from the relevant authorities to launch DUNHILL HTL-Cigarillo, a cigarillo or mini-cigar, as a non-cigarette tobacco product. The wrapper of the product is made from reconstituted tobacco, and thus it is not a traditional cigarette, allowing us to price it at RM9 per pack.

We introduced this product in Sabah and Sarawak, where four out of five cigarettes smoked are illegal cigarettes. It was a pilot project to prove that the affordability factor can shift consumers from illegal cigarettes to legal products. We started to see traction for DUNHILL HTL-Cigarillo but unfortunately, the Ministry of Health ("MOH") unilaterally revoked their earlier approvals without notice. This matter is now the subject of judicial review before the High Court in Malaysia.

Aspirational Premium Segment

PALL MALL *Peter Stuyvesant* ► **9.6%**

MANAGEMENT DISCUSSION & ANALYSIS

**STAYING STRONG BY EMBRACING
EXCELLENCE & INNOVATION**

Amidst the challenging operating conditions, were there any bright spots for the Company during the year under review?

ES: This has been a watershed year for the business as we moved from single category into a multi-category business with the introduction of our THP GLO™ into the market. GLO™ offers adult smokers an option from the Group's innovative range of New Category products with reduced risk potential.

Additionally, another cherry on the cake is the fact that as an organisation, we have remained steadfast in upholding the high standards of corporate governance and best practices. Throughout 2019, our teams and people have continued to garner a series of prestigious industry accolades including awards for long term value creation, disclosure and return on equity. In addition, we have also topped the table for safety and health at the workplace as well as numerous commendations for workplace best practices and excellence in talent development. Our string of awards is proudly featured in the upcoming sections of this annual report.

Kudos to the team!

Suffice to say, the Company is a legitimate corporate citizen that plays by the book and create value for our stakeholders year after year. As such, it really makes no sense for policymakers, investment community or society at large to see us fail in favour of illegal products that has gained the majority share of the market today.



The last quarter of the year witnessed the Company finally introducing its flagship THP GLO™ into the market. How has this affected the organisation?

ES: One can say that the GLO™ device, and its consumables, NEO™, signifies our shift into a multi-category approach. We have to understand that GLO™ is vastly different from traditional cigarettes in every sense. It shares more similarities with consumer electronic devices than with traditional cigarettes. As such, launching, marketing and supporting GLO™, have required our Company to invest in new skills, capabilities and processes.

Surely, with these new revenue generators like GLO™ and vape (when it is regulated) coming into play – the business would be able to ‘turn things around’ wouldn’t it?

ES: Here, I would like to be very clear that our next generation products like GLO™ or Vuse™ (our vaping platform) are a long-term strategy and would not be able to have any significant impact to the Company's bottom-line in the short term. For the company to be sustainable we must ensure that our FMC business remains competitive within the legal space so that we can have the resources to re-invest in these new categories.

MANAGEMENT DISCUSSION & ANALYSIS

A BETTER TOMORROW – FIGHTING SMART FOR A SUSTAINABLE FUTURE.**What is your outlook for the industry in 2020?**

ES: In Malaysia, the tobacco industry's operating environment outlook for 2020 remains bleak. In fact, we foresee the grip that illegal tobacco has on the country to remain the same, if not grow even larger in 2020. This belief stems from our observation that despite enforcement efforts, the levels of illegal cigarettes have not reduced. The fundamental consumer affordability stretch issues have yet to be addressed and is causing further pressure to the legal tobacco market.

Unfortunately, as a corporate entity we cannot go at it alone to resolve the illegal cigarettes trade issue. For the company to remain competitive, a more business friendly environment which encourages legal companies and not rewards illegal companies needs to be established. Now is the time more than ever where a sustainable tobacco framework needs to come into place to protect the rights of legitimate and legal companies.

The Malaysian Government must be held accountable and radical actions such as demand driven solutions that include a review of excise duties must be explored. You need to allow legal players the bandwidth to introduce a category of illicit fighter brands otherwise, we foresee that the entire legal industry will soon give way to illegal cigarette syndicates who do not abide by any laws nor pay taxes.

Secondly, it is now critical that a sustainable tobacco framework is established where:

- the government deals with the illegal cigarettes scourge collaboratively, aggressively and swiftly.
- develops and enacts a pragmatic and sensible tobacco policy to ensure a level playing field for legal industry players such as the introduction of an illicit fighter category and on new types of tobacco products comprising tobacco heating products and vaping.
- MOH takes accountability and adopts a tangible approach to tackling the illegal

tobacco issue by acting against illegal, non-compliant cigarettes that do not feature pictorial health warnings and enforcing against these illegal products that sell below the minimum selling price.

What are the Company's strategic directions moving into 2020?

ES: Our strategy will be to continue optimising on investments that will drive commercial growth within what's left of the legal tobacco segment and ensuring that key brands like DUNHILL and ROTHMANS do well. The Company's trend of declining revenue and profit must be reversed quickly so as to justify our business here in Malaysia. To achieve this, we must reverse the endemic illegal cigarette trade problem.

As such, we have no choice but to convince, facilitate and drive the Malaysian Government to adopt a radical plan that addresses affordability in order to shift the needle on illegal cigarettes trade. Unfortunately, it has come to a point whereby anything short of radical would be too little too late.

As I mentioned earlier, our move into new categories like THP and vaping (when it is regulated) is still at the nascent stage and it will not impact our bottom-line meaningfully in the short to medium term.

Will the Company stop investing or pull out of this market?

ES: Coming back to the current market situation, the reality is that legal tobacco volumes are under siege. It does not help that the Malaysian Government's lacklustre response in managing this crisis – for example, the MOH's consistency in passing the responsibility of illegal cigarettes trade to other Ministries and agencies, while selectively persecuting legal tobacco players are clearly an investment deterrent.

That said, as a business we have a rich heritage and legacy spanning well over a hundred years. In fact, in it is these exact deep roots that has given the Company the resilience to sustain its business despite the extraordinarily high levels of illegal tobacco

The Malaysian Government must be held accountable and radical actions such as demand driven solutions that include a review of excise duties must be explored.

plaguing the industry. This black economy must be addressed but there are no quick fixes.

Pulling out of this market would be giving up on what's right. Therefore, we don't see it as an option for the Company to pursue. So, until the Malaysian Government takes a more committed and tangible approach to tackling this issue more comprehensively, the Company will take a more cautious approach towards investing further into the country into a market where illegal cigarettes dominate.

What can shareholders do to help the Company mitigate its business issues?

ES: The Company has and will continue to be aggressive in our efforts to mitigate the illegal cigarette trade in Malaysia. This is to safeguard not only our corporate survival but the society's socio-economic well-being. There are numerous negative elements associated with this black economy, ranging from cultivating corruption to funding organised crime.

Our shareholders can play a part by learning and understanding more about this scourge and then be our vocal and active advocates against the illegal cigarette trade. The more Malaysians talk about this issue and call for this problem to end, the more likely our policymakers will listen and finally take definitive actions to combat this issue once and for all.

MANAGEMENT DISCUSSION & ANALYSIS

The BAT Way



Vision, Mission and Strategy

In 2019, British American Tobacco p.l.c. Group ("the Group") updated the BAT Way, that outlines its Vision, Mission and Strategy to deliver shareholder value.

Vision

British American Tobacco p.l.c. Group's vision is to be the world's best at satisfying consumer moments in tobacco and beyond. Consumers are at the core of everything the Group does, and our success depends on addressing their preferences, concerns and behaviours. These are fragmenting and evolving at an unprecedented pace, and consequently, we are focusing on providing a range of tobacco and nicotine products across the risk spectrum.

In addition, we are clear that to win in this space, we need to understand our consumers'

preferences and further invest in a pipeline of ever evolving innovations.

In satisfying consumer moments in tobacco "and beyond", there is growing emphasis on "and beyond", namely the Group's "Transforming Tobacco" mission.

The Future of Tobacco

Based upon changing consumer demand, globally, the Group is entering a dynamic period of change that will transform the tobacco industry. An unprecedented confluence of technology, societal change and public health awareness has created a unique opportunity to make a substantial leap forward in the Group's ambition to provide consumers with potentially reduced risk tobacco choices. Today globally the Group has an unrivalled range of exciting and innovative products across the potentially reduced risk categories including industry

leading products in vapour, tobacco heating products, oral tobacco, tobacco-free nicotine pouches, and moist snuff.

The global commitment to offering adult smokers a choice of next generation products or potentially reduced risk products is reflected in the progress made in numerous markets. The Group's flagship tobacco heating product - GLO™ – was successfully launched in Canada, Italy, Japan, Romania, Russia, South Korea, Switzerland, and in 2019, in Malaysia.

MANAGEMENT DISCUSSION & ANALYSIS

Products and Services

The Company's core business revolves around the sale and marketing of tobacco products. We import the products and distribute them throughout Malaysia. Our portfolio of leading brands includes DUNHILL, PETER STUYVESANT, PALL MALL, ROTHMANS, BENSON & HEDGES and KENT.

In 2019, the Company changed its business model from a single category to a multicategory approach. Potentially reduced risk products were added to the portfolio with the introduction of the Group's THP GLO™ and its heating tobacco sticks, NEO™.

Currently, in Malaysia, the Company and its Subsidiaries employ 452 employees who are involved in the marketing and distribution of our products as well as functions that support our talent development, enabling leading edge corporate governance, financial support and stakeholder and shareholder engagement.

Operating Facilities

The Company is headquartered at Damansara City, Bukit Damansara, Kuala Lumpur. It also has 10 sales offices across Malaysia with a nationwide distribution network via third party distributors. The Company and its Subsidiaries also run a small manufacturing facility in Nusajaya, Johor, with the capacity to produce some 150 million sticks.

The Group houses its Asia Pacific and Middle East Regional Product Centre in Malaysia. The Centre provides research and development services to British American Tobacco p.l.c. Group and its entities in Asia Pacific and the Middle East.

The Group is also present in Malaysia via its Global Business Services ("GBS"), a multifunctional, fully integrated end-to-end organisation, focused on innovation in support services. GBS in Malaysia manages one of the three global Information Technology centres of excellence as well as the regional back office services for Finance and Human Resources for Asia Pacific and Middle East region. GBS currently employs 712 employees and operates from Sunway Geo Tower, Sunway South Quay.

As a group, British American Tobacco p.l.c. Group is committed to continue its investment and presence in Malaysia via its various entities and business units as well as in the domestic tobacco operations. This is reflected in its commitment to engage key stakeholders in building a sustainable business, providing value to its shareholders, and providing opportunities for skilled development and progressive careers, especially in the digital and technology sphere. In 2019, the Group established one of our global technology hubs in Kuala Lumpur. The technology hub will play a key role in developing digital and transformative technology to drive the Group's 'Transforming Tobacco' strategy.

Factory Manufactured Cigarettes

PREMIUM

DUNHILL**BENSON & HEDGES**KENT

ASPIRATIONAL PREMIUM

*Peter
Stuyvesant***PALL MALL**

VALUE FOR MONEY

Rothmans

Potentially Reduced Risk Products (PRRP)

glo™

REVIEW OF Financial Results

REVENUE

Total revenue in Malaysia domestic and duty-free markets declined by 11% (RM314 million) when compared to 2018.

The pressure from illegal cigarette trade with a 63% incidence rate had caused market contraction and resulted in revenue decline of 10% (RM279 million). In addition, the continuous downtrading put further pressure to the revenue by another 1% (RM35 million).

COST OF SALES

The reduction in cost of sales by 7% (RM137 million) versus prior year was primarily attributed to lower domestic sales and productivity improvements and cost saving initiatives. This is partly offset by inclusion of SST in cost of sales which was absent in first eight months in 2018. The Group continuously delivered competitive manufacturing cost leveraging its full importation model since 2017.

OPERATING EXPENSES

In 2019, operating expenses were 18% (RM51 million) lower than previous year excluding restructuring expenses, resulting from the Group's continuous effort in undertaking cost base initiatives as well as lower service recharges from British American Tobacco p.l.c. Group.

During the year, the Group remained committed in investing for future sustainability, introducing the new Tobacco Heated Product (THP) GLO™ along with protecting the Group's market leadership by investing in strategic brands and channels.

RESTRUCTURING EXPENSES

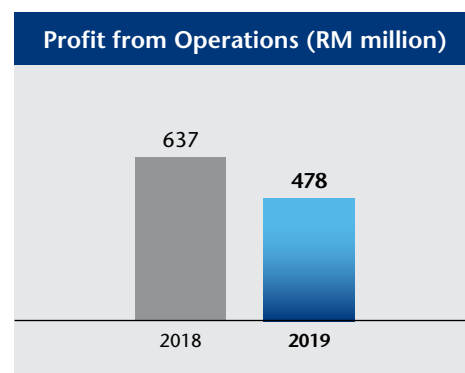
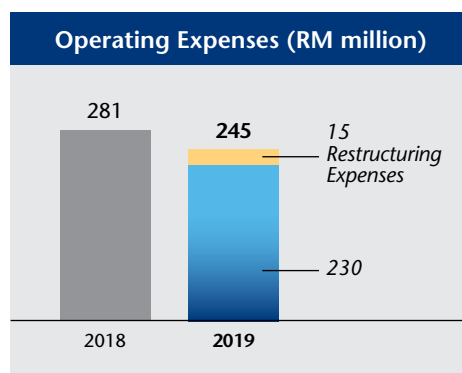
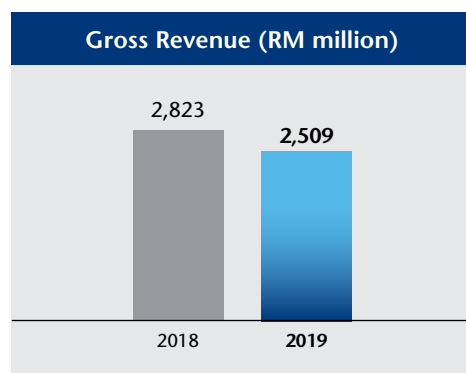
Given the current pressure in tobacco landscape in Malaysia, the Group has embarked on an internal reorganisation amounted to RM15 million. The aim of the exercise is to focus on optimising the ways of working, unlocking cost and securing a sustainable future for the business given the prevailing headwinds the industry as a whole faces.

PROFIT FROM OPERATIONS

The Group recorded a decline of 25% in profit from operations (RM159 million) when compared to the prior year. This was mainly led by continual legal market contraction and downtrading, whilst partially offset by aggressive cost rationalisation undertaken by the Group. The profit delivery resulted in operating profit margin of 19% in 2019.

TAXATION

The average effective tax rate of the Group for the financial year ended 31 December 2019 was 25.2% versus 24.8% in 2018. The marginal increase in average effective tax rate in 2019 was mainly due to non-deductible items.



REVIEW OF FINANCIAL RESULTS

DIVIDENDS

The Group continues its strong commitment to pay dividends at a level above 90% of earnings. In 2019, the Group declared four quarterly interim dividends amounting to 118 sen per share, which represents a 98% earnings payout per share. Total dividend declined 24% versus 2018 mainly due to lower profit after tax for the financial year.

DEBT STRUCTURE

In 2019, the Group had a total debt facility of RM720 million maintained with several licensed financial institutions in Malaysia. The Group continues to utilize revolving credit to support its short-term working capital requirements. This more flexible debt structure allows the Group to borrow at optimum levels thereby minimising cash holding costs, together with improving interest deductibility. At the end of 2019, the Group had RM421 million of revolving credits with tenure between one week to three months, as compared to RM410 million in 2018.

WORKING CAPITAL AND LIQUIDITY

Cash from operations had reduced 27% (RM169 million) as compared to 2018. The decrease in cash inflow was primarily due to lower receipts from lower revenue as a result of market contraction.



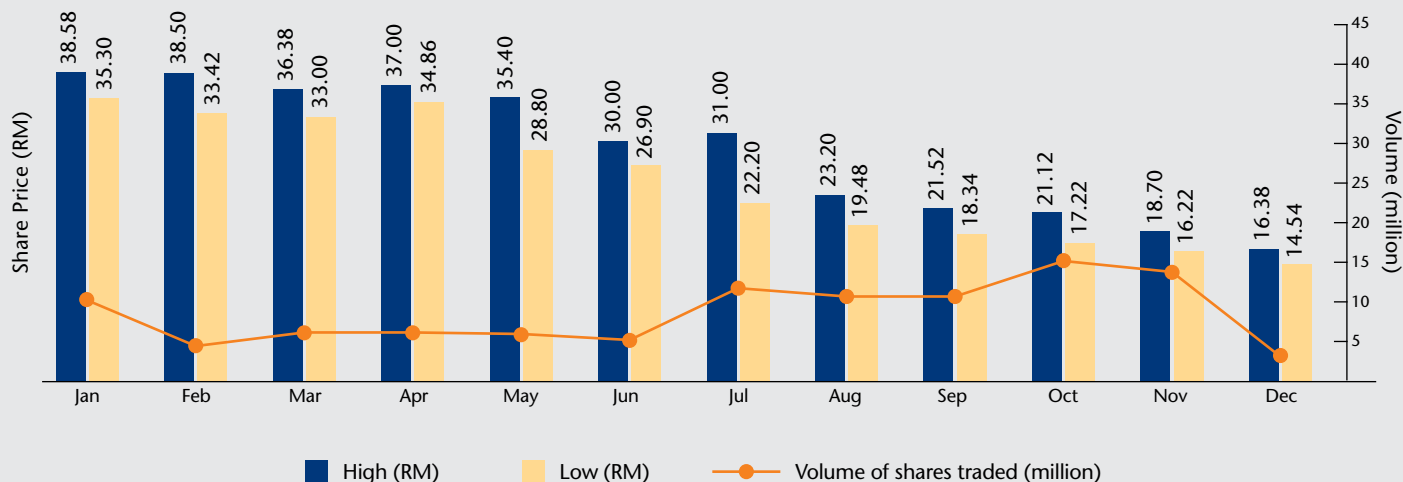
	12 months 2019 RM million	12 months 2018 RM million	Favourable/ (Adverse) %
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	492	642	-23%
Profit from Operations	478	637	-25%
Cash from Operations	448	617	-27%
EBITDA Cash Conversion	91%	96%	-5ppt
Increase/ (Decrease) in cash and cash equivalents	(58)	67	-187%

REVIEW OF FINANCIAL RESULTS

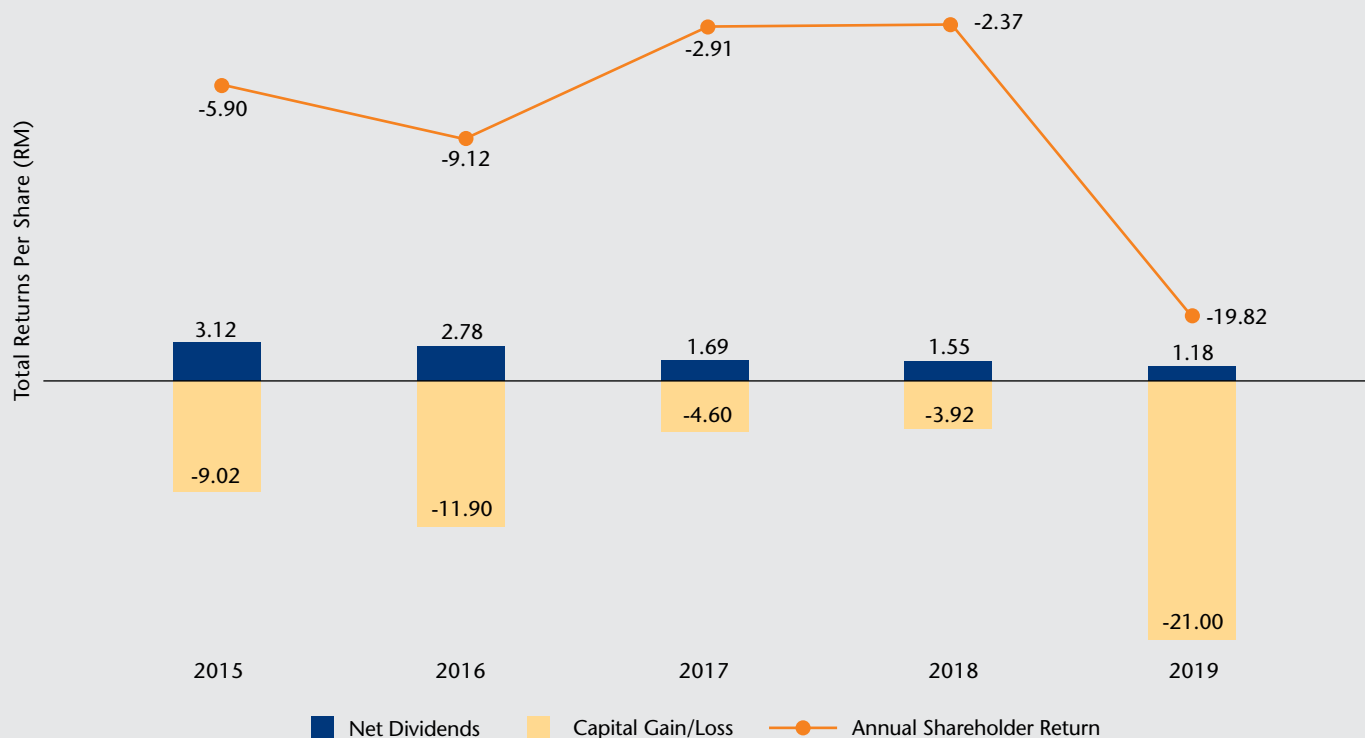
SHAREHOLDERS' RETURN

The share price of British American Tobacco Malaysia was significantly impacted by external challenges such as the ever-high illegal cigarette incidence. On a year-on-year basis, the share price had declined by 58%, with a closing price of RM15.08 for 2019.

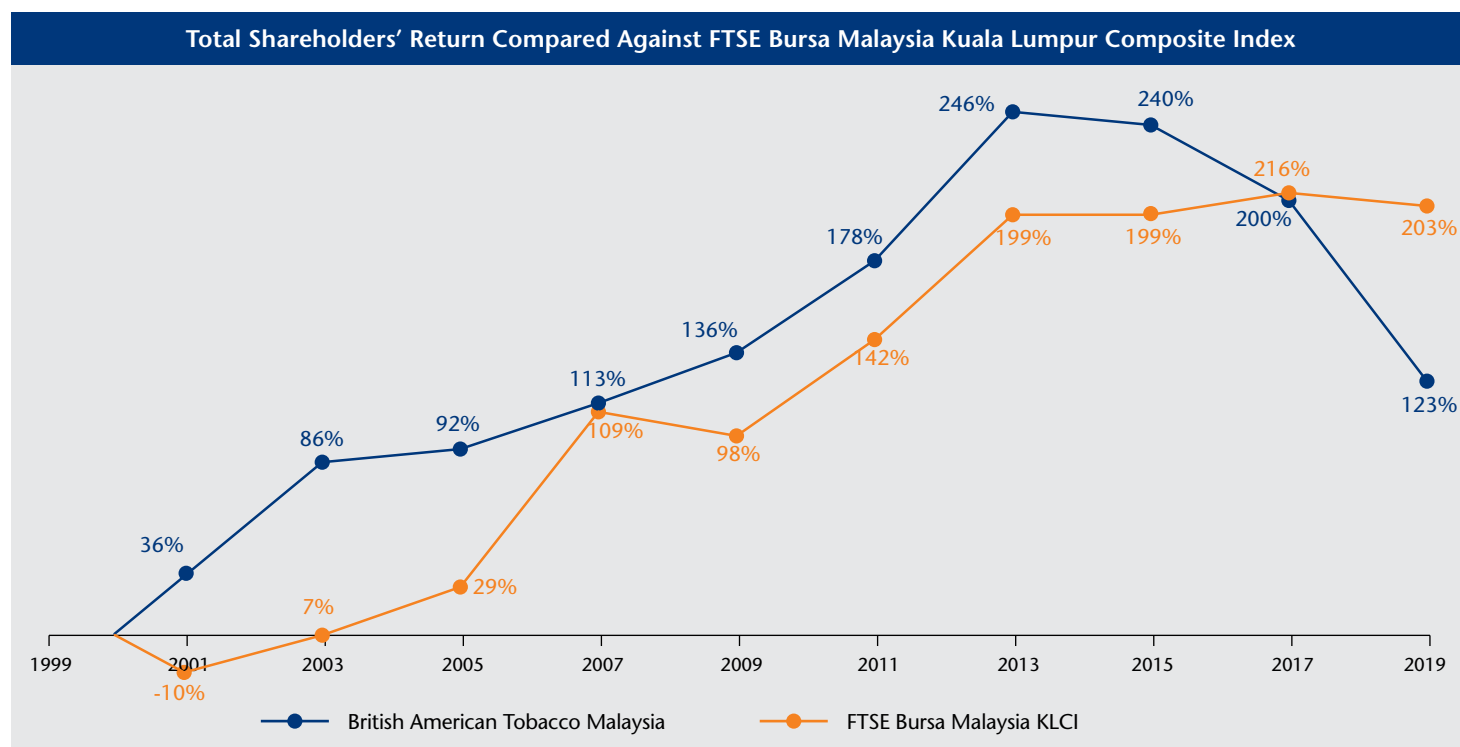
BAT Malaysia Share Movement 2019



Share Performance 2019



REVIEW OF FINANCIAL RESULTS



The reality of the lack of enforcement effectiveness with regards to the illegal market weighs on the performance of British American Tobacco Malaysia. Market capitalisation for the Group stands at RM4.3 billion exit 2019. The total shareholders' return from 1999 to 2019 remained resilient with a 123% growth. The dividend yield for 2019 is 8% which continues to be a valuable investment.

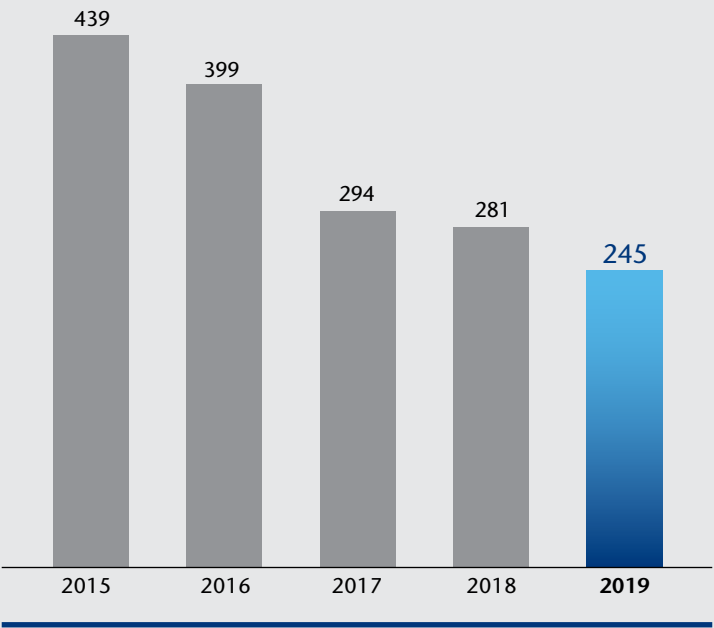
The Group's strategies and priorities on the business will remain the same, which is to invest where it matters to strengthen its brand portfolio, to increase the Group's legal market share and to drive further cost efficiencies for delivering growth not just today, but to invest for future sustainability.

TREASURY

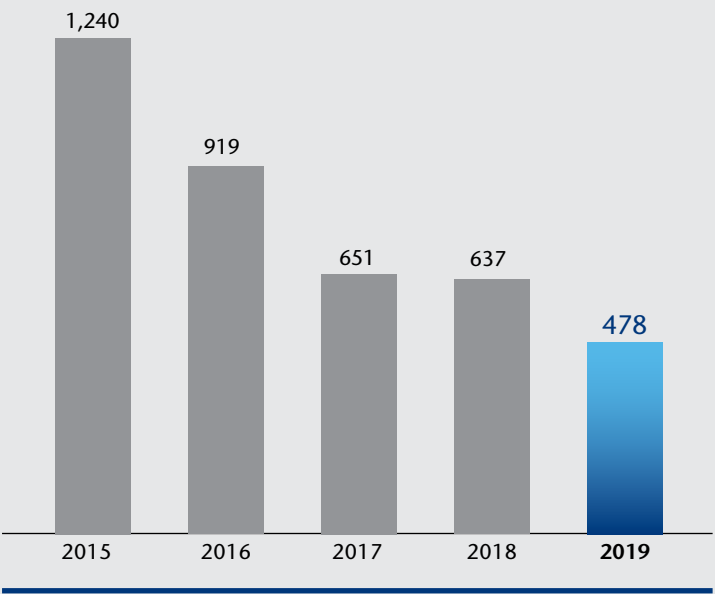
The Group's foreign currency exposure mainly comes from purchases of finished goods. The currency exposure is minimised by partially hedging the net exposure for the next 18 months, in line with the hedging period that was allowed under the Foreign Exchange Control guidelines of Bank Negara Malaysia. The range on the hedge ratio within 18 months of the transaction date is 50% to 95%. The primary objective of the hedging strategy is to protect shareholder value by minimising foreign currency exchange rate fluctuations. This is achieved by layering the hedges monthly within the allowable boundaries set by Bank Negara Malaysia.

FIVE YEAR
Performance History

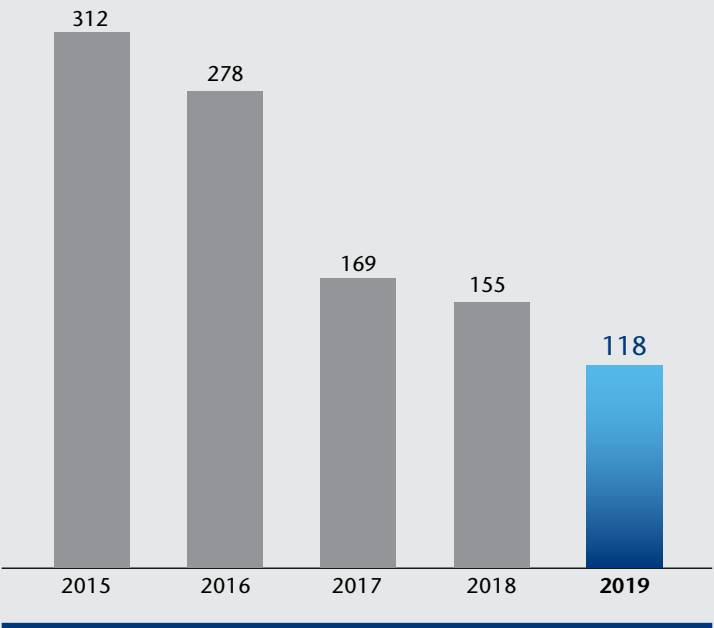
Operating Expenses (RM million)



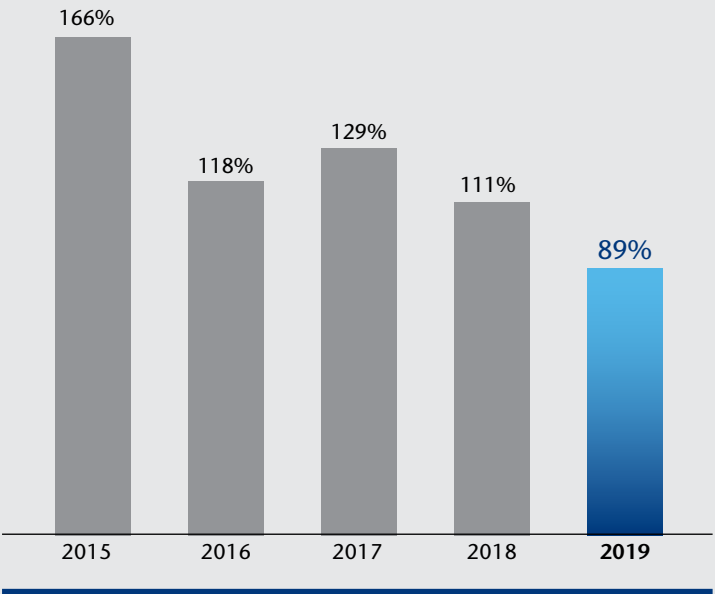
Profit from Operations (RM million)



Net Total Dividend per Share (sen)



Return on Equity



FIVE YEAR Performance Highlights

20
15

Unprecedented massive increase in excise of 40% in November 2015 resulted in another large tax-led price increase. This extreme hike in cigarette excise against the backdrop of both weakened economy and consumer sentiments, coupled with implementation of the Goods and Services Tax (GST) in April 2015 further dampened the legal industry. The share of illegal cigarette trade in 2015 has increased by 3.2 percentage points to 36.9% from 33.7% in 2014. (Source: *Illicit Cigarette Study*).

20
16

The Group announced on 17 March 2016 that it would be restructuring its business operations by sourcing tobacco products for its domestic market from other state-of-the-art BAT factories regionally and would cease the manufacturing operations. The restructuring was in line with the Group's efforts towards realizing a new and more sustainable business model, amidst an increasingly challenging business environment. The Group has subsequently announced the sale of the land and building upon which the factory operations are located and the sale was completed in November 2016. The volume share of the illegal cigarette trade hit an all-time high record at 57.1% in the month of December 2016. (Source: *Illicit Cigarette Study*).

20
17

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

20
18

It was a stabilising year for British American Tobacco Malaysia after consecutive years of double-digit decline. Malaysia saw a historic change in government in May 2018, resulting in visible policy changes. The government announced abolishment of GST and reintroduced SST on 1 September 2018 to address affordability concern. Following SST implementation, a price increase of 40 sen per pack of cigarettes took place as the tobacco industry is regulated to pass on tax to the consumer in terms of retail price. There was no excise increase in 2018, making it the third consecutive year of excise moratorium for tobacco industry.

20
19

The tobacco landscape had evolved significantly with the emergence and challenge of illegal vaping and continuous high illegal cigarette trade. A year after the change of government, the Group had not seen radical or efficient action taken to address illegal tobacco as well as affordability issues. As a result, legal tobacco industry was greatly impacted, with the Company registering a 25% decline in its operating profit. The Group had taken aggressive cost rationalisation and restructuring measures to achieve a sustainable cost base and profitability level for the future. However, an urgent structural reform is needed in order to secure a sustainable tobacco framework for the industry and legal tobacco companies.

AWARDS AND Achievements

2019

- Highest Return on Equity over Three Years in the Consumer Products and Services Sector at The Edge Billion Ringgit Club 2019.
- MSWG-ASEAN Corporate Governance Awards 2018 – Excellence Award for Disclosure (15th).
- MSWG-ASEAN Corporate Governance Awards 2018 – Excellence Award for Long-Term Value Creation (2nd).
- Recognised by Top Employers Institute, an independent global certification company as one of the Top Three Best Companies in Malaysia.
- Certified Top Employer in Malaysia and Asia Pacific 2020 by Top Employers Institute.
- Won HR Best Companies to Work for in Asia.
- Winner of Excellence in Total Rewards Strategy (Gold), Excellence in Employee Engagement (Silver), Excellence in Innovative Use of HR Tech (Silver), Excellence in Business Transformation (Bronze), and Excellence in Employee Wellbeing (Bronze) at the HR Excellence Awards Malaysia 2019.
- The Company won its first health and safety award from a Health and Safety NGO and recognition by the industry: Achieved Malaysian Occupational Safety and Health Practitioners' Association (MOSPHA) Health and Safety Audit with Full Compliance. Also won the Gold Award for Retail and Wholesale of FMCG Product Category.

2018

- Highest Return on Equity Over Three Years in the Consumer Products and Services Sector' at The Edge Billion Ringgit Club 2018.
- Recognised by Top Employers Institute, an independent global certification company as one of the Top Three Best Companies within Malaysia.
- Also secured Top Employer - Malaysia/Asia Pacific 2019 by Top Employers Institute.
- Winner of The Best Employer Brand Leadership Award by BrandLaureate BestBrands Awards 2017-2018.
- HR Asia's 'Best Companies to Work for in Asia 2018' at the HR Excellence Awards Malaysia 2018.
- Winner of Excellence in Total Rewards Strategy (GOLD), Excellence in Innovative Use of HR Tech (SILVER), Excellence in Employee Engagement (SILVER) and Excellence in Employer Branding (BRONZE) at the HR Excellence Awards Malaysia 2018.
- Winner of the "Outstanding Practice: Work" at the Life at Work Award 2018 by Talent Corporation Malaysia Berhad.
- British American Tobacco Global Business Services Sdn Bhd (BAT GSD KL) and BAT Aspac Shared Services Sdn Bhd were also awarded HR Asia's 'Companies to Work for in Asia 2018' and two Gold Awards at the HR Excellence Awards Malaysia 2018.



2017

- Certified as a Top Employer-Malaysia by the Top Employer Institute, an independent global certification company.
- Winner of the CG Award for Industry Excellence in the Consumer Goods category at the MSWG-ASEAN Corporate Governance Awards 2017 for the third consecutive year in a row.
- Winner of Excellence in Employee Engagement (GOLD), Excellence in Employer Branding (SILVER) and Excellence in Leadership Development (SILVER) and Excellence in Innovative Use of HR Tech (BRONZE) at the HR Excellence Awards 2017.
- Winner of Most Sustainable Brand Award in the Business and Community Leadership category and winner of the Brand Transformational Leadership Award (Erik Stoel) at The BrandLaureate BestBrands Award 2016-2017.
- Winner of Malaysia's Best Employer Brand Awards from the Employer Branding Institute.
- Commercial Marketers & Distributors Sdn Bhd, a subsidiary of British American Tobacco Malaysia (Berhad) was awarded Best Tax Payer Award 2016 in the Private Limited Company category by the Inland Revenue Board of Malaysia.

2016

- Winner of Malaysia Best Employer Brand Award at the Employer Brand Awards 2015.
- Two Gold awards for Best Candidate Experience and Best Recruitment Evaluation Technique at the Asia Recruitment Awards 2015.
- 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.
- Highest Return on Equity in the Consumer Product Sector for the Edge Billion Ringgit Club Awards 2015.
- Silver award for Employer of Choice Award at the Malaysia HR Awards in partnership with JobStreet.com.
- Top 10 public listed companies in Malaysia recognised for their excellence in corporate reporting at the Building Trust Awards 2015 by Pricewaterhouse Cooper.
- Top 20 Companies shortlisted for their 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.

2015

- Winner of the CG Award for Industry Excellence in the Consumer Goods category at the MSWG-ASEAN Corporate Governance Transparency Index, Findings and Recognition 2016 for the second consecutive year in a row.
- Highest Return on Equity over the past 3 years in the Consumer Product Sector for the seventh consecutive year at The Edge Billion Ringgit Club Awards 2016.
- Winner of the Best Graduate Recruitment Programme (GOLD), Best Use of Recruitment Technology (SILVER), Best Staff Referral Programme (SILVER) and Best Candidate Experience by a Corporate HR Team (BRONZE) at the Asia Recruitment Awards 2016.
- Winner of Excellence in Recruitment (SILVER), Excellence in Innovative Use of HR Technology (SILVER) and Excellence in Employee Development (BRONZE) at the HR Excellence Awards 2016.



CORPORATE Highlights



JANUARY

- British American Tobacco Malaysia's Chinese New Year's Celebration

FEBRUARY

- Financial Analyst Briefing on 4th Quarter 2018 Financial Results

MARCH

- Corporate Kick-Off 2019 in Kota Kinabalu, Sabah

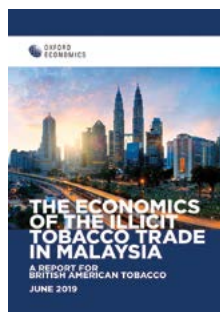


APRIL

- British American Tobacco Malaysia's 2019 Annual General Meeting
- Participated in the Graduan Aspire Career Fair 2019 (United Kingdom)
- Financial Analyst Briefing on 1st Quarter 2019 Financial Results

JUNE

- Publication of Oxford Economics Report on the Economics of the Illicit Tobacco Trade in Malaysia (Report and Forum)



- British American Tobacco Malaysia's Hari Raya Celebration

JULY

- Financial Analyst Briefing on 2nd Quarter 2019 Financial Results
- British American Tobacco Malaysia's Annual Treasure Hunt @ Mutiara Taman Negara
- Awarded the Excellence Award for Disclosure at the MSWG-ASEAN Corporate Governance Awards 2018
- Awarded the Excellence Award for Long-Term Value Creation (2nd) at the MSWG-ASEAN Corporate Governance Awards 2018
- Participated in the Graduan Aspire Career Fair 2019 (Kuala Lumpur)

BRAND INNOVATIONS



02

FEBRUARY

- Launched ROTHMANS Charcoal



04

APRIL

- Launched DUNHILL HTL Cigarillos
- Launched ROTHMANS Purple (1st Double Capsule in the VFM Segment)



06

JUNE

- Launched DUNHILL Limited Edition Packaging (LEPs): Singa



08

AUGUST

- Launched DUNHILL Limited Edition Packaging (LEPs): Merdeka



SEPTEMBER

- Highest Return on Equity over Three Years in the Consumer Products and Services Sector at The Edge Billion Ringgit Club 2019

OCTOBER

- Financial Analyst Briefing on 3rd Quarter 2019 Financial Results
- BATM won its first Health and Safety award: Achieved Full Compliance for the Health and Safety Audit by the Malaysian Occupational Safety and Health Practitioner's Association (MOSHPA). Also won the Gold Award for Wholesale of FMCG Product Category
- British American Tobacco Malaysia's White-Water Rafting



NOVEMBER

- British American Tobacco Malaysia's Deepavali Celebration
- British American Tobacco Malaysia's Long Service Awards Night
- British American Tobacco Malaysia's Annual Dinner themed School of Rock

- British American Tobacco Malaysia's Annual Challenge Inter-Games
- Celebrated the World Quality Day 2019

DECEMBER

- Launch of CSR Partnership between BATM Foundation and the MyKasih Foundation @ Econsave Bangi
- Recognised as the Top Three Best Companies in Malaysia and certified as Top Employer in Malaysia and Asia Pacific by the Top Employers Institute
- Winner of HR Best Companies to Work for in Asia
- Awarded multiple awards at the HR Excellence Awards Malaysia 2019
- British American Tobacco Malaysia's Joint Top Employer and Christmas Celebration



09

SEPTEMBER

- Launched ROTHMANS Hokkaido Mint (1st Hokkaido Mint in the Market)



10

OCTOBER

- Launched ROTHMANS Limited Edition Packaging (LEPs): Music Knows No Boundaries
- Launched GLO™ in Malaysia, the 1st in Southeast Asia



11

NOVEMBER

- Launched GLO™ Pro



12

DECEMBER

- Launched ROTHMANS Limited Edition Packaging (LEPs): #InstaTravel

BRITISH AMERICAN TOBACCO MALAYSIA

IN THE NEWS

The Real Deal • 2019 • www.batmalaysia.com

BAT accuses health ministry of selective prosecution

It is seeking a judicial review of the MoH's revocation of Dunhill HTL-Cigarillo's approval

BY EMIR ZAINUL

KUALA LUMPUR: British American Tobacco (Malaysia) Bhd (BAT) yesterday slammed the ministry of health (MoH) for carrying out selective prosecution of a legitimate tobacco company selling legal non-cigarette products while turning a blind eye to cheap illegal contraband.

This comes as the MoH overturned its approval granted on July 12, 2018 for BAT to sell its "mini-cigar" — the Dunhill HTL-Cigarillo — as a non-cigarette tobacco product.

In a letter dated Oct 21, 2019 sent to BAT's wholly-owned subsidiary Commercial Marketers and Distributors Sdn Bhd (CMD), the MoH said that upon analysis of the Cigarillo, it found that the product falls under the definition of a cigarette under the Control of Tobacco Product Regulations 2004 and that it will be required to comply with the restrictions applicable to cigarettes under the regulation.

"We are especially baffled by the fact that there are other legal cigarillo products in the market today, but these products were not

Erik Stoeil in a statement yesterday. Stoeil criticised MoH deputy director-general (public health) Datuk Dr Chong Chee Kheong for his unexpected "U-turn" decision, claiming it highlights the challenging and unreasonable parameters imposed on a legal tobacco company to operate in Malaysia.

"This product was approved as a non-cigarette not only by the MoH for sale a year ago but also by the Royal Malaysian Customs. Revoking it unilaterally without any chance of consultation is against any reasonable expectation of a legal business, let alone a public-listed company like us," he said.

As such, CMD yesterday filed an application for a judicial review of the decisions made by the MoH to reclassify the Dunhill HTL-Cigarillo as a cigarette and to revoke its approval for sale as a non-cigarette tobacco product.

In the application, CMD seeks the following reliefs:

- that CMD be granted leave to apply for an order to quash the MoH decisions;
- for declarations that the MoH



Stoeil: This also shows an inconsistency in the way the MoH applies its policy.

Stoeil accused the MoH of intentionally coordinating a raid in East Malaysia affecting over 100 retailers weeks before a revocation letter was issued to the company. This, he said, deprived the company of any chance to comply with the MoH's revocation letter.

The revocation letter gives the

legal tobacco players.

Furthermore, Stoeil highlighted that 65% of cigarettes consumed in the country are cheap illegal contraband. As such, he lambasted Chong for focusing on the wrong issue.

"The deputy DG (director-general) of health and the tobacco control sector have clearly lost the plot. The reality is that the ministry's own ineffective policymaking has undermined its own health agenda. Smoking consumption has grown by 5% and according to MoH data, incidences of youth smoking have increased to 13.8% on the back of easily available illicit tobacco. Should that not be a priority of the ministry?" he asked.

Under the regulation, a cigarette is defined as "any product which consists wholly or partly of cut, shredded or manufactured tobacco, or of any tobacco derivative or substitute, rolled up in a single or more wrapper of paper, and which is capable of being immediately used for smoking."

Dunhill HTL-Cigarillos are cigarillos which are best described as "mini-cigs", according to BAT.

BAT warns of investment review

KUALA LUMPUR: British American Tobacco (Malaysia) Bhd (BAT) has warned that it will review its investment in Malaysia if the local tobacco market continues to be pressured without meaningful interventions.

BAT Malaysia posted a lower net profit of RM77.2 million in the second quarter ended June 30, compared with RM137 million due to soft tobacco market.

Managing director Erik Stoeil said the results were a reflection of the escalated efforts management had undertaken to defend its position vigorously, preserve long-term shareholder value and fight against a dynamic marketplace under siege from continued high levels of contraband cigarettes.

"If the industry continues to be pressured without any meaningful interventions, we will have to review the level of our investment in Malaysia," said Stoeil in a

cigarette trade remained high at 60 per cent. This has put pressure on legal industry volume.

It said total legal industry volume had declined by eight per cent, compared with the same period of the previous year, largely due to the Sales and Services Tax-related pricing and high illegal cigarette incidences.

The growth of quasi legal cigarettes with fake tax stamps and other illegal products in the market were putting additional pressure on the legal industry, it added.

Despite external pressures, BAT Malaysia outperformed the legal industry, marking growth of 3.6 per cent in the second quarter versus the preceding quarter. This translated to revenue

operating expense

19.5 per cent.

The company's revenue in the second quarter was a stabilisation in the strong performance in the value

ment

"Revenue

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Erik Stoeil

BAT urges government to tackle black economy

KUALA LUMPUR: Malaysia's "out-of-control" cigarette problem is the result of failed policies allowing cheap cigarettes that do not comply with tobacco laws to proliferate.

tion's health agenda that has been undermined through the usage of cheap cigarettes," said BAT managing director Erik Stoeil in response to a call by NGOs

legal and cheap cigarettes have become normalised. Putrajaya should keep its sights trained on the issue and fight this black economy. This is not just a border

BAT keen to expand cigarette manufacturing in M'sia

BY SAMANTHA HO

KUALA LUMPUR: Three years after shutting down its iconic factory in Petaling Jaya, British American Tobacco (Malaysia) Bhd (BAT) says it will consider expanding its cigarette manufacturing in Malaysia again.

BAT managing director Erik Stoeil said the group opened its new manufacturing facility in Johor Baru last October, which has the capacity to produce some 150 million sticks of cigarettes.

"We have very consciously done that because we want to retain that manufacturing licence. If we withdraw completely, there is a risk we could lose (the licence)," he told reporters yesterday.

"Pending the evolution of the market, we could consider whether or not, on the longer term, it could be interesting to produce and manufacture [more] cigarettes in Malaysia again," Stoeil added.

"At the moment, our investments are primarily in people, capabilities and our brands. Over time, hopefully with a lot of action by the government, we can evaluate the situation [to see if] we would start opening a bigger factory. But at the moment, that's not our [main] consideration," he said.

Presently, some 98% of the group's products in Malaysia are imported, Stoeil said.

In 2016, BAT announced it was closing its factory in Petaling Jaya and selling it

for RM218 million, affecting 230 employees in the process. A key factor to shutting the plant was the surge in market share of illicit cigarettes following an increase in excise duties, which subsequently eroded profit margins of legal players.

It is a problem that continues to plague BAT, which saw its 2018 financial year net profit fall 4.89% to RM468.53 million from RM492.64 million a year earlier. Revenue for the year slid 3.2% to RM2.83 billion from RM2.92 billion.

"We see the right intent (by the Royal Malaysian Customs Department and other authorities) against illicit cigarettes. But we need more intensity of action," Stoeil said.

Affordability expected to remain a concern for BAT

British American Tobacco (Malaysia) Bhd (July 26, RM26.20)

Maintain reduce with a lower target price (TP) of RM21.88. British American Tobacco (Malaysia) Bhd (BAT)'s first half of financial year ended June 30, 2019 (1H FY19) core net profit fell short of expectations; it accounted for 43% of its full-year expectations, and 37% of Bloomberg consensus.

1H FY19 core net profit fell 18% year-on-year (y-o-y) as a result of a 10% y-o-y fall in sales volume, and margin erosion (-2.2 percentage points (pts) y-o-y) from the down-trading of premium cigarettes to the value-for-money (VFM) segment and higher investments in new products.

After removing the GST (goods and services tax) collection in 1H FY18, BAT's revenue fell 10% y-o-y. Second quarter ended June 30, 2019 (2Q FY19) dividend per share of 26 sen was below expectations.

Although BAT's top line inched up 3.2% quarter-on-quarter (q-o-q),

its core net profit regressed 14.5% q-o-q. Operating expenses rose 6.6% q-o-q, slicing its earnings before interest and tax margin by 2.7 pts q-o-q.

BAT said there were higher distribution expenses for its new products, namely the Dunhill cigarillos that it is piloting in Sarawak, and the Glo heat-not-burn line that is set to be launched in 4Q FY19.

BAT credited the q-o-q sales growth to growing Rothmans sales, which unfortunately came at the expense of smokers switching from the premium Dunhill brand.

Evidently, the 3-pp drop in illicit market share year to date to 60% was not enough to reverse BAT's woes.

The group is aware that the overwhelming demand for contrabands is a corollary to legal cigarettes becoming unaffordable to many smokers.

In our view, the best measure to tackle the contraband malaise is by narrowing the pricing gap between legal and illegal cigarettes — but it is easier said than done as public

BAT said there were higher distribution expenses for its new products, namely the Dunhill cigarillos.

badback may ensue.

We cut our financial year ending Dec 31, 2019 (FY19) to FY21 earnings per share (EPS) by 12% to 24% as we slash our sales volume forecast by around 15%.

Our projection is still susceptible to risks of more smokers down-trading to value-for-money (VFM) cigarettes; and total cigarette volume contracting on the back of vapers' rising popularity.

Admittedly, Glo may provide some upside to earnings, provided that its sales pick up quickly. We have yet to factor in Glo's sales to our forecasts.

The EPS cut leads to our dividend discount model-based TP

British American Tobacco (Malaysia) Bhd

FYE DEC (RM MIL)	2017A	2018A	2019F	2020F	2021F
Revenue	2,916	2,823	2,707	2,738	2,835
Operating Ebitda	654.7	603.9	466.6	456.8	501.1
Net profit	492.6	430.2	340.8	334.2	368.2
Core EPS (RM)	1.73	1.51	1.19	1.17	1.29
Core EPS growth (%)	(21.7)	(12.7)	(20.8)	(1.9)	10.2
FD core PER (x)	17.16	18.65	24.80	25.29	22.96
DPS (RM)	1.69	1.55	1.17	1.15	1.26
Dividend yield (%)	5.71	5.24	3.95	3.87	4.27
EV/Ebitda (x)	13.47	14.55	18.77	19.13	17.39
P/FCFE (x)	12.43	16.96	31.34	28.94	25.27
Net gearing (%)	95.4	78.6	71.8	66.4	59.2
P/BV (x)	22.01	20.04	19.74	19.44	19.11
ROE (%)	99	107	80	77	84
% change in core EPS estimates			(11.7)	(2.3)	(23.8)
CIMB/consensus EPS (x)			0.77	0.69	0.70

Sources: CGS-CIMB Research, company reports

being lowered by 23% to RM21.88.

While we commend BAT's relentless effort to combat declining sales, the affordability issue would continue to haunt the group for

the foreseeable future.

Upside risks to our call are regaining higher sales, wage growth, and a more palatable excise duty rate. — CGS-CIMB Research, July 26

BAT's glo expected to take time to improve profit

British American Tobacco (Malaysia) Bhd

FYE DEC (RM MIL)	2017A	2018A	2019F	2020F	2021F
Revenue	3,001.1	2,819.9	2,519.9	2,519.9	2,519.9
Operating Ebitda	696.3	640.8	476.0	462.5	462.7
Net profit	540.1	470.1	352.7	348.4	388.2
Core EPS (RM)	1.94	1.67	1.25	1.23	1.37
Core EPS growth (%)	(14.4)	(14.4)	(14.4)	(14.4)	(14.4)
FD core PER (x)	17.16	18.65	24.80	25.29	22.96
DPS (RM)	1.69	1.55	1.17	1.15	1.26
Dividend yield (%)	5.71	5.24	3.95	3.87	4.27
EV/Ebitda (x)	13.47	14.55	18.77	19.13	17.39
P/FCFE (x)	12.43	16.96	31.34	28.94	25.27
Net gearing (%)	95.4	78.6	71.8	66.4	59.2
P/BV (x)	22.01	20.04	19.74	19.44	19.11
ROE (%)	99	107	80	77	84
% change in core EPS estimates			(11.7)	(2.3)	(23.8)
CIMB/consensus EPS (x)			0.77	0.69	0.70

Sources: CGS-CIMB Research, company reports

Currently, glo is available on

the foreseeable future. Upside risks to our call are regaining higher sales, wage growth, and a more palatable excise duty rate. — CGS-CIMB Research, July 26

British American Tobacco (Malaysia) Bhd

FYE DEC (RM MIL)	2017A	2018A	2019F	2020F	2021F
Revenue	3,001.1	2,819.9	2,519.9	2,519.9	2,519.9
Operating Ebitda	696.3	640.8	476.0	462.5	462.7
Net profit	540.1	470.1	352.7	348.4	388.2
Core EPS (RM)	1.94	1.67	1.25	1.23	1.37
Core EPS growth (%)	(14.4)	(14.4)	(14.4)	(14.4)	(14.4)
FD core PER (x)	17.16	18.65	24.80	25.29	22.96
DPS (RM)	1.69	1.55	1.17	1.15	1.26
Dividend yield (%)	5.71	5.24	3.95	3.87	4.27
EV/Ebitda (x)	13.47	14.55	18.77	19.13	17.39
P/FCFE (x)	12.43	16.96	31.34	28.94	25.27
Net gearing (%)	95.4	78.6	71.8	66.4	59.2
P/BV (x)	22.01	20.04	19.74	19.44	19.11
ROE (%)	99	107	80	77	84
% change in core EPS estimates			(11.7)	(2.3)	(23.8)
CIMB/consensus EPS (x)			0.77	0.69	0.70

Sources: CGS-CIMB Research, company reports

Currently, glo is available on

the foreseeable future. Upside risks to our call are regaining higher sales, wage growth, and a more palatable excise duty rate. — CGS-CIMB Research, July 26

British American Tobacco (Malaysia) Bhd

FYE DEC (RM MIL)	2017A	2018A	2019F	2020F	2021F
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BAT Malaysia boss betting against all odds

BY KAMARUL AZHAR

Few would envy Erik Stool his post as the big boss of a tobacco company in Malaysia today, especially when the industry is waging a war against illicit cigarettes and trying to maintain its margins as consumers downgrade to cheaper brands.

However, the group managing director of British American Tobacco (M) Bhd is determined to put the group back on a growth path despite it having few weapons to fight the illegal cigarette trade in the country.

"Obviously, I want to get the group back on a growth path," says Stool when met at his new office in Damansara City, Bukit Damansara. "We saw a double-digit decline in 2016 and 2017, so when we had a marginal decline in 2018, I was happy," he says, adding that the market has stabilised.

In 2016, the year Stool took the helm at BAT Malaysia, the legal cigarette market was reeling from a hike in excise tax, and contracted 25.7% year on year. This resulted in a 27.6% drop in the group's volume that year.

In 2017, total legal domestic volume contracted 8.8% year on year, leading to a 14.5% fall in the group's domestic volume. The

When presenting Budget 2019 last year, Finance Minister Lim Guan Eng said the government intended to raise RM1 billion in revenue by clamping down on illicit trades.

If the entire RM1 billion were to come from cigarettes, some 2.5 billion sticks would need to flow back into the legal market, which, in turn, means a more than 20% reduction in illegal cigarettes, explains Stool.

"This makes taking down the illegal cigarette syndicates the biggest priority to unlock growth for the legal industry. If the government pursues this with high intensity, then clearly, this would give us the opportunity to grow in 2019," he says.

However, Stool laments, the government has not shown the rigour required to clamp down on the illicit cigarette market. The agility with which syndicates adapt to law enforcement actions shows the worrying capacity of these black-economy operatives to outpace all efforts to thwart their activities, he points out.

"If the current size of the illegal market remains status quo, it would be difficult for any company to grow because affordability constraints among smokers still dictate the legal market," he says.

As BAT Malaysia is not a law enforcement

cially for consumers in the bottom 40% of the population.

"If you ask smokers whether they want to consume strong legal brands like Dunhill, you would still find them preferring to smoke Dunhill. But as long as you have a tobacco product that is priced at RM3 to RM5 in the market, then the consumers feel justified buying it."

"This is wrong as there are risks associated with it because nobody knows the content of the product. There are published reports globally, there have been cases of poisoning, but consumers take the risk because the price difference between the legal and illegal products is significant."

"So, if you really want to address the issue, you also have to look at the affordability," says Stool.

Closing the price gap with new products

According to BAT Malaysia's 2018 annual report, it commanded 56.3% of the legal cigarette market that year, making it the largest among the legal cigarette players. This market share, however, is of a small segment of the total industry volume of cigarette products in the country.

Last year, a study conducted by Nielsen,

迷你雪茄归类U 转冲击大

英美烟草挑战卫生部

(吉隆坡 14 日讯) 卫生部将迷你雪茄(U 转)归类为香烟, 导致英美烟草(BAT)挑战卫生部, 要求撤销迷你雪茄(U 转)的归类。

英美烟草公司(BAT)表示, 卫生部将迷你雪茄(U 转)归类为香烟, 是不公平的。BAT 表示, 迷你雪茄(U 转)与香烟不同, 因为它不含尼古丁, 且其形状和大小也与香烟不同。BAT 表示, 卫生部应该撤销迷你雪茄(U 转)的归类, 以便消费者可以自由选择。

卫生部表示, 迷你雪茄(U 转)含有尼古丁, 且其形状和大小与香烟相似, 因此应该归类为香烟。卫生部表示, 迷你雪茄(U 转)的归类是为了保护消费者健康, 并防止非法烟草贸易。

卫生部表示, 迷你雪茄(U 转)的归类是最终决定, 且不会受到任何挑战。卫生部表示, 迷你雪茄(U 转)的归类是为了保护消费者健康, 并防止非法烟草贸易。



图: 英美烟草公司(BAT)马来西亚集团管理总监 Erik Stool。Stool 表示, 卫生部将迷你雪茄(U 转)归类为香烟, 是不公平的。BAT 表示, 迷你雪茄(U 转)与香烟不同, 因为它不含尼古丁, 且其形状和大小也与香烟不同。BAT 表示, 卫生部应该撤销迷你雪茄(U 转)的归类, 以便消费者可以自由选择。

(吉隆坡 25 日讯) 英美烟草(BAT)董事总经理艾力克史多尔表示, 如果当局禁止电子烟, 只会把消费者推向继续购买非法产品的趋势, 加上大执法机构正在打击非法香烟, 因此, 制定条例来规范这些产品才是正确的步骤。

他发表文告指出, 一旦禁止电子烟, 将对大马构成负面影响, 然而, 有效地加以管制与执法, 则能确保产品安全并防止青少年接触。

他表示, 非法香烟已助长本已发展蓬勃的黑市经济, 而来自政府的应对措施

英美烟草：禁售會議非法產品冒現

持政府制定新法规来规范电子烟(也称为 vape)的举措。

他透露, 最近在美国发生的事例显示, 制定有效的法规和强制执行以确保产品安全并防止青少年接触是必要的。

须有法规确保电子烟安全

他强调, 大马需要有效法规和政策以确保电子烟产品安全, 且不会出售给未成年青少年。不过令人失望的是, 英美烟草至今仍未获得当局, 针对这些新法规向公司提出咨询。

“当局须与业界一同磋商以确保其成

BAT awaiting approval for 'alternative' products launch

Firm to introduce tobacco heating product and its flagship offering, Glo

BAT Malaysia is awaiting approval from the Health Ministry to launch its new tobacco heating product, Glo, which is a pack of 100 sticks of tobacco.

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PETALING JAYA: British American Tobacco (Malaysia) Bhd's (BAT) wholly-owned subsidiary Commercial Marketers and Distributors Sdn Bhd (CMD) has filed an application for judicial review against the revocation decision by the Health Ministry (MoH) to recategorise Dunhill HTL-Cigarette as a

as a non-cigarette not only by MoH for sale a year ago but also by the Royal Malaysian Customs. Revoking it unilaterally without any chance of consultation is against any reasonable expectation of a legal business, let alone a public listed company like us," he said in a press release yesterday.

BAT finds itself in a lose-lose situation

BY ESTHER LEE

British American Tobacco (M) Bhd started this year with high expectations but managing director Erik Stool says the group has now found itself in a lose-lose situation amid the challenging industry landscape.

BAT had been hopeful that the government would keep its promise to seriously curb the illicit cigarette trade. An amendment to the Customs Act 1967 also saw harsher penalties for those involved in the illegal trade. Apart from that, the industry appeared to have regained some footing last year as the growth of the illicit trade levelled off.

"We don't want to do that. We also believe that Malaysia wants to change. But if we don't see the change, then for sure, that will force us to make bolder steps. I think that is a very serious topic because we and our competitors are well-respected international companies which have contributed to significant levels of investment in this country. However, if our rights are violated like that, there's not much that we can do ultimately," he says.

In 2016, the company had to close its manufacturing facility in Malaysia because of the rise of the illicit tobacco trade.

Despite the increasingly difficult operating landscape, BAT says it has no intention of exiting the market for now. It is still a profit-



Stool: We are where we are. It doesn't look good and it requires big structural interventions.

BAT M'sia to cut 20% of workforce

Reorganisation due to illegal cigarette incidences at 65%, SST-led price increase, illegal vaping products

BY KANG SIEW LI

KUALA LUMPUR: British American Tobacco (Malaysia) Bhd (BAT Malaysia), the country's largest tobacco company, is undergoing another round of internal reorganisation, with 20% of its workforce in Malaysia to be laid off. The company employs about 500 people in Malaysia.

"This comes on the heels of its smaller rival ITI International Bhd's (ITI Malaysia) announcement recently that it was laying off more than one-third of its 450-strong workforce here."

In 2017, both BAT Malaysia and ITI Malaysia had closed down their manufacturing plants here, which had affected about 300 workers.

"Yes, there will be a total of 20% of the company's headcount impacted as part of the internal reorganisation," BAT Malaysia managing director Erik Stool told *The Edge Financial Daily* via email.

He said the internal reorganisation exercise is necessary given the challenging external market forces, mainly driven by stubbornly high levels of illegal cigarette incidences at 65%, a sales and service tax (SST)-led pricing increase and a rapid increase on illegal vaping products.

"With the reorganisation, the company will be able to optimise its

BRITISH AMERICAN TOBACCO (M) BHD (ALL FIGURES IN MYR MIL)	Source: AbsoluteStocks			
	FY16 31/12/2016	FY17 31/12/2017	FY18 31/12/2018	FY2019Q3 30/9/2019
Income Statement				
Turnover	3,756.4	2,916.2	2,822.9	584.3
Cost of sales	929.6	654.9	642.3	115.9
Gross profit	2,826.8	2,261.3	2,180.6	468.4
Operating expenses	122.9	5.8	7.9	3.8
Ebit	916.8	649.1	635.3	112.4
Associates	-	-	-	-
Interest income	2.2	1.5	1.3	0.2
Interest expense	10.5	11.4	13.5	3.8
Extraordinary gain/(loss)	-	-	-	-
Pre-tax profit	908.5	639.2	623.0	108.8
Net profit - owners of company	721.3	492.6	468.5	83.1

way of working. This will ensure that the company is better placed to meet ever-evolving consumer needs and deliver savings that can be reinvested into accelerating growth into the new categories.

"While we do not like having to rationalise investments and optimise expenses, but given the current reality it is necessary in ensuring the future sustainability of our business and in establishing a strong financial position that will create a solid platform to drive growth and deliver value to our shareholders," he added.

Stool also dismissed talk that he will be stepping down from the role he has held since three years ago, amid a global shakeup at the company's second largest tobacco firm.

"That is incorrect. Any change in directors will be announced to Bursa Malaysia as per listing requirements."

Stool, 50, joined BAT Malaysia in June 2016, according to BAT Malaysia's 2018 annual report. He has more than 20 years of interna-

tional experience in the BAT Group, spanning the London head office, Eastern Europe, the Middle East and the Asia-Pacific markets.

Last Thursday, BAT Malaysia announced that its finance director Ricardo Martin Guardo was stepping down. Guardo's resignation was effective Nov 1 and he is scheduled to assume the role of senior vice-president of commercial finance at Reynolds American Inc. Guardo, 41, was appointed as finance director in September 2016.

It is not immediately clear who would fill Guardo's position.

BAT Malaysia's internal reorganisation comes amid a broader shake-up at British American Tobacco plc (BAT) as it prepares to cut 2,300 jobs by January 2020 in a bid to simplify the business and invest in alternatives to smoking.

The plan reportedly focuses on removing management layers, with more than 20% of the group's senior employees being laid off.

"As this is a global exercise, all markets where BAT has a presence will be affected," said Stool.

Tough market conditions have led major tobacco companies to undertake restructuring of its businesses globally. This in turn has affected their local units in Malaysia.



Stool: With the reorganisation, the company will be able to optimise its way of working. Photo by Sathali Yusoff

04

Governance

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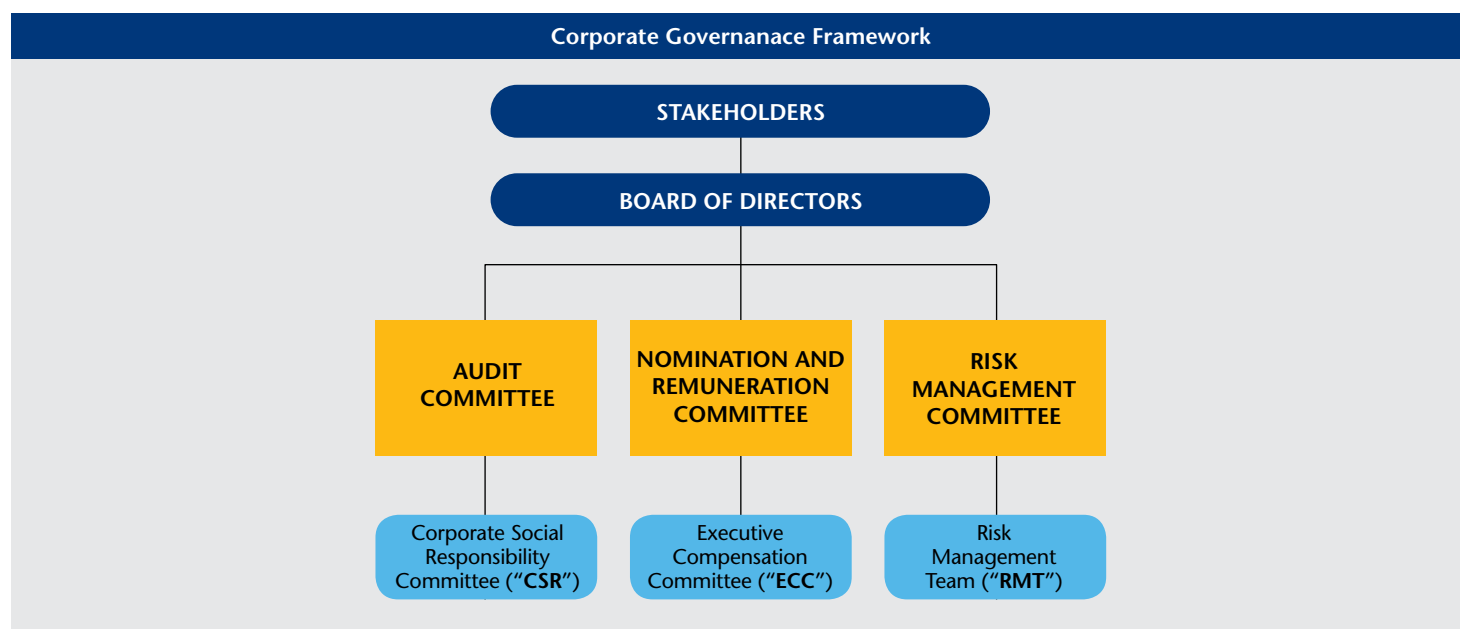
CORPORATE Governance Overview

The Board of Directors (the “**Board**”) of the Company presents an overview of the corporate governance practices of the Company during the financial year ended 2019.

Corporate Governance Framework

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

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



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

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

In driving high standards of corporate governance, the Board continuously reviews its corporate governance framework to ensure its relevance, effectiveness and sustainability in conducting the business and in addressing the challenges of the business. The Company is also guided by the 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 industry. The Business Principles amongst others include Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct, each of which is supported by our core belief which explains and supports the Business Principles.

CORPORATE GOVERNANCE OVERVIEW

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, annual strategic plan, approval of major capital expenditure, major acquisition and disposal of businesses or equity, borrowings and any corporate restructuring, for its decision.

Corporate Governance Overview Statement

The Corporate Governance Overview and Framework are to be read together with the Corporate Governance Report of the Company which is available at the Company's website at www.batmalaysia.com.

This Corporate Governance Overview Statement (the "Statement") seeks to provide investors with vital insights into the corporate governance practices of the Company. In this Statement, the Board reports that the Company and its Subsidiaries have adopted and applied the statutory requirements principles and best practices as set out in the Listing Requirements of Bursa Securities, the Act, MCCG 2017 and the CG Guide.

Principle A: Board Leadership and Effectiveness

1. BOARD COMPOSITION

The Board in the financial year ended 2019 consisted of seven (7) members, comprising four (4) Independent Non-Executive Directors, including the Chairman, one Non-Independent Non-Executive Director and two (2) Non-Independent Executive Directors. Currently fifty-seven percent (57%) of the Board members are Independent Directors, complying with Paragraph 15.02 of the Listing Requirements of Bursa Securities.

1.1 Board Gender Diversity

The Company and its Subsidiaries practice non-discrimination in any form whether based on age, gender or ethnicity throughout the organisation and this includes the selection of Board members. The Board is committed to ensuring that the Directors of the Company possess a broad balance of skills, knowledge, experience, background, independence and diversity, including gender diversity. For the financial year ended 2019, two (2) out of the seven (7) or thirty percent (30%) of Board members are women, with one (1) of the female Board members being an Independent Director. The profiles of the Directors are set out on pages 15 to 23 of this Annual Report.

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

The process for selection, nomination and appointment of suitable candidates to the Board of the Company, is set out on pages 77 to 80 of this Annual Report.

1.2 Board Independence

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

The Nomination and Remuneration Committee ("NRC") reviews the independence of the Directors annually and each Independent Non-Executive Director also performed a self-evaluation to affirm their independence from the Management.

1.3 Tenure of Independent Director

The Board acknowledges and adopts the policy that the tenure of an Independent Director should not exceed a cumulative term limit of nine (9) years, aligning with the MCCG 2017.

CORPORATE GOVERNANCE OVERVIEW

1.4 Senior Independent Non-Executive Director

The Board has appointed Datuk Zainun Aishah binti Ahmad as the Senior Independent Non-Executive Director of the Company, to whom concerns of the other Directors, shareholders and other interested parties may be conveyed to.

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

Tel : +603 2720 8188
Fax : +603 2720 8106
Email : zainun_aishah_ahmad@bat.com
Postal Address : Level 19, Guoco Tower, Damansara City, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur

1.5 Evaluation of the Performance of Board, Committees and Individual Directors

The Board engaged an independent external consultant to facilitate its Board Effectiveness Assessment exercise for the financial year ended 31 December 2019. The Board Effectiveness Assessment was undertaken by way of peer-to-peer evaluations, performance reviews of its committees and self-review assessments as well as one-to-one interview sessions between the representatives of the external consultant and Directors. The results of the Board Effective Assessment for the financial year ended 31 December 2019 were reported to the NRC on 10 February 2020 and subsequently to the Board.

Further information on the evaluation is set out on pages 79 to 80 under the NRC Report of this Annual Report.

1.6 Non-Executive Directors' Meeting

On 31 October 2019, the Non-Executive Directors met without the presence of the Executive Directors and Management. The feedback from this meeting were then presented and deliberated at the Board Meeting held on 31 October 2019.

2. BOARD LEADERSHIP AND RESPONSIBILITIES**2.1 Roles of the Board**

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

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

Roles of the Board					
Establishing appropriate systems of corporate governance in the Company and its Subsidiaries	Overseeing the conduct of the Company's businesses	Reviewing and adopting the strategic plan of the Company	Reviewing the adequacy and integrity of the management of information and internal control systems of the Company	Identifying principal risks and ensuring the implementation of appropriate internal controls to manage these risks	Establishing succession plan including appointing, training, fixing the compensation of and, where appropriate, replacing Senior Management

The Board not only sets the strategic direction but also oversees and ensures that the conduct of the businesses of the Company and its Subsidiaries is following relevant applicable laws, policies, standards and guidelines.

CORPORATE GOVERNANCE OVERVIEW

2.2 Leadership Roles and Responsibilities

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

2.3 Roles of the Chairman and Managing Director

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

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

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

- providing leadership to the Board so that the Board can perform its responsibilities efficiently and effectively;
- setting the agenda for meetings of the Board and ensuring that Board members receive complete and accurate information in a timely manner;
- leading Board and shareholders meetings;
- encouraging active participation and allowing dissenting views to be freely expressed;
- managing the interface between the Board and the Management;
- ensuring the Board is constituted in accordance with and acts in compliance with relevant statutory requirements;
- leading the Board in establishing and monitoring good corporate governance practices in the Company; and
- establishing and maintaining relationships with the stakeholders of the Company including government institutions, shareholders and potential shareholders and major external bodies.

The Board delegates to the Managing Director the authority and responsibility for managing the operations and development of the Company and its Subsidiaries in accordance with the objectives and strategies established by the Board to the Managing Director. The Managing Director is also responsible for stewardship of all the Company and its Subsidiaries' assets and jointly with the Chairman, representing of the Company and its Subsidiaries externally.

CORPORATE GOVERNANCE OVERVIEW

2.4 Role of the Company Secretary

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

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

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

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

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

2.5 Board Committees

The Board restructured its Board Committees with effect from 28 May 2019 as outlined below:

- a. The Nomination Committee and Remuneration Committee were combined to form a new Nomination and Remuneration Committee.
- b. A new Risk Management Committee was established to oversee the Company's risk management framework and policies, taking over that area of responsibility from the Audit Committee.
- c. The Audit Committee was reconstituted with no change in membership but without the risk management duties.

The Board delegates certain responsibilities to the three (3) Board Committees which operate within clearly defined TOR. The Board reviews the functions and TOR of the Board Committees from time to time to ensure that they are relevant and updated in line with the MCCG 2017 and other related policies or regulatory requirements.

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

i. Nomination and Remuneration Committee ("NRC")

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

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

For details on the composition, TOR and a summary of activities of the NRC, please refer to pages 77 to 80 of this Annual Report under the NRC Report.

ii. Risk Management Committee ("RMC")

The RMC assists the Board to oversee the Company and its Subsidiaries' risk management framework.

For details on the composition, TOR and a summary of activities of the RMC, please refer to page 84 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW

iii. Audit Committee ("AC")

The AC assists the Board to oversee the integrity of the financial statements in compliance with legal and regulatory requirements and applicable accounting records, internal controls and financial reporting practices of the Company and its Subsidiaries.

For details on the composition, TOR and a summary of activities of the AC, please refer to pages 81 to 83 of this Annual Report.

2.6 Sub-Committees

The Company has three (3) Sub-Committees, namely the Corporate Social Responsibility Committee, Executive Compensation Committee and Risk Management Team. The Sub-Committees members are made up of the Leadership Team and senior managers of the Company. Their roles and functions, operating procedures and authorities are clearly defined in the TOR of the respective Sub-Committees, which are reviewed by the Board from time to time.

Sub-Committees	Roles
Executive Compensation Committee ("ECC") Chairman: Managing Director	Reviews and approves all elements of remuneration, compensation payments, bonuses, rewards and benefits, save and except salaries of employees of the Company and its Subsidiaries which are reviewed and approved by the relevant Head of Functions together with the Human Resources Director. The members are the Managing Director, Finance Director and Human Resources Director. The Company Secretary acts as the Secretary of the ECC. The ECC meets on a bi-annual basis and when deemed necessary. The ECC met three (3) times in the financial year to review and deliberate on matters related to the remuneration, benefits and payments of the employees in the Company and its Subsidiaries.
Corporate Social Responsibility ("CSR") Committee Chairman: Managing Director	Oversees sustainability operations within the Company and its Subsidiaries including identifying and managing of key social and environmental issues, engaging with key stakeholders, monitoring the efficiency and effectiveness of the CSR management systems and control, ensuring the reliability of social and environmental performance management of information and monitoring alignment with the Business Principles. The members are the Company's Leadership Team and the External Affairs Manager act as the Secretary to the CSR Committee. The CSR Committee met twice in the financial year to deliberate on among others, the review of the Company's current sustainability framework and strategy and the update on the Company's 2019 sustainability initiatives. For detail of the corporate responsibility activities, please refer to pages 130 to 132 of this Annual Report.
Risk Management Team ("RMT") Chairman: Finance Director	Reviews and updates the Leadership Team and AC on the Company's Enterprise Risk Management Programme, ongoing status of the key risks' response measures and status of the business continuity plans. The RMT meets at least twice annually. The Committee met twice during the financial year ended 31 December 2019 to deliberate on among others, the review of the Risk Register, key learnings from the Business Continuity Plan tests as well as risk mitigation plans. For details of the Company's Enterprise Risk Management activities in 2019, please refer to pages 85 to 90 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW

3. BOARD EFFECTIVENESS

3.1 Access to Information and Advice

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

Prior to the Board and the Board Committee meetings, a formal and structured agenda together with a set of the Board and the Board Committee papers containing information relevant to the matters to be deliberated at the meeting are forwarded to all Directors at least five (5) business days before the relevant Board and Board Committee meetings. This is to enable Directors to have enough time to review, consider, and if necessary, obtain further information or research on the matters to be deliberated in order to be well prepared at the meetings.

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

Through regular Board meetings, the Board receives updates 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.

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

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

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

3.2 BATM Code

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

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

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

3.3 Meetings and Time Commitment

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

In addition to the above, all Directors of the Company have complied with the Listing Requirements of Bursa Securities of not holding more than five (5) directorships in listed issuers at any given time. This is to ensure the Directors do not have competing time commitments that may impair their ability to discharge their responsibilities effectively.

CORPORATE GOVERNANCE OVERVIEW

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

During the financial year under review, the Board met five (5) times (including one special Board meeting). All Directors attended at least fifty percent (50%) of the Board Meetings held during the financial year, with the majority having full attendance, and have complied with the Listing Requirements of Bursa Securities in terms of attendance. This reflects the Board members' commitment and dedication in fulfilling their duties and responsibilities.

The Directors' attendance at Board Meetings and Annual General Meeting ("AGM") for the financial year ended 31 December 2019:

Directors	Board	AGM
Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat (Chairman) Independent Non-Executive Director	5/5	1/1
Hendrik Stoel (Managing Director) Non-Independent Executive Director	5/5	1/1
Datuk Oh Chong Peng Independent Non-Executive Director Retired at 58 th AGM	2/2	N/A
Datuk Zainun Aishah binti Ahmad Independent Non-Executive Director	5/5	0/1
Eric Ooi Lip Aun Independent Non-Executive Director Appointed on 1 March 2019	4/4	1/1
Dato' Chan Choon Ngai Independent Non-Executive Director	5/5	1/1
Datuk Christine Lee Oi Kuan Re-designated as Non-Independent Non-Executive Director on 1 January 2019	4/5	1/1
Ricardo Martin Guardo (Finance Director) Non-Independent Executive Director Resigned on 1 November 2019	5/5	1/1
Ignacio Ballester (Finance Director) Non-Independent Executive Director Appointed on 9 December 2019	N/A	N/A

CORPORATE GOVERNANCE OVERVIEW

3.4 Dealing in Securities

The Board has adopted the Internal Regulations on Securities Dealings applicable to Directors and key employees of the Group and their connected persons ("**Affected Person**"). The Affected Person is prohibited from trading in securities based on price sensitive information and knowledge acquired by virtue of his/her position which has not been publicly announced. During open periods, an Affected Person may only deal if he or she has made a prior written application and received written permission from the Chairman, the Managing Director or the Finance Director of the Company and these are submitted to the Company Secretary. The Affected Person must within three (3) business days after the dealing has occurred give notice of the dealing in writing to the Company Secretary and the Company announces such notice immediately through Bursa Securities. During the closed period (which is thirty (30) calendar days before the date of the announcement of the quarterly results of the Company up to the date of the announcement), no dealing in the securities of the Company by Directors and key employees is permitted. Dealings by Directors and key employees in the Company's shares are disclosed to the Board of Directors on a quarterly basis.

3.5 Directors' Training

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

The following training programmes were attended by the Directors during the financial year ended 31 December 2019:

Directors	Briefing/Conference/Forum/ Seminar/Training/Workshop attended	Organiser	Date
Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat	i. Emerging Risks and the Future Board	SIDC	27 November 2019
Hendrik Stoel	i. Emerging Risks and the Future Board	SIDC	27 November 2019
Datuk Zainun Aishah binti Ahmad	i. Preparation for Corporate Liability Corruption ii. PNB Leadership Forum 2019 iii. Bursa Thought Leadership Series iv. Group-Wide Training Programme for Board members and Senior Management Team v. Workshop on Corporate Liability Provision (Section 17A) of the MACC Act 2009 vi. Audit Oversight Board Conversation with Audit Committee vii. Emerging Risks and the Future Board	MICG PNB Bursa Securities BHB Bursa Securities SC SIDC	30 January 2019 25 June 2019 23 August 2019 29 October 2019 4 November 2019 8 November 2019 27 November 2019

Note:

SIDC	: Securities Industry Development Corporation
MICG	: Malaysian Institute of Corporate Governance
PNB	: Permodalan Nasional Berhad
Bursa Securities	: Bursa Malaysia Securities Berhad
BHB	: Boustead Holdings Berhad
SC	: Securities Commission Malaysia
EY	: Ernst & Young
ICLIF	: The Iclif Leadership and Governance Centre
ICDM	: Institute of Corporate Directors Malaysia
MIA	: Malaysian Institute of Accountants

CORPORATE GOVERNANCE OVERVIEW

Directors	Briefing/Conference/Forum/ Seminar/Training/Workshop attended	Organiser	Date
Dato' Chan Choon Ngai	i. Preparation for Corporate Liability Corruption	MICG	30 January 2019
	ii. Emerging Risks and the Future Board	SIDC	27 November 2019
Eric Ooi Lip Aun	i. Insight-sharing on the Inland Revenue Board's Special Voluntary Disclosure Programme	EY	26 March 2019
	ii. Mandatory Accreditation Programme	ICLIF	11-12 April 2019
	iii. When Disruption Meets Tradition	ICDM	27 June 2019
	iv. Workshop on Digital Disruption and Innovation	Genting Group	30 August 2019
	v. MIA International Accountants Conference 2019 themed "Trust and Sustainability in a Digital Economy"	MIA	22-23 October 2019
	vi. Audit Oversight Board Conversation with Audit Committee	SC	22 November 2019
	vii. Emerging Risks and the Future Board	SIDC	27 November 2019
Datuk Christine Lee Oi Kuan	i. Emerging Risks and the Future Board	SIDC	27 November 2019
Ignacio Ballester	i. Emerging Risks and the Future Board	SIDC	27 November 2019
	ii. Corruption and Bribery	Bursa Securities	13 December 2019

Note:

SIDC	: Securities Industry Development Corporation
MICG	: Malaysian Institute of Corporate Governance
PNB	: Permodalan Nasional Berhad
Bursa Securities	: Bursa Malaysia Securities Berhad
BHB	: Boustead Holdings Berhad
SC	: Securities Commission Malaysia
EY	: Ernst & Young
ICLIF	: The Iclif Leadership and Governance Centre
ICDM	: Institute of Corporate Directors Malaysia
MIA	: Malaysian Institute of Accountants

CORPORATE GOVERNANCE OVERVIEW

3.6 Ethical and Procedural Standards

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

Standards of Business Conduct	<p>A set of key policies, expressing the high standards of integrity the Company and its Subsidiaries 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.</p> <p>The Standards of Business Conduct require all employees to act with high standards of business integrity and with this, the Company has in place an Anti-Corruption Toolkit which identifies the key controls that the Company is to have in place in order to support strict compliance with the Standards of Business Conduct. The Company is also a signatory of the Malaysian Corporate Integrity Pledge, which was signed on 19 February 2014, demonstrating the Company's commitment in upholding anti-corruption in the conduct of its business.</p> <p><i>For further information on the Standards of Business Conduct, please refer to pages 72 to 75 of this Annual Report under the Standards of Business Conduct Statement.</i></p>
Supplier Code of Conduct	The Supplier Code of Conduct complements the Standards of Business Conduct by defining the minimum standards that the suppliers of the Company are expected to adhere to. The areas covered by this Code are Legal Compliance, Respecting Human Rights, Environmental Sustainability, Responsible Marketing and Business Integrity.
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	The Company had in 2009 launched the Competition Compliance Guidelines to ensure that the Company's practices will be following competition laws ahead of the passing of the Competition Act 2010, which came into force in Malaysia in January 2012. The Competition Compliance Guidelines sets out the general principles and standards of behavior in relation to competition laws that employees are required to follow and comply.
Employment Principles	Demonstrates the Company's commitment to good employment practices and to the Company's position as an employer of choice.
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.
Guidelines on Dawn Raid	Sets out the procedures to be adhered to in the event of any raid by relevant authorities so that appropriate cooperation can be provided in a prompt and efficient manner.
International Marketing Principles	An internal 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 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.

CORPORATE GOVERNANCE OVERVIEW

4. REMUNERATION

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

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

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

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

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

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

The Company has engaged Datuk Christine Lee Oi Kuan as a consultant to provide consultancy services to the Company for a period of eighteen (18) months commencing 1st January 2019 until 20th June 2020.

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

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

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

CORPORATE GOVERNANCE OVERVIEW

The details of the Directors' remuneration comprising remuneration received/receivable from the Company and its Subsidiaries for the financial year ended 31 December 2019 are as follows:

Directors	Salary (RM)		Fee (RM)		*Other Emoluments (RM)		**Benefits-in-kind (RM)		Total (RM)
	Company	Subsidiary	Company	Subsidiary	Company	Subsidiary	Company	Subsidiary	
Hendrik Stoel	1,086,974	-	-	-	2,237,910	-	398,470	-	3,723,354
Ignacio Ballester (Appointed on 9 December 2019)	248,525	-	-	-	104,055	-	23,649	-	376,229
Ricardo Martin Guardo (Resigned on 1 November 2019)	708,884	-	-	-	1,275,069	-	381,661	-	2,365,614
Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat	-	-	345,000	-	154,092	-	-	-	499,092
Datuk Zainun Aishah binti Ahmad	-	-	100,000	-	10,000	-	-	-	110,000
Eric Ooi Lip Aun (Appointed on 1 March 2019)	-	-	97,333	-	5,000	-	-	-	102,333
Datuk Oh Chong Peng (Retired at 58 th AGM)	-	-	35,918	-	4,000	-	-	-	39,918
Dato' Chan Choon Ngai	-	-	100,000	-	10,000	-	-	-	110,000
Datuk Christine Lee Oi Kuan	-	-	100,000	-	2,796,008	-	25,000	-	2,921,008
TOTAL	2,044,383	-	778,251	-	6,596,134	-	828,780	-	10,247,548

The remuneration of the Leadership Team of the Company and its Subsidiaries for the financial year ended 31 December 2019 are as follows:

<u>Name</u>	<u>Range of Remuneration (RM)</u>
Linda Song Yik Lin	2,150,000 - 2,200,000
Karl Yap Chee Keong	1,450,000 - 1,500,000
CK Remeena Prabhakaran	1,050,000 - 1,100,000
Felicia Teh Sook-Ching (Appointed on 15 July 2019)	650,000 - 700,000

The other remuneration of the members of the Leadership Team are disclosed under the Directors' remuneration.

CORPORATE GOVERNANCE OVERVIEW

Principle B: Effective Audit and Risk Management**1. AUDIT COMMITTEE**

The AC comprises three (3) members, all of whom are Independent Non-Executive Directors. The AC is chaired by an Independent Non-Executive Director who is not the Chairman of the Board. The AC is responsible for the oversight and monitoring of:

- | | |
|----|---|
| a. | the Company and its Subsidiaries financial reporting and accounting policies; |
| b. | risk management framework (the RMC took over the responsibilities upon formation); |
| c. | internal control; |
| d. | related party transactions and conflict of interest situations that may arise within the Company and its Subsidiaries; |
| e. | the Company and its Subsidiaries' Internal Audit functions which includes review of the internal audit plans, appointment and termination of senior staff members of the internal audit function; and |
| f. | the appointment, scope of work and evaluation of the external auditor. |

The AC took note of the Practice 8.2 of the MCGG 2017 and the Board has approved the adoption of the policy that requires a former key audit partner to observe a cooling-off period of at least two (2) years before being appointed as a member of the AC. This is to safeguard the independence of the AC by avoiding the potential threats which may arise when a former key audit partner is able to exert significant influence over the audit and preparation of the company's financial statement.

The AC evaluated the performance of the external auditors for the financial year ended 31 December 2019 covering areas such as calibre of external audit firm, independence and objectivity, performance of external audit firm, audit team, audit scope and planning and audit fees. After due consideration by the AC of the suitability, objectivity, independence and performance of the external audit firm, KPMG PLT, the AC had recommended to the Board for approval, the re-appointment of KPMG PLT as external auditors for the financial year ending 31 December 2020.

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

For details on the composition, attendance record, TOR and a summary of activities of the AC, please refer to pages 81 to 83 of this Annual Report.

2. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

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

The Board took note of the Practice 9.3 of the MCGG 2017 and instituted the RMC which comprises the majority Independent Directors. The RMC assists the Board to review the risk management framework adopted within the Company and its Subsidiaries and monitors the effectiveness of risk mitigation action plans to minimise losses and maximise opportunities. Besides that, the AC monitors systems of internal control to ensure they are soundly conceived and in place and effectively administered.

3. 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 Company and its Subsidiaries.

Details of the Company's internal control system and framework are set out in the Statement on Risk Management and Internal Control, RMC Report and AC Report are presented from pages 85 to 92, page 84 and pages 81 to 83 respectively of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW

4. COMPLIANCE WITH APPLICABLE FINANCIAL REPORTING STANDARDS

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

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

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

The Directors' Responsibility Statement for the audited financial statements of the Company and its Subsidiaries is set out in page 162 of this Annual Report. The details of the Company and its Subsidiaries' financial statements for the financial year ended 31 December 2019 are presented from pages 163 to 238 of the Annual Report.

5. RELATED PARTY TRANSACTIONS

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

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

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

Internal Framework
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 favorable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.
All related party transactions will be reported to the AC of the Company. Any member of the AC of the Company may as he deems fit, request for additional information pertaining to the transaction including from independent sources or advisers.
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.
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.
The Management updates the Board on a quarterly basis on all recurrent related party transactions and in the event there are any discrepancies or queries, the AC shall direct the British American Tobacco p.l.c. Group Internal Audit to carry out investigation pertaining to the discrepancies or queries.

The Company proposes to seek its shareholders' approval on the renewal and the new 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 and New Recurrent Related Party Transactions Mandate**") at the Company's forthcoming Fifty-Ninth (59th) AGM. The Proposed Renewal and New Recurrent Related Party Transactions Mandate which details are disclosed in the Circular to Shareholders dated 23 March 2020 (if approved by the shareholders) the Proposed Renewal and New Recurrent Related Party Transactions Mandate would be valid until the Company's next AGM.

CORPORATE GOVERNANCE OVERVIEW

6. INDEPENDENCE OF EXTERNAL AUDITORS

The appointment of KPMG PLT as the external auditors of the Company for the financial year ended 31 December 2019 until the conclusion of the Company's next AGM was approved by the shareholders of the Company during the Fifty-Eighth ("58th") AGM held on 18 April 2019.

The Board via the AC maintains a formal and transparent professional relationship with the Company and its Subsidiaries' auditors, both internal and external. The AC had met with the external auditors without the presence of the Executive Directors and Management twice during the financial year ended 31 December 2019, which encouraged a greater exchange of independent views and opinions as well as dialogue between both parties.

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

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

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

1. COMMUNICATION WITH STAKEHOLDERS

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

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

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

During the financial year ended 31 December 2019, the Company held four (4) quarterly briefings, eighteen (18) direct one-on-one meetings, and hosted forty (40) teleconferences with fund managers, institutional investors and investment analysts.

The primary contact for investor relation matters is as follows:

Name	:	Ignacio Ballester
Designation	:	Finance Director
Email	:	fdoffice_malaysia@bat.com

CORPORATE GOVERNANCE OVERVIEW

2. CONDUCT OF GENERAL MEETINGS

The Company acknowledges that good corporate governance requires active participation of the 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.

The Company's AGM serves as a forum for the shareholders to view the Company's performance and highlights for the year, industry overview, business transformation updates and financial highlights. As the Board values effective two-way communication with shareholders, the Directors and Leadership Team personally engage with the shareholders and welcome their opinions and views. During the meeting, the shareholders participate in the deliberations of the resolutions being proposed or on the Company's operations in general. The shareholders are encouraged to ask questions about the resolutions being proposed and the operations of the Company and communicate their expectations and concerns. Questions posed are, where possible, answered in detail either at the AGM itself or thereafter where the shareholders will be contacted and provided with the answers. At every AGM, a helpdesk will also be set up as a contact point for shareholders' enquiries.

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

The Notice and Agenda of the 59th AGM together with the Form of Proxy are given to shareholders twenty-eight (28) days prior to the AGM, which allows shareholders sufficient time to make the necessary arrangements to attend the AGM or to appoint a prox(ies) to attend and vote on their behalf. The Notice and Agenda of the 59th AGM are published in the local English and Bahasa Malaysia newspapers and made available on the Company's website at www.batmalaysia.com. The Notice and Agenda are accompanied by explanatory notes and a statement explaining the rationale of each agenda item.

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

3. POLL VOTING

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

All resolutions set out in the notice of AGM will be voted by polling. Polling processes will be explained during the general meeting and will be conducted via e-voting. The poll results will be verified by appointed scrutineers.

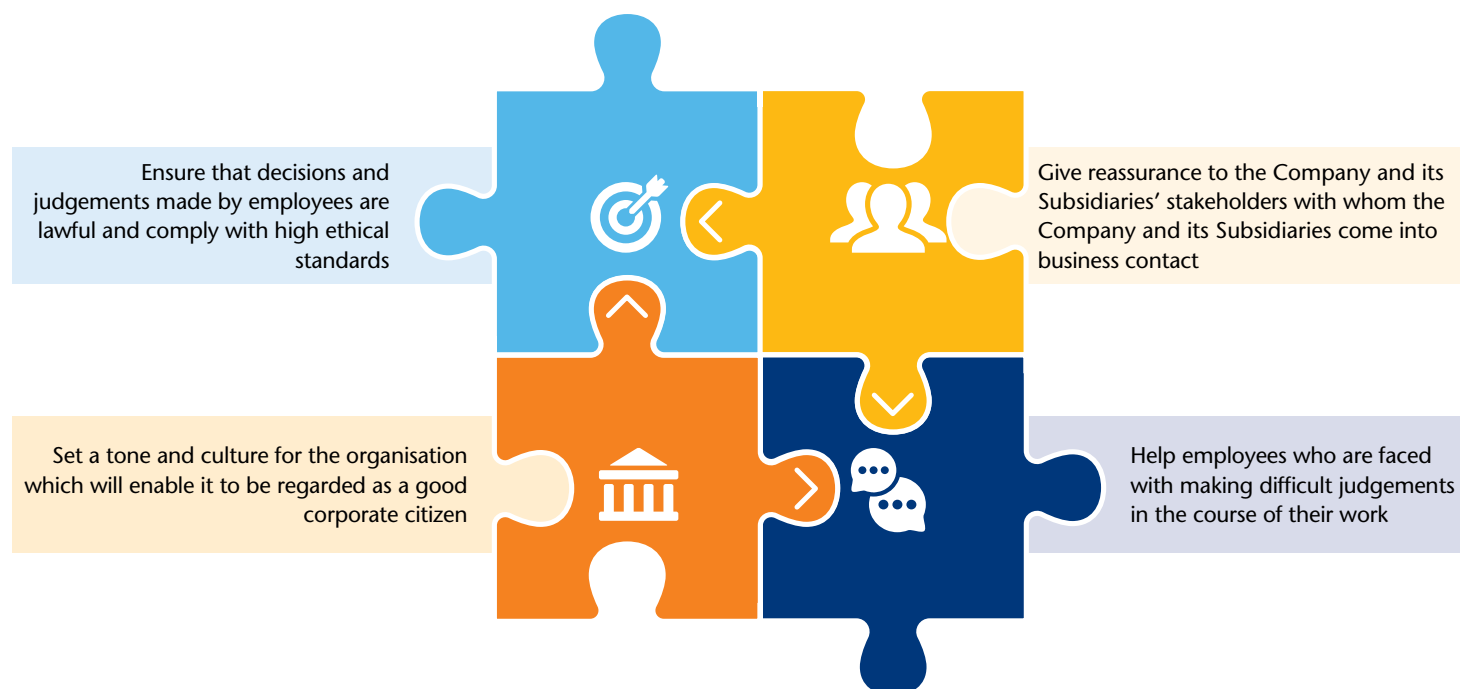
Compliance Statement

The Board has deliberated, reviewed and approved the Statement on Corporate Governance in line with the principles of the MCCG 2017. The Board is satisfied that the Company has fulfilled its obligation under the BATM Code, MCCG 2017, Listing Requirements of Bursa Securities and all applicable laws and regulations throughout the financial year ended 31 December 2019.

This Statement was approved by the Board on 20 February 2020.

STANDARDS OF Business Conduct Statement

The Standards of Business Conduct (“**Standards**”) represent the ethical values and behaviours that reflect the Company and its Subsidiaries’ culture. As the foundation of Delivery with Integrity, the Standards guidance and a consistent approach to the Company and its Subsidiaries’ management of risks in key areas of compliance and support the Company and its Subsidiaries in delivering outstanding business results with integrity.



The Standards are divided into the following six (6) chapters:

Whistleblowing	
Personal and Business Integrity	<ul style="list-style-type: none"> • Conflicts of Interest • Bribery and Corruption • Entertainment and Gifts
Workplace and Human Rights	<ul style="list-style-type: none"> • Respect in the Workplace • Human Rights and Our Operations
Public Contributions	<ul style="list-style-type: none"> • Political Contributions • Charitable Contributions
Corporate Assets and Financial Integrity	<ul style="list-style-type: none"> • Accurate Accounting and Record Keeping • Protection of Corporate Assets • Confidentiality and Information Security • Insider Dealing and Market Abuse
National and International Trade	<ul style="list-style-type: none"> • Competition Law and Anti-Trust Laws • Money Laundering and Anti-Terrorism • Illicit Trade • Sanctions

All employees of the Company and its Subsidiaries, including the Directors, are required to complete training and annually sign-off confirming their acceptance and adherence to the Standards.

STANDARDS OF BUSINESS CONDUCT STATEMENT

- **Conflicts of Interest**

The Company and its Subsidiaries have in place an effective procedure for identifying, managing and mitigating any potential conflicts of interests. In order to ensure compliance and transparency, all employees, including the Board are required to disclose any conflicts of interests whenever it arises.

The Standards provide examples of situations where conflicts of interest may arise. One such conflict to be declared is in relation to whether the employee and/or immediate family have an interest in or association with the operations of the Company and its Subsidiaries which may lead to a conflict of interest. Other examples of areas where situations of conflict may arise are corporate opportunity, outside employment and financial interest.

These declarations are then registered and maintained in the Company and its Subsidiaries' Conflict of Interest register. For year 2019, forty-four (44) employees made fifty-two (52) declarations on potential conflicts of interests, of which thirty-five (35) declarations consisted of employees having family and/or personal relationships with another employee working within the Company and its Subsidiaries or within the British American Tobacco p.l.c. Group and seventeen (17) declarations were for other areas.

- **Anti-Bribery and Corruption**

The Company and its Subsidiaries have adopted a zero tolerance approach for bribery and corruption. It is wholly unacceptable for the Company and its Subsidiaries, its employees, business partners and suppliers to be involved or implicated in any way in bribery and corrupt practices.

- **Anti-Bribery and Corruption Framework**

The Legal and External Affairs function, being the custodians of the Standards, had presented to the Audit Committee on 27 May 2019 on the Company and its Subsidiaries Anti-Bribery and Corruption framework. The Standard's policy on Anti-Bribery and Corruption, the Third Party Anti-Bribery and Corruption Procedure, the Supplier Code of Conduct and how the Company and its Subsidiaries satisfy the Guidelines on Adequate Procedure were issued following the implementation of the new section 17A of the Malaysian Anti-Corruption Commission Act (which will come into force in June 2020).

- **Third Party Anti Bribery and Corruption Procedure**

The Company and its Subsidiaries have implemented a new Third-Party Anti-Bribery and Corruption Procedure ("**Procedure**") which provides a framework for appropriately identifying, assessing, mitigating and monitoring bribery and corruption risk when dealing with any third party. This global Procedure applies to all third parties with which the Company and its Subsidiaries engage in the course of business, including (but not limited to) all customers, distributors and suppliers ("**Third Parties**").

All Third Parties will undergo a targeted due diligence which focuses on identifying and dealing with any Third Parties that pose any risk from a bribery and corruption perspective. Trainings were conducted to ensure adequate knowledge and competency to those employees executing this due diligence exercise. After conducting such due diligence, specified mandatory or discretionary risk mitigation requirements are followed. An example of such risk mitigation requirements is to ensure anti-bribery contractual terms are included in contracts.

The employees are required to, at any time upon becoming aware of anything suspicious about a Third Party anywhere in the Company and its Subsidiaries (whether proposed or already engaged), promptly escalate and report their concerns.

- **Anti-Bribery and Corruption Risk Assessment Tool**

The Company and its Subsidiaries also assessed their bribery and corruption risk using the new Anti-Bribery and Corruption Risk Assessment Tool ("**ABAC Tool**") developed by the British American Tobacco p.l.c. Group in line with the methodology set out in the British American Tobacco p.l.c. Group Risk Management Manual.

Using the ABAC Tool, the Company and its Subsidiaries bribery and corruption risk is rated which then identifies and sets out proportionate measures to manage any identified risk. All thirteen (13) mandatory controls including three (3) of the six (6) optional controls as set out in the ABAC Tool are in place. This assessment was reported and presented to the Company's Leadership Team on 10 October 2019.

This assessment is to be performed at least once a year or any time there is a significant change in the Company and its Subsidiaries business.

STANDARDS OF BUSINESS CONDUCT STATEMENT

• Whistleblowing

In 2018, the Company and its Subsidiaries rolled out a new **SPEAK UP** hotline and portal that is managed by a third party, which provides additional channels via telephone and online to raise concerns around the Standards.

Complementing the whistleblowing policy that was introduced in 2004, the Speak Up hotline sets the procedures that must be followed to enable employees to voice their concerns. Under the Standards, employees have a duty to report breaches that they know, or even suspect. The Group commits to keeping all reports confidential, and to conducting a full and objective investigation and assures employees that they will not suffer reprisal or victimisation for speaking up.

The Company and its Subsidiaries had also put in place the Procedures on Incident Reporting and Investigation ("**Incident Procedures**"). 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 its Subsidiaries and non-employee who is a business partner/service provider of the Company and its Subsidiaries in a prompt and effective manner. The evaluation of any incidences reported is conducted by a formal evaluation committee comprising most of the Company and its Subsidiaries' 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 and the timelines for the review to be completed to ensure that speedy action is taken after an incident has been reported.

All incidents which are reported will be investigated by an investigation team mandated by the EVT to ensure that all cases which have been reported or discovered are investigated upon promptly. The reports of investigation are then forwarded to the EVT for review and evaluation and if the case warrants it, police reports may be made and a domestic inquiry may be conducted and thereafter, the Company and its Subsidiaries have the discretion to take the appropriate disciplinary action including issuance of warnings and dismissal. 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 and its Subsidiaries will be reported to the Audit Committee of the Company and its Subsidiaries and further submitted to the Regional Audit Committee for British American Tobacco p.l.c. Group's Main Board Audit Committee. The Company and its Subsidiaries maintain a register of all whistleblowing and breach of Standards incidences.

• Supplier Code of Conduct

Whilst the Standards express the high standards of business integrity that is required from the Company and its Subsidiaries employees, the Supplier Code of Conduct ("**SCoC**") complements the Standards by defining the minimum standards that the Company and its Subsidiaries expect from suppliers, contractors and sub-contractors.

The SCoC supports the Company and its Subsidiaries continuing commitment to respect human rights and uphold international standards, including the United Nations Guiding Principles on Business and Human Rights and the Organisation for Economic Cooperation and Development Guidelines for Multinational Enterprises. The other standards of business integrity required from suppliers are in the areas of Conflict of Interest, bribery and corruption, gifts and entertainment, sanctions, tax evasion and illicit trade. All suppliers are expected to meet the requirements of the SCoC in order to supply goods or services to the Company and its Subsidiaries and this requirement is incorporated into our agreements with the suppliers.

It is made clear in all these agreements that compliance to the SCoC is mandatory and that any non-compliance of the SCoC is deemed a breach and the Company and its Subsidiaries have the right to terminate agreements with the said contractors, service providers, suppliers or distributors of the Company and its Subsidiaries.

The Board and the Audit Committee of British American Tobacco (Malaysia) Berhad regularly monitors compliance with the Standards. The Company Secretary and the Legal Compliance Department 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, the 2020 Standards and any other incidences of wrongdoing at work. Our business partners are also welcomed to report their concerns and can do so via the Speak Up portal. The Standards and the 2020 Standards are made available to our employees and the Board on the Company and its Subsidiaries' intranet (Interact website) and the Company and its Subsidiaries' corporate website at www.batmalaysia.com.

OTHER Compliance Information

1. UTILISATION OF PROCEEDS

There were no proceeds raised by the Company from any corporate proposal during the financial year ended 31 December 2019.

2. AUDIT AND NON-AUDIT FEES

The amount of audit and non-audit fees paid or payable to the external auditors, KPMG PLT and their affiliated companies for the financial year ended 31 December 2019 are as follows:

	Company and its Subsidiaries (RM)	Company (RM)
Audit fees	538,000	382,000
Non-audit fees	170,000	170,000

3. MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

There were no material contracts entered into by the Company and its Subsidiaries involving interests of Directors and Major Shareholders either still subsisting at the end of the financial year ended 31 December 2019 or, if not then subsisting, entered into since the end of the previous financial year.

4. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

During the Company's Fifty-Eighth (58th) Annual General Meeting held on 18 April 2019, the Company and its Subsidiaries had obtained a renewal of the Recurrent Related Party Transaction ("RRPT") mandate with certain related parties (as defined in the Circular to Shareholders dated 20 March 2019). The RRPTs conducted during the financial year ended 31 December 2019 pursuant to the said mandate are disclosed in pages 229 to 230 in this Annual Report.

NOMINATION AND Remuneration Committee Report

The Nomination Committee ("NC") and Remuneration Committee ("RC") were combined as the Nomination and Remuneration Committee ("NRC") on 28 May 2019 to enhance efficiency of the board committee in discharging its duties and responsibilities. The NRC comprises three members, all of whom are Independent Non-Executive Directors and is chaired by the Chairman of the Company, who is an Independent Non-Executive Director. The NRC provides assistance to the Board in the following areas:

Nomination Matters

- Review and assess the appointment/re-appointment of the Directors, Board Committee members and senior management for recommendation to the Board;
- Oversee the establishment of a formal and transparent procedure for the performance of evaluation of the Directors, Board Committee members and individual Directors; and
- Advise the Board on the optimal size and mix of skills, knowledge, expertise and competencies of the Board and Board Committees.

Remuneration Matters

- Review and assess policy framework on the terms of employment of the Executive Directors and members of the Leadership Team;
- Review and assess the remuneration and compensation payments of the Executive Directors and members of the Leadership Team;
- Review and approve the annual bonus and salary increment of the Executive Directors and members of the Leadership Team; and
- Review and recommend remuneration of the Non-Executive Directors.

Composition And Meetings

The composition of the NRC and the attendance record of its members are as follows:

Director	Designation	NC	RC	NRC
Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat (Chairman)	Independent Non-Executive Director	2/2	N/A	1/1
Datuk Zainun Aishah binti Ahmad (Member)	Independent Non-Executive Director	N/A	3/3	1/1
Dato' Chan Choon Ngai (Member) (Appointed as a member of NC and RC on 21 February 2019)	Independent Non-Executive Director	1/1	1/1	1/1
Datuk Oh Chong Peng (Resigned as a member of NC and RC on 18 April 2019)	Independent Non-Executive Director	1/1	2/2	N/A

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

NOMINATION AND REMUNERATION COMMITTEE REPORT

Terms Of Reference

The Terms of Reference (“TOR”) of the NRC is available on the Corporate Governance section of the Company’s website at www.batmalaysia.com.

Board Appointments

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

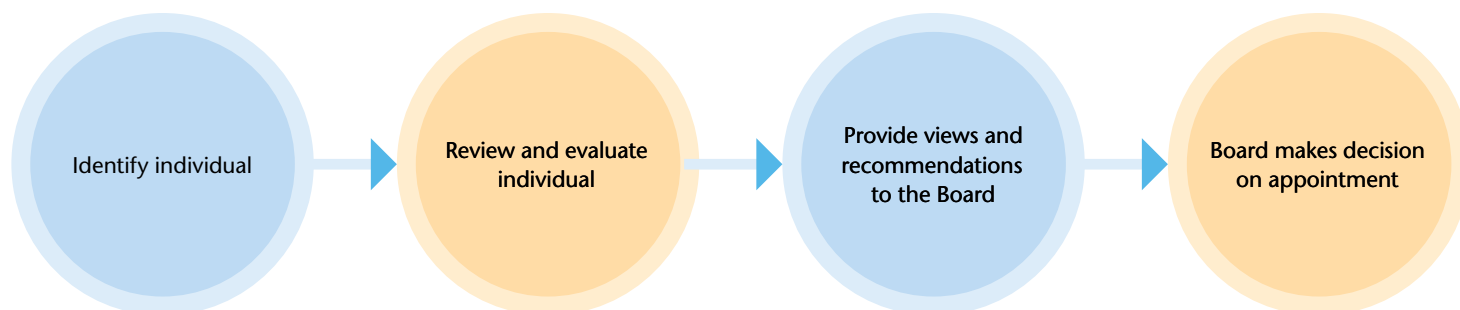
The NRC is entrusted with the responsibility of assessing and considering the capabilities, professionalism, integrity, expertise and experience of candidates to be appointed as Board members as well as Board Committee members, taking into account the existing structure, size and composition of the Board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

The NRC also takes into consideration the following:

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

The NRC may identify a Director candidate using executive search firms and/or via recommendation from other Directors. A shortlisted candidate will attend an interview with the members of the NRC to assess his or her suitability in terms of technical expertise, skills and experience, fit with the Board, availability and terms of appointment. Once a potential Director candidate is shortlisted for recommendation, the Company Secretary will conduct comprehensive reference checks, including checks on financial background, character integrity and professional qualifications. Upon completion of the reference checks, the NRC will recommend the proposed candidate to the Board. The Board will deliberate on the recommended candidate and if deemed appropriate, shall approve the appointment of the candidate as a Director of the Company. Upon the appointment of the candidate as a new Director, a letter of appointment is issued to the new Director.

The Board appointment process is illustrated below:



Re-appointment and Re-election of the Directors

The re-appointment and re-election of the Directors are done in accordance with Clauses 109.1 and 109.2 of the Company’s Constitution which provides that one-third of the Directors are subject to retirement by rotation at every Annual General Meeting (“AGM”) but shall be eligible for re-election. Provided always that all Directors shall retire from office once at least in each three years but shall be eligible for re-election. The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-election.

Upon reviewing the findings of the performance evaluation undertaken during the year under review for the Board as a whole, Board Committees, individual Directors and Independent Directors, the Board is of the view that the following Directors, who are subject to re-appointment or re-election at the 59th AGM, have the experience, competency, integrity and professionalism in performing their respective duties.

NOMINATION AND REMUNERATION COMMITTEE REPORT

With that, the Board with the recommendation of the NRC collectively resolved to recommend to the shareholders to vote in favour for re-election of the following Directors at the 59th AGM:

- a. Re-election pursuant to Clauses 109.1 and 109.2 of the Constitution of the Company:
 - i. Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat
 - ii. Datuk Christine Lee Oi Kuan
- b. Re-election pursuant to Clause 115 of the Constitution of the Company:
 - i. Mr Jonathan Darlow Reed
 - ii. Mr Ignacio Ballester

Annual Performance Evaluation

An independent external consultant facilitated the Board Effectiveness Assessment for the financial year ended 31 December 2019 encompassing the following areas:



Board Assessment
Survey



Document
Inspection



Interviews



Reporting

CORE ELEMENTS OF THE BOARD GOVERNANCE

Leadership Culture

Risk Management

Governance Processes

Talent Development

Board Oversight

Stakeholders Engagement

Review of Corporate Strategy & Innovations Plans

Performance & Evaluation

Leadership Succession & Remuneration

NOMINATION AND REMUNERATION COMMITTEE REPORT

Board and Board Committees Effectiveness



Directors' Self and Peer Evaluation



Based on the assessment, the Board concluded that the Board and Board Committees have been efficient and effective in discharging their oversight responsibilities during the financial year.

Succession Planning

The Board is responsible for succession planning of Senior Management of the Company. With its high performance leadership culture, the Company attracts, develops and retains the next generation of leaders who are empowered to deliver and take ownership of results. The Company has in place a robust development approach to create a pool of qualified individuals to ensure succession pipelines. In the event that there is no suitable internal candidate within the accelerated high-performance pool, the Company identifies external candidates. Identified candidates are tabled to the NRC for assessment and the successful candidate is then nominated to the Board for approval and appointment.

Summary Of Activities

During the financial year ended 31 December 2019, the NRC held one meeting and deliberated on the following matters:

- a. Reviewed and recommended appointment of new Directors;
- b. Recommended the re-election and re-appointment of Directors at the 58th AGM to the Board for consideration;
- c. Reviewed the analysis/findings of the Directors' performance evaluation of the Board and Board Committees for year 2018;
- d. Recommended the composition of the NRC and RMC;
- e. Reviewed the NC Report for inclusion into 2018 Annual Report;
- f. Reviewed the Non-Executive Directors' fees and benefits;
- g. Reviewed and recommended the following policies:
 - New policy on flexible work arrangement for new parents;
 - New policy on work from home Malaysia;
 - Revised policy on maternity and adoption leave; and
 - Revised policy on paternity leave and benefit.
- h. Reviewed and approved the annual bonus, salary increments and remuneration package for the Leadership Team; and
- i. Review of the Short-Term Incentive Scheme and Bonus Splits 2019.

AUDIT

Committee Report

The Audit Committee (“AC”) is pleased to present the AC Report for the financial year ended 31 December 2019.

Composition And Meetings

During the financial year ended 31 December 2019, the AC met four (4) times. The composition of the AC and the attendance record of its members are as follows:

Director	Designation	Total Meeting Attended
Eric Ooi Lip Aun (Chairman) <i>(Appointed as a member of AC on 1 March 2019 and re-designated as Chairman of AC on 19 April 2019)</i>	Independent Non-Executive Director	3/3
Datuk Zainun Aishah binti Ahmad (Member)	Independent Non-Executive Director	4/4
Dato’ Chan Choon Ngai (Member)	Independent Non-Executive Director	4/4
Datuk Oh Chong Peng <i>(Resigned as a member of AC on 18 April 2019)</i>	Independent Non-Executive Director	1/1

The Finance Director, the external auditors and a permanent invitee from British American Tobacco p.l.c. Group’s Internal Audit are invitees to the AC meetings and had attended all the meetings held during the financial year to brief the AC on pertinent issues.

The AC Chairman engaged on a continuous basis with the Leadership Team, the external auditors and the Internal Auditors to keep abreast on matters affecting the Company and its subsidiaries. Where significant issues were noted, the AC Chairman communicated and conferred with other members, either through emails or in meetings.

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

Terms Of Reference

The Terms of Reference of the AC are available in the Corporate Governance section of the Company’s website at www.batmalaysia.com.

Summary Of Activities

The AC carried out the following activities during the financial year ended 31 December 2019:

1. Financial Reporting

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

2. Internal Audit

- Reviewed the 2019 Company and its Subsidiaries’ Internal Audit plan to ensure adequate coverage over the key risks of the Company and its Subsidiaries and that there are adequate resources within the Internal Audit team to carry out the audit plan.
- Reviewed and reported the implementation status of agreed audit recommendations at the quarterly AC meetings to ensure timely implementation by the Management.

AUDIT COMMITTEE REPORT

3. External Audit

- a. Reviewed the external auditors' report which summarised key findings arising from the audit of the financial statements for the year ended 31 December 2018 and reviewed the Directors' Statement on Risk Management and Internal Control.
- b. Reviewed with the external auditors their audit plan for the financial year ended 31 December 2019 which outlines audit materiality, audit scope, methodology and timing of audit, key milestones, involvement of IT specialists, audit focus areas, adoption and transition of accounting standards and proposed fees for the audit services rendered by the external auditors for the financial year ended 31 December 2019.
- c. Reviewed the written assurance provided by the external auditors in respect of their independence.
- d. Met with the external auditors twice without the presence of the Executive Directors and Management during the year under review.

4. Risk Review

Before the Board instituted the Risk Management Committee on 28 May 2019, the Audit Committee also undertook the following:

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

The Risk Management Committee took over these responsibilities from the AC thereafter.

5. Related Party Transactions

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

6. Annual Reporting

Reviewed and endorsed the Statement on Corporate Governance, AC Report, Standards of Business Conduct Statement, Statement on Risk Management and Internal Control and Sustainability Report for the Board's approval and inclusion in the Annual Report 2018.

7. Other Activities

- a. Deliberated on reports on whistleblowing and breaches of the Standards of Business Conduct incidents.
- b. Deliberated on security and safety matters and loss reports.
- c. Deliberated on compliance sign-off for the Standards of Business Conduct, Internal Control and Records Management.
- d. Deliberated on environmental, health and safety review reports.
- e. Deliberated on reports on the Control Navigator.
- f. Participated in an independent assessment on the performance of the AC.
- g. Reviewed that the Anti-Bribery and Corruption compliance procedures and policies that are in place are adequate as guided by the Guidelines on Adequate Procedures issued pursuant to Section 17A(5) of the Malaysian Anti-Corruption Commission Act 2009.

AUDIT COMMITTEE REPORT

Internal Audit Function

The function of Internal Audit for the Group is fulfilled through the Global Audit function of British American Tobacco p.l.c. 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 Company and its Subsidiaries.

British American Tobacco p.l.c. Group Internal Audit is staffed by over fifty (50) personnel with relevant professional qualifications. They comply with the Company and its Subsidiaries' Standards of Business Conduct policy and provide independent assurance.

As a permanent invitee of the AC, British American Tobacco p.l.c. Group Internal Audit has direct access to both the AC and the AC Chairman, and reports all matters related to controls and audit findings. British American Tobacco p.l.c. Group Internal Audit assists the AC in reviewing the effectiveness of the Company's internal controls and processes, whilst ensuring that there is an appropriate balance of risk and control in achieving its business objectives.

Any proposal by Management regarding the appointment, transfer and removal of Internal Audit staff requires prior approval of the AC. Any inappropriate restrictions on audit scope are to be reported to the AC. Internal Audit reports relevant to the Company are presented and reported by the Internal Audit Manager at the AC meeting on a quarterly basis.

The development of the annual audit plan continues to be risk-based taking into consideration the continued evolving nature of the Company and its Subsidiaries. The annual audit plan is developed based on the following:



Key risks faced by the Group



The continued progress towards a globally integrated enterprise



Changes introduced by the global operating model

As such, the following types of audits exist, namely Process Audits (including IT), Audits of Change, End Market Accountability Audits, Operations Audits and Other Audits.

- Process Audits have a scope of an end-to-end business process across multiple entities of the Company and its Subsidiaries;
- Audits of Change are focused on significant business change initiatives, including key projects and programmes;
- End Market Accountability Audits consider the Company and its Subsidiaries Top risks related to a specific End Market;
- Operations Audits continue to provide assurance over the core of our business, the ability to supply high quality finished goods in line with the evolving needs of the business and regulatory agenda; and
- Other Audits are audits that are conducted arising from direct requests, either due to an incident, Management request or request from the AC.

The annual audit plan considers the Company as an entity and can be viewed as having three elements:

- 1 Audits with only the Company in scope.
- 2 Audits for which the Company is one of many locations in scope.
- 3 Audits for which the Company is not in scope, but the results of such audits will provide assurance to the Company.

During the financial year 2019, the subject matter of audits and findings conducted by the British American Tobacco p.l.c. Group Internal Audit were as follows:



The total cost incurred for Internal Audit for the Company and its Subsidiaries for the financial year ended 31 December 2019 amounted to RM8,800.00.

Note:

¹ Audits conducted of processes and/or systems that provide assurance to the AC with regards to controls that are applicable to the Company and its Subsidiaries.

RISK MANAGEMENT

Committee Report

In May 2019, the Risk Management Committee was instituted by the Board in line with the Malaysian Code on Corporate Governance recommendation for large companies to adopt the step up of establishing a Risk Management Committee. The purpose of the RMC is to consider more specifically the risks faced by the Company.

Composition And Meetings

During the financial year ended 31 December 2019, the RMC met twice. The composition of the RMC and the attendance record of its members are as follows:

Director	Designation	Total Meeting Attended
Eric Ooi Lip Aun (Chairman)	Independent Non-Executive Director	2/2
Datuk Zainun Aishah binti Ahmad (Member)	Independent Non-Executive Director	2/2
Dato' Chan Choon Ngai (Member)	Independent Non-Executive Director	2/2
Ignacio Ballester (Member) (Appointed on 9 December 2019)	Non-Independent Executive Director	N/A
Ricardo Martin Guardo (Member) (Resigned on 1 November 2019)	Non-Independent Executive Director	2/2

The Chief Risk Officer and Internal Auditors are invitees to the RMC meetings and had attended all the meetings held during the financial year to brief the RMC on pertinent issues.

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

Terms Of Reference

The Terms of Reference of the RMC are available in the Corporate Governance section of the Company's website at www.batmalaysia.com.

Summary Of Activities

The RMC carried out the following activities for the financial year ended 31 December 2019:

Risk Review

- Reviewed the Company and its Subsidiaries' Risk Management Programme, including the Top 20 risks for the Company and its Subsidiaries and Risk Management Programme work plan, and to ensure that all major risks are well managed and reported to the Board.
- Monitoring of activities for managing risks which include risk mitigation actions and reviewed the business continuity plans being carried out during the year.

STATEMENT ON Risk Management and Internal Control

Responsibility

The Board recognises the importance of sound risk management practices and internal controls to safeguard shareholders' investments and the Company and its Subsidiaries' assets. The Board affirms its overall responsibility for the system of risk management and internal control for the Company and its Subsidiaries which includes the establishment of an appropriate control environment and framework, as well as reviewing its adequacy and integrity. The Board as such is responsible for determining the nature and extent of the strategic risks that the Company and its Subsidiaries are 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 Company and its Subsidiaries, and thereafter design, implement and monitor appropriate internal controls to control and mitigate those risks. The Company and its Subsidiaries have in place a systematic application of processes (outlined below) for identifying, evaluating, monitoring and managing significant risks faced by the Company and its Subsidiaries 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 and the Risk Management Committee. The Audit Committee's responsibilities and duties can be found in the Audit Committee Report section whilst the Risk Management Committee's responsibilities are explained in the Risk Committee Report section of this Annual Report.

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

Enterprise Risk Management

OBJECTIVES

- Preserve the safety and health of the Company and its Subsidiaries' employees.
- Ensure the continuity of the Company and its Subsidiaries' products to consumers and customers at all times.
- Protect the Company and its Subsidiaries' assets and reputation.
- Ensure that the Company and its Subsidiaries' 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 Company and its Subsidiaries' management systems.
- Ensure compliance with the Malaysian Code of Corporate Governance, British American Tobacco p.l.c. guidelines and all applicable laws.

Risk Management Committee

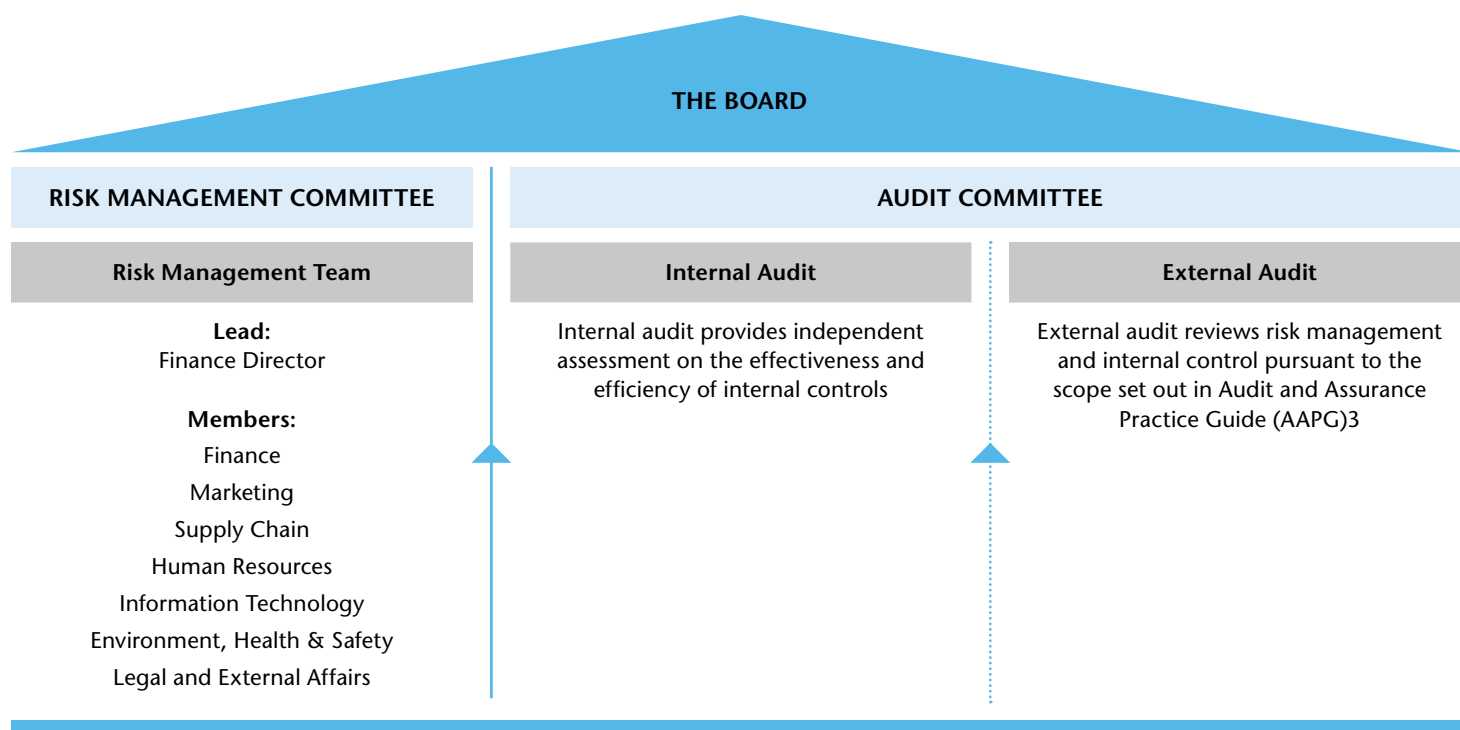
The Company and its Subsidiaries' Risk Management Committee is led by a Chairman who is an Independent Non-Executive Director. The committee comprises of four members, the majority of whom are independent.

The Committee was established on 28 May 2019 and met twice during the year to consider the risk registers proposed by the Risk Management Team. The Committee reviews, monitors and assesses the effectiveness of the Company and its Subsidiaries' implementation of risk mitigation actions in managing key risks.

Risk Management Team

The Company and its Subsidiaries' Risk Management Team is led by the Finance Director and comprises senior managers from all functions of the Company and its Subsidiaries. It meets formally at least twice a year to review and update the risk register; and monthly to assess the status of risk mitigation action plans.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL



Risk Management Team Responsibilities

- Steer the Company and its Subsidiaries' enterprise risk management programme.
- Promote a pro-active risk awareness culture in the Company and its Subsidiaries.
- 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Five Phase Enterprise Risk Management Process

(as per Figure 1)

1. Risk Identification

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



Figure 1 – Enterprise Risk Management Process

2. Risk Evaluation

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

- LIKELIHOOD of the risks crystallising
- IMPACT of the consequence

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

Assessment against a set of pre-specified criteria on a scale of 1 to 3 is completed for both Likelihood and Impact, the combination of which provides the total risk rating ranging from 1 to 9. Risks are then categorised on the Risk Heat Map which maps the significance of the risks to the Company and its Subsidiaries 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 Evaluation		
		LIKELIHOOD		
		Unlikely	Possible	Probable
IMPACT	High	3	6	9
	Medium	2	4	6
	Low	1	2	3

■ Key focus area

Figure 2 – Risk Heat Map

3. Risk Mitigation

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

A variety of risk management measures are used to manage the identified risks (see Risk Mitigation table).

4. Risk Monitoring

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

5. Risk Review

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Risk Mitigation		
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.

Business Continuity and Crisis Management

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

In 2019, the Company and its Subsidiaries have fourteen (14) Business Continuity Plans ("BCP") in place to manage the various potential disruptions which could impact the Company and its Subsidiaries. Examples are the Site Recovery Plan, the Internal Supply Chain Plan, IT Recovery Plan, Bomb Threat Plan and the Pandemic Plan.

These plans are reviewed and updated for content by the owners on an annual basis. In addition, a desktop review or 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 Company and its Subsidiaries have a structured approach to Crisis Management to ensure leadership and timely decision making in the event of a crisis and to manage the situation effectively within minimal time.

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



Figure 3

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Key Risks To The Company and its Subsidiaries

The Company and its Subsidiaries view three key risks as being prevalent in the tobacco sector and having ability to significantly impact the Company and its Subsidiaries' results:

1. Growth of illegal cigarette trade.
2. Tobacco and new category regulations enacted that inhibit the Company and its Subsidiaries' growth.
3. Aggressive competition in capturing market share and volume.

In addition to the above, the Company and its Subsidiaries are subject to the ever-present risk of competitor actions. Steps to anticipate, mitigate and neutralise such risks are core to the Company's business.

2019 Risk Management Activities

Review of The Company and its Subsidiaries' Risks

The Risk Management Team met formally twice during the year, in January and July 2019, to review and assess the Company and its Subsidiaries' risks, and to monitor progress of key activities for the year, including the progress of the BCP. On top of that, the Risk Management Team updates the Leadership Team on the progress on the mitigation actions on a monthly basis.

On a quarterly basis, the Risk Management Committee is briefed by the Chief Risk Officer on the Company and its Subsidiaries' Enterprise Risk Management Programme. The briefing includes updates on the key risks of the Company and its Subsidiaries, the risk mitigation plans, and the status of BCP testing.

Promotion of Risk Awareness

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

During the year, company-wide risk and control awareness programmes were conducted for all employees throughout the nation. The objective of the programmes was to raise risk and control awareness within the Company and its Subsidiaries and to emphasise on the important role of control to ensure business risks are mitigated.

Crisis Management Activation

In 2019, there was no major crisis which required the activation of the Crisis Management and Crisis Response Teams.

Significant Risk Mitigation Activities

There were no significant Risk Mitigation activities required to be carried out in 2019.

BCP Desktop Review and Simulations

During the year, desktop reviews and simulations were conducted by the BCP owners, with the support of Crisis Response Team members, across the fourteen (14) BCP.

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

System Of Internal Control

Control Self-Assessment (CSA) Process

Central to the Company and its Subsidiaries' system of internal control is its CSA 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 Company and its Subsidiaries. The Company and its Subsidiaries' CSA process requires controls and processes to be self-assessed for effectiveness on an annual basis. Where control gaps or weaknesses are identified, corrective actions and timelines are identified and agreed. The findings from the CSA and year-on-year trend analysis are reported to the Audit Committee annually.

The self-assessment is carried via a SAP-enabled tool, which provides a standardised central solution that automates, 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 Company and its Subsidiaries. This has resulted in an improved visibility of assessment throughout the business, improved transparency of issues management and remediation, together with streamlining reporting.

In 2019, the Company and its Subsidiaries' Control Navigator was refreshed and updated.

Financial Reporting Controls

The Company and its Subsidiaries have 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 Company and its Subsidiaries' audit has been provided and that reasonable steps have been taken to ensure full disclosure in response to requests for information from the external auditor. In addition, it is our practice for the Finance Director to review account reconciliations on a bi-annual basis.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

“Predict, Prevent, Detect and Respond” FRAMEWORK



Figure 4

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

Information Technology (IT)

The Company and its Subsidiaries' IT security programme is centred around “Predict, Prevent, Detect and Respond” framework, where each step in the cycle plays a role in decreasing the risk of information security failure or attack (as per figure 4).

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

The next step in the IT Security programme is detection where technical controls are put in place to detect anomalies. After thorough assessment, the Company and its Subsidiaries then responds by reacting to the breaches and mitigating any resulting damage.

Internal Audit

The role of Internal Audit for the Company and its Subsidiaries is fulfilled through 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, particularly in respect of Information Technology (IT), than would otherwise be available within the Company and its Subsidiaries. A permanent invitee from the global Audit function attends Audit Committee meetings 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. The scope of Process Audits is on processes across multiple British American Tobacco p.l.c. entities. Project and Programmes Audits are focused on significant projects or programmes. Others are Audit reviews that are the consequence of a direct request, either due to an incident, Management request or Audit Committee concern.

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

External Audit

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

Other Key Elements of The System of Internal Control

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

(a) Policies, Procedures and Limits of Authority

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

(b) Immediately Reportable Incidents

- The Company and its Subsidiaries adhere to a British American Tobacco p.l.c. Group's control procedure termed 'Immediately Reportable Incidents'. This process seeks to capture breakdowns in basic controls and expedite the reporting and immediate action thereof. Seven areas of basic control issues are considered:

- (1) Reconciliation of Accounts Issue;
- (2) Reporting Issue;
- (3) Stock Control Issue;
- (4) Procurement Issue;
- (5) Segregation of Duties, Access, Password and Related Issues;
- (6) Effective Market Focus Demand Issue; and
- (7) Trade Debtor Management.

(c) Strategic Business Plan, Budget and Performance Review

- Regular and comprehensive information provided by Management for monitoring of performance against the strategic plan, covering all key financial and operational indicators. On a quarterly basis, the Managing Director reviews with the Board all key performance metrics and highlights any issues.
- Annually, a detailed budgeting process is completed for the year ahead which is discussed and approved by the Board.
- Effective reporting systems are in place to highlight significant variances against budgets and 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 Company and its Subsidiaries are sufficiently covered against any mishap that will result in material losses to the Company and its Subsidiaries;

(e) Written Declarations

- Written declaration from all management personnel confirming their compliance with the Company and its Subsidiaries' 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 Company and its Subsidiaries' Standards of Internal Control.

Control Matters

No significant deficiency or material weakness were reported in 2019.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

SOX

As a result of the acquisition of Reynolds American Incorporated (RAI), British American Tobacco p.l.c. Group is subject to United States of America securities law, including Sarbanes-Oxley Act of 2002 (the Act). British American Tobacco p.l.c. Group had assigned the eleven (11) sections of the Act to respective functional owners as stipulated below.

The Company and its Subsidiaries has adopted the framework designed by British American Tobacco p.l.c. Group during the year. The Company and its Subsidiaries being part of British American Tobacco p.l.c. Group is required to implement additional internal controls and procedures to deliver a heightened control environment.

Public Company Accounting Oversight Board ("PCAOB") Indirect impact 1	Auditor Independence Internal Audit 2	Corporate Responsibility Finance, Human Resources ("HR") and Legal and External Affairs ("LEX") 3	Enhanced Financial Disclosure Finance and LEX 4
Analyst Conflicts of Interest No impact 5	Commission Resources and Authority No impact 6	Studies and Reports No impact 7	Corporate and Criminal Fraud Accountability LEX 8
White-Collar Crime Penalty Enhancements LEX 9	Corporate Tax Returns Tax 10	Corporate Fraud and Accountability LEX and HR 11	

Board Assessment

The Board is of the view that the Company and its Subsidiaries overall risk management and internal control system is operating adequately and effectively and has received the same assurance from both the Managing Director and Finance Director of the Company and its Subsidiaries. The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Company and its Subsidiaries has been in place throughout 2019 and up to the date of approval of this statement. The Board is also of the view that the Company and its Subsidiaries' system of internal control is robust and is able to detect any material losses, contingencies or uncertainties that would require disclosure in the Company and its Subsidiaries' 2019 Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 20th February 2020.

Review Of The Statement By External Auditors

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide (AAPG) 3, *Guidance for Auditors*

on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Company and its Subsidiaries for the year ended 31 December 2019, and reported to the Board that nothing has come to their attention that causes them to believe that the statement intended to be included in the annual report of the Company and its Subsidiaries, in all material respects:

- (a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- (b) is factually inaccurate.

Audit and Assurance Practice Guide (AAPG) 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Company and its Subsidiaries' risk management and internal control system including the assessment and opinion by the Board of Directors and Management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

05

Growth

- 95 Premium Segment
- 96 Aspirational Premium Segment
- 97 Value For Money Segment
- 98 Potentially Reduced-Risk Products
- FEATURE STORY:**
The Future of Tobacco for a Better Tomorrow
- 101 Trade Marketing



GROWTH Pillar

This pillar highlights our commitment to brand innovation. Operating in a pressurised environment in the past four years meant that we had to push the boundaries to create new offerings while enhancing current products to ensure our market leadership. Acknowledging the affordability stretch which leads to illegal cigarettes consumption, we also challenged ourselves to think outside the box and venture into new categories to secure a better tomorrow for our consumers, shareholders and society.

Our portfolio focus remains behind market leadership in the Premium Segment with DUNHILL whilst accelerating our competitive position in the Value for Money ("VFM") segment. At the same time, we were the first country in Southeast Asia to introduce a potentially reduced-risk product ("PRRP") with our Tobacco Heating Product ("THP"), GLO™.



PREMIUM Segment

DUNHILL

The No.1 brand bringing adult Malaysian consumers together

DUNHILL remains as the benchmark and leader in the Premium Segment despite a challenging environment.

During the year, the Full Flavour range was the key driver of market leadership. To leverage on the popularity of that range, DUNHILL launched a series of limited-edition packs inspired by its legacy as the iconic No.1 brand in Malaysia, aimed at making emotional connections with our consumers.

We launched a series of limited-edition packs featuring Hari Raya and Merdeka aimed at amplifying DUNHILL's emotional connection with consumers and enhancing its credibility. However, the implementation of Sales and Service Tax ("SST") and the growing illegal market impacted the brand's performance during the year.

DUNHILL



AUG '19

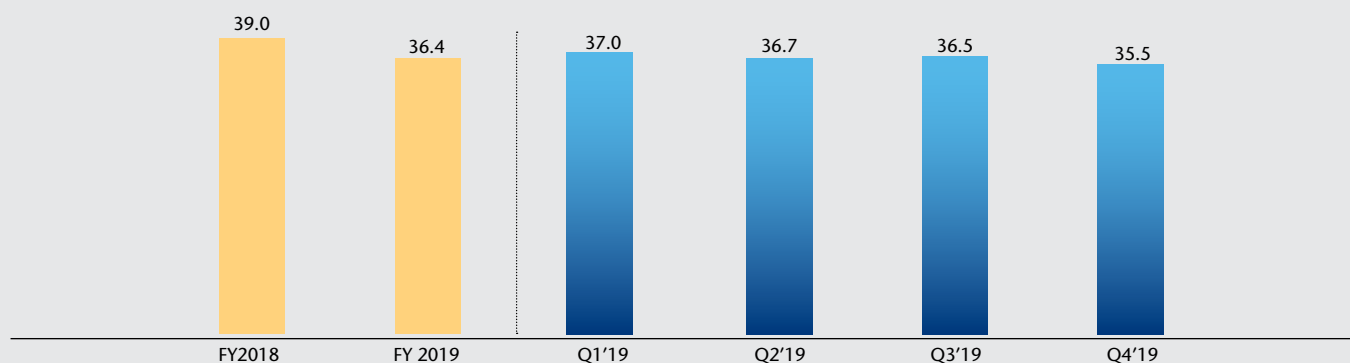


JUN '19



APR '19

DUNHILL Market Share (%)



ASPIRATIONAL PREMIUM Segment

Peter
Stuyvesant PALL MALL

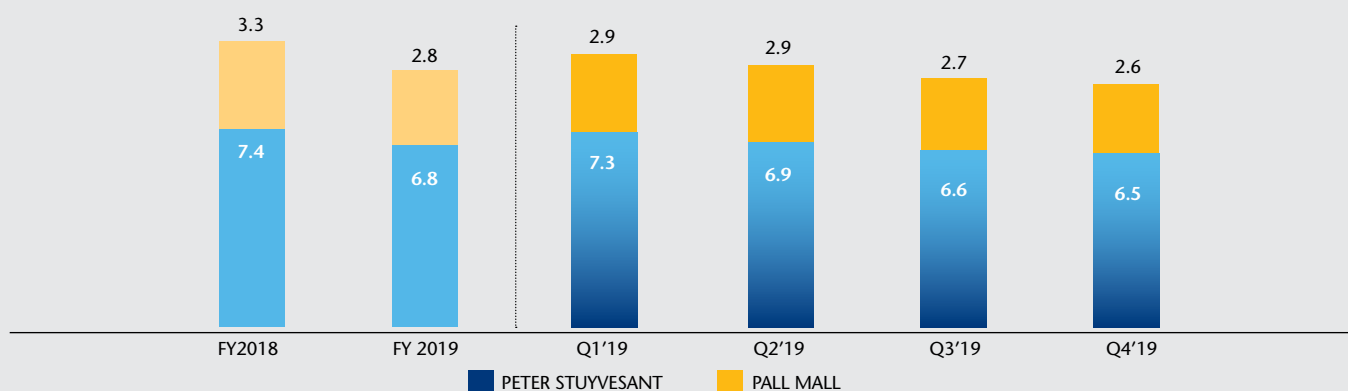
PETER STUYVESANT AND PALL MALL

Leveraging brand strength and equity to retain segment leadership

The Aspirational Premium price segment remains important to our portfolio despite coming under pressure from growth in the VFM segment. We remained the segment leader with PETER STUYVESANT and PALL MALL, proving that the brand equity is strong and relevant, in the face of a challenging environment.



Aspirational Premium Market Share (%)



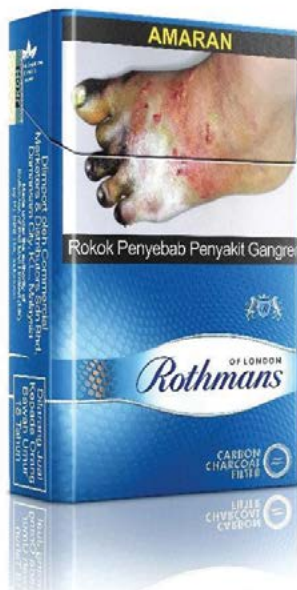
VALUE FOR MONEY Segment

ROTHMANS

Taking the lead in value and innovation

Amidst a highly competitive landscape, the VFM segment continued its strong growth. ROTHMANS maintained its positive momentum with multiple product innovations which were previously the domain of premium brands.

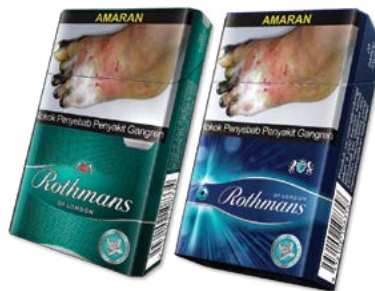
The launch of ROTHMANS CARBON CHARCOAL, along with ROTHMANS BLUE, continued to drive market share. As a result, ROTHMANS captured the top spot in the VFM Lights segment in 2019.



In an effort to drive further consumer value, we launched ROTHMANS PURPLE, the first double-capsule product in this segment. The product quickly emerged as the best-selling VFM menthol in key convenience chains.

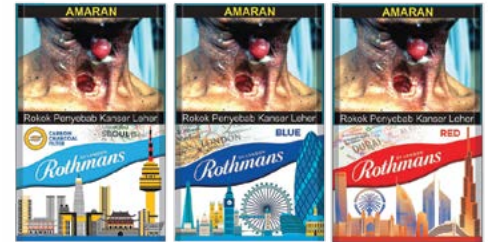


Further innovative developments saw ROTHMANS taking on a Japanese twist with its Hokkaido Mint range for ROTHMANS MENTHOL and ROTHMANS KOOL – the first of its kind in Malaysia.



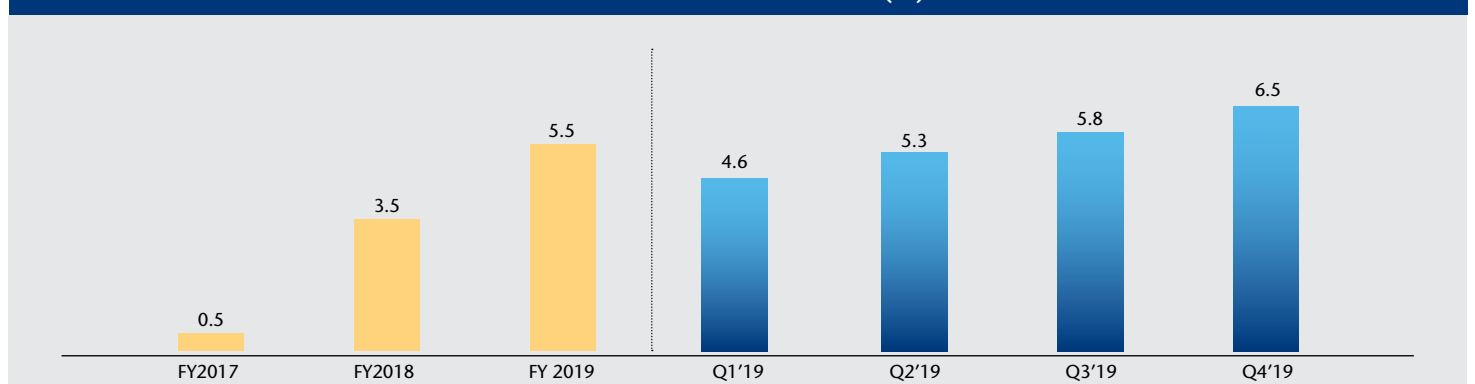
Rothmans

2019 also saw ROTHMANS releasing a series of themed limited-edition packs to strengthen brand equity.



With these strategic innovations and a sharp focus on delivering value and quality, ROTHMANS successfully positioned itself as the #2 brand in the VFM segment as of October 2019.

ROTHMANS Share of Market (%)



POTENTIALLY Reduced-Risk Products

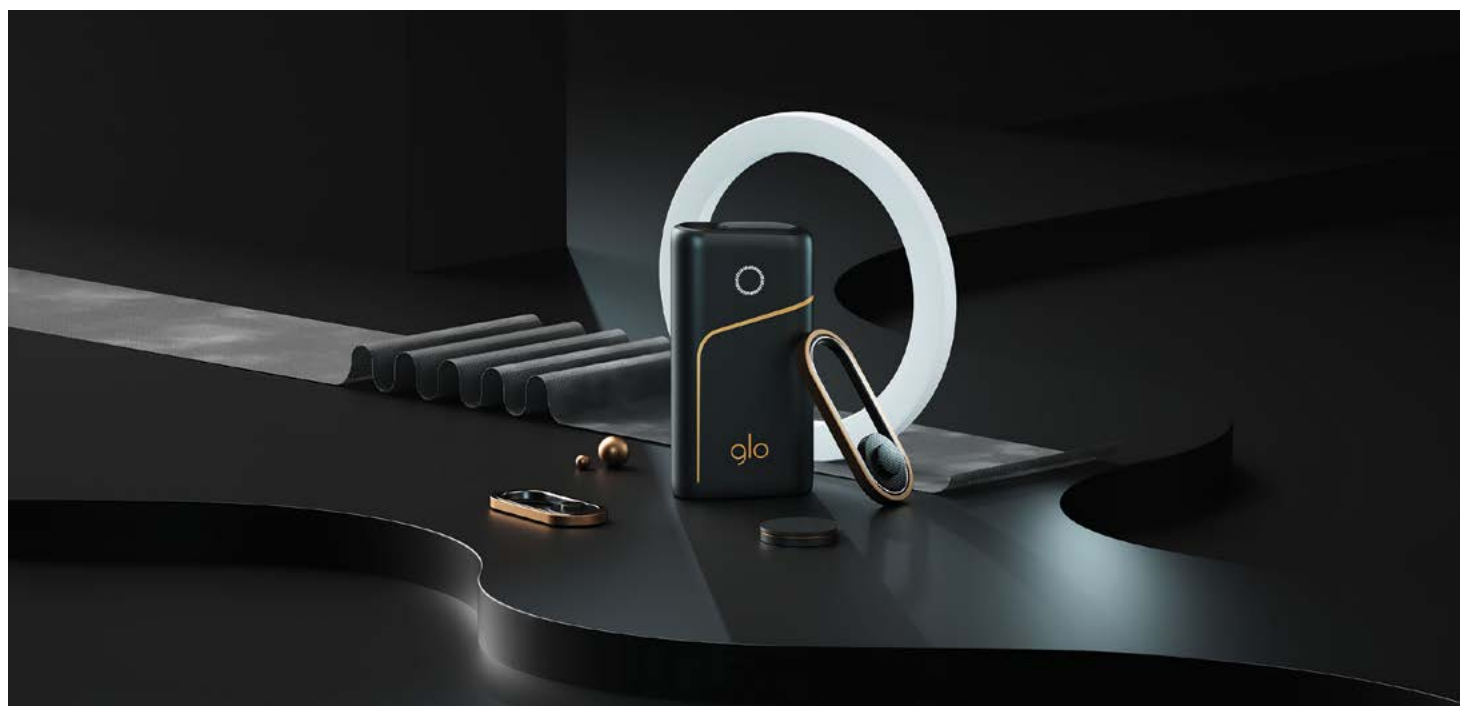
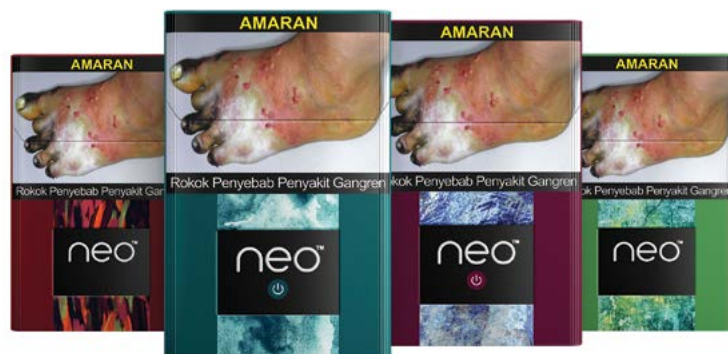


GLO™ and NEO™

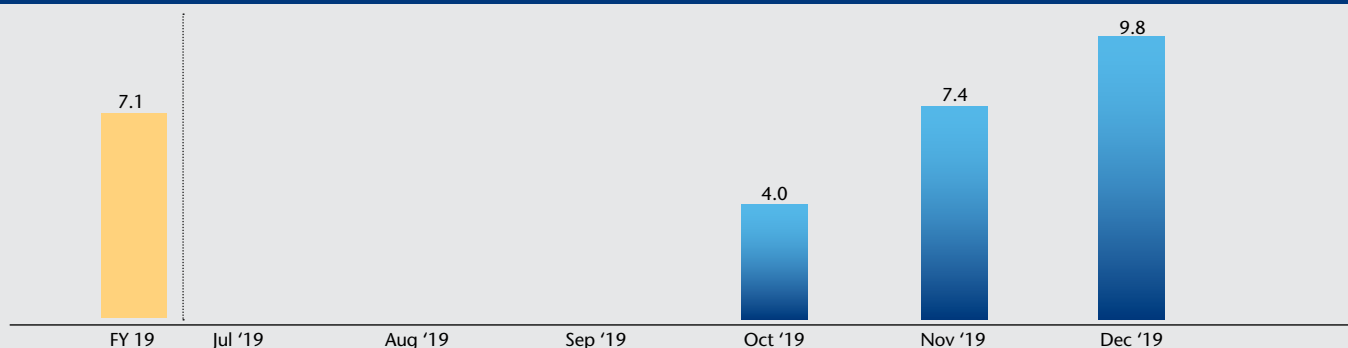
Transforming Tobacco for a better tomorrow

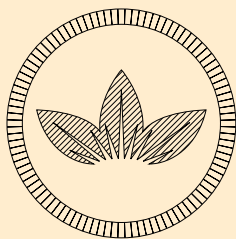
Following months of hurdles, including the delay of approvals and regulatory challenges, the Company was proud to introduce our first PRRP, GLO™, making Malaysia the first country in Southeast Asia to offer this innovative range.

Complementing the device are four different variants of tobacco sticks named NEO™ consumables – NEO™ ROASTED TOBACCO, NEO™ INTENSELY FRESH, NEO™ BOOST MINT and NEO™ BOOST BERRY.



British American Tobacco Malaysia THP Segment Share (%)





THE FUTURE OF TOBACCO FOR A BETTER TOMORROW

At British American Tobacco p.l.c. Group (“the Group”), we have been clear for many years that our business is grounded by informed consumer choice and a drive towards a reduced risk portfolio.

Today we are entering the most dynamic period of change our industry has ever encountered. An unprecedented confluence of technology, societal change and public health awareness has created a unique opportunity: the opportunity to make a substantial leap forward in our long-held ambition to provide our consumers with less risky tobacco and nicotine choices.

The Group is well-placed to seize the moment and capitalise on this opportunity in line with its corporate vision to be the best at satisfying consumer moments in “tobacco and beyond”, placing consumers at the heart of its strategy. Market conditions had produced the unique opportunity for the Group to take a big leap forward towards achieving its vision, and one of the bold steps taken was to provide consumers with PRRPs.

Our bid for a better tomorrow sees us working towards a triple-win scenario where our shareholders, consumers and society will all reap the benefits together. For many years, the Group has invested heavily in research and development on the technology to develop the next generation of PRRPs to ensure a sustainable future for our business.

Reducing Harm with PRRPs

Consumer tastes in the tobacco and nicotine space are fragmenting and evolving. It is only by making available a wide range of products that we can address the varied preferences of today’s more demanding consumers. When consumers have a range of PRRPs to choose from, society benefits from the real progress of tobacco harm reduction initiatives, and shareholders will see more sustainable value creation. With this, we will finally realise our ambition for a better tomorrow.

It is widely acknowledged that most of the harm associated with conventional cigarettes is caused by the toxicants in the smoke produced by the burning of tobacco. That is why we are dedicated to the development and commercialisation of alternative tobacco and nicotine products that don’t burn tobacco to deliver nicotine to the user. The Group’s portfolio of potentially reduced-risk products (“PRRPs”) within our Strategic Portfolio now comprises four product categories:

- Tobacco heating products (“THP”)
- Vapour products
- Modern oral products, including tobacco-free nicotine pouches
- Traditional oral products, including moist snuff and snus.

The Group has also invested in leading scientific research programmes so that claims on the reduced-risk status of PRRPs can be supported by robust, accurate and widely accepted scientific evidence. There is broad scientific consensus that most of the harm associated with tobacco products is caused by inhaling the smoke produced by burning tobacco.

The Difference Between Cigarettes and Tobacco Heating Products (“THP”)

In the case of THPs, there is no burning of tobacco, as our tobacco sticks are heated instead. This is a key feature distinguishing THPs from conventional cigarettes. They are electronic devices that heat tobacco sticks at a much lower temperature without burning the tobacco. When heated, the tobacco sticks create a tobacco-flavoured inhalable aerosol that delivers nicotine to the user. By comparison, conventional cigarettes burn tobacco at temperatures beyond 600°C. As THPs do not involve combustion, it is likely that its users are exposed to lower levels of particles and carcinogens, compared with conventional cigarettes.

‘GLO™’ing Towards a Better Tomorrow

The introduction of GLO™ as the Group’s flagship tobacco heating product, gives consumers a new alternative. GLO™ heats tobacco sticks to approximately 240°C, giving smokers an experience similar to smoking but with potentially reduced risk. GLO™’s specially designed tobacco sticks, branded NEO™, come in a diverse range of flavours. Designed in the United Kingdom, GLO™ is an innovative product developed by over 100 experts across five continents. The key advantage of GLO™ is its simplicity and intuitiveness: one device, one button and no external charging device. Consumers will be pleased to know that one single charge can

last up to 30 consecutive sessions. It sports an easy-to-grip design and is easy to clean and maintain because it does not leave any ash after use. Its premium look and stylish design complement its ease of use.

In 2019, British American Tobacco Malaysia introduced GLO™ in Malaysia. This marked a major change in our business model which has evolved from a single category business into a multi-category business, requiring additional resources to support this new business transformation.

What's the future of these new categories of products in Malaysia?

The Company will continue to move into new categories like THP and vaping (when it is regulated). Nevertheless, we must make it clear that this category of products is still at the emerging stage and it will not impact our bottom-line meaningfully in the short to medium term. There is no question that Factory Made Cigarettes (FMC) have been our bread and butter for the past century and will continue to be the commercial engine for the Company. So, until the market matures, revenues from FMC will continue to provide the investments needed to support PRRPs in our goal for a better tomorrow.

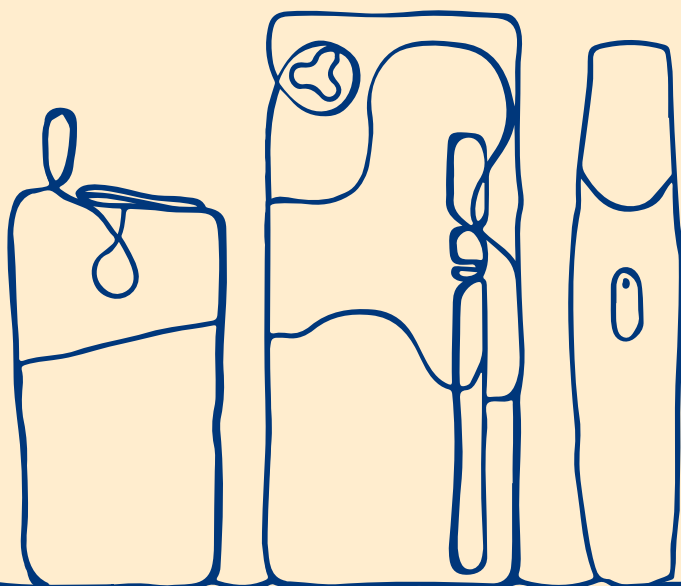


UNIQUE QUALITIES OF



- One unit, with one button
- No burning or ash
- Emits a tobacco aerosol, not smoke
- Leaves less odour on hands, hair, clothes and surroundings compared to a cigarette
- Designed in UK through a process involving over 100 experts across five continents
- GLO™ aerosol contains around 90-95% fewer toxicants than cigarette smoke in terms of the nine harmful toxicants the World Health Organisation recommends reducing in cigarette smoke.¹ This does not necessarily mean GLO™ is less harmful than other products.

¹ "Assessment of novel tobacco heating product THP1.0. Part 3: Comprehensive chemical characterisation of harmful and potentially harmful aerosol emissions." Regulatory Toxicology and Pharmacology 93 (2018):14-33.



TRADE Marketing



In 2019, there were multiple external factors such as public place smoking ban, booming illegal cigarettes trade and the rise of illegal vaping, which created a challenging trade environment within the tobacco industry. The Trade Marketing team responded by demonstrating leadership traits such as strengthening trade partnerships, driving sharper, faster and more impactful trade plans; and continuing to invest in the growth of our people. With the commitment and collaboration from our trade partners, we increased the effectiveness and efficiency at all outlet levels.

Focused Investment Strategy and Accelerated Capability Building

As a response to the volatile retail environment, the Trade Marketing team transformed its marketing and commercial investments. This was illustrated by the commitment to work together with retail partners and grow the business via joint trade programmes. Investments in retail helped our retail partners navigate the constantly changing market conditions, while strengthening our position in key retail channels.



Supporting the Transformation Journey

Trade marketing had also undergone a transformation in the year. The Marketing Skills Development team launched the Trade Transformation Journey in April 2019, which saw a reenergised trade marketing function across all 269 staff nationwide. Through multiple workshops, the Trade Transformation Journey established improved ways of working, optimised routines and identified areas of improvements to further support our position as the leading legal player in the market.

TRADE MARKETING

Training & Development



Supporting the Trade Transformation Journey were learning and development programmes such as Onboarding & Induction (O&I), POSITIVE training and Defensive Driving. Key learning and development modules were conducted nationwide to train the External Distributors sales teams as part of the Active Selling upskilling. We leveraged on technology to launch a cost-effective and interactive digital learning initiative by piloting the Ed App Mobile for the GLO™ team. Results have been very encouraging, and we plan to roll out this initiative to wider field teams in 2020. The app will be supplemented further with LinkedIn Learning playlists.



06

Productivity

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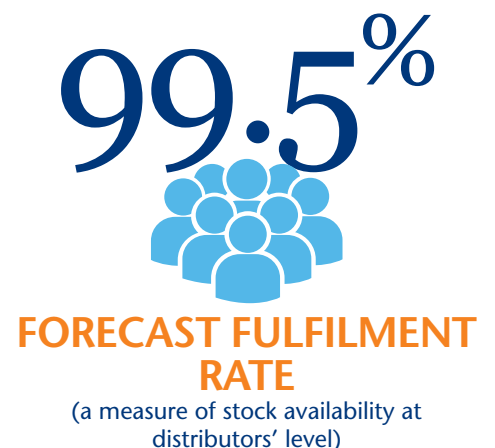
PRODUCTIVITY Highlights

Our productivity pillar focuses on the efforts undertaken by the Company throughout 2019 in optimising investments and increasing productivity as part of our efforts to mitigate the growing illegal cigarette trade, which has grown exponentially over the last four years.

During the year, we deployed our resources effectively throughout the supply chain to manage costs, in a bid to build funds for investment. This is in line with our commitment to turnaround our business to ensure long-term sustainability.

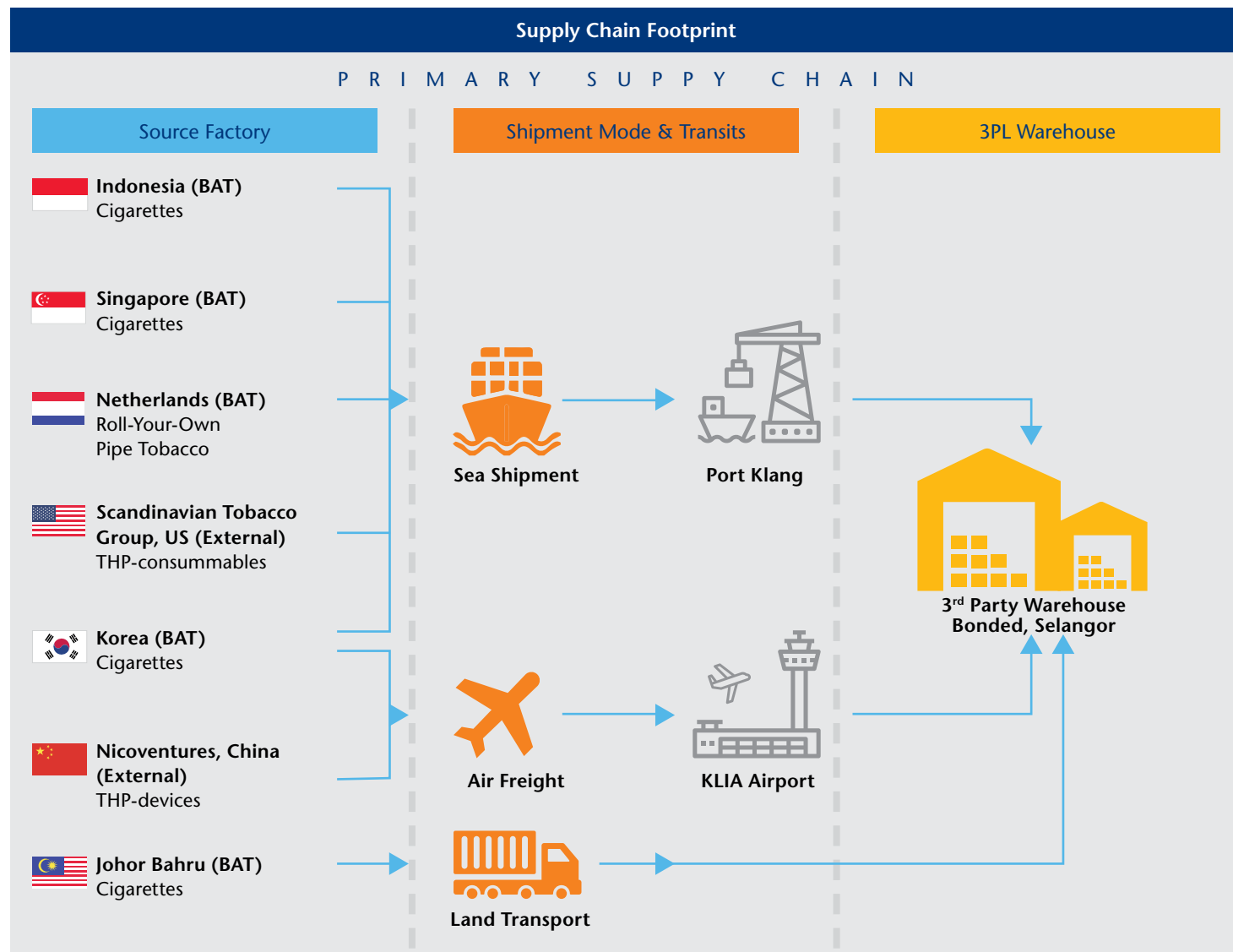
Productivity Highlights

In 2019, our work centred on automation and simplification of operations. We leveraged on technology and implemented the Integrated Work System ("IWS"), a global initiative within the British American Tobacco p.l.c. Group ("the Group"). These measures proved successful, and we achieved the following productivity gains:



SUPPLY Chain

Since the closing of our Petaling Jaya factory in 2017, we have changed our business model from manufacturing and distribution to predominantly an import-based model. In 2019, finished goods for the Company included factory manufactured cigarettes, roll-your-own, pipe tobacco and tobacco heated products. 99% of these goods are sent to Malaysia by sea and air from four British American Tobacco p.l.c. Group factories and two external suppliers from North America, Europe and Asia. The remaining 1% is locally manufactured at the Johor Bahru Facility.



SUPPLY CHAIN

Productivity Initiatives

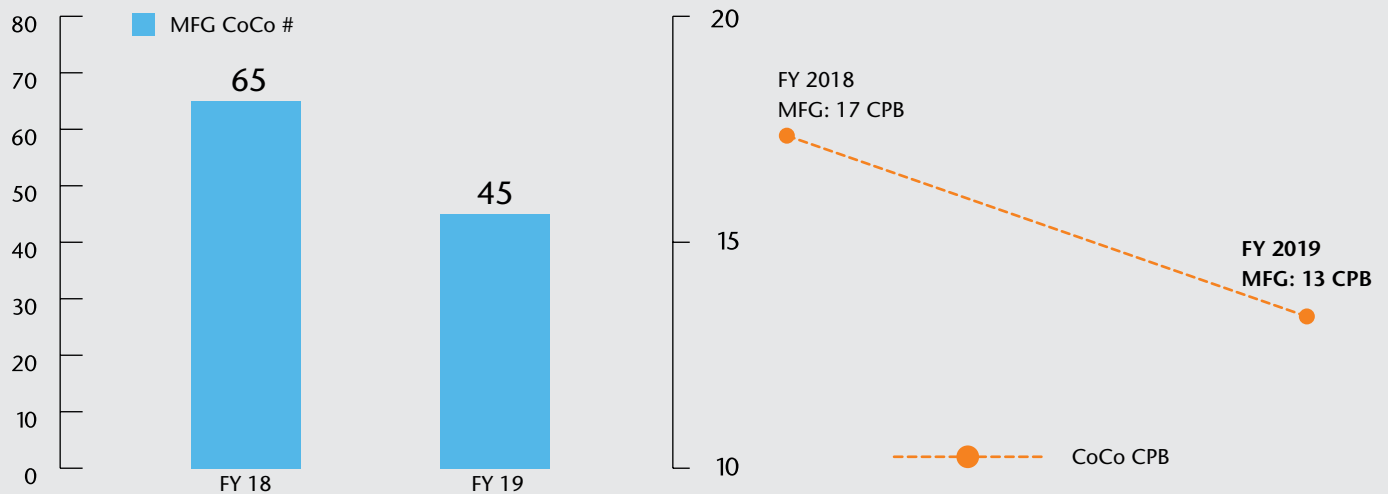
1. Driving and Ensuring Quality

As a company with a long-standing history in Malaysia, our commitment lies in delivering top quality products to consumers. To achieve this, we implement stringent quality standards in manufacturing as well as swift action in resolving consumer complaints and quality incidents. Delivering quality consistently also requires us to constantly promote quality awareness throughout the organisation. The following are key measures in driving the quality agenda:

- **Digitalisation of Complaint Management System**

In an effort to continuously enhance customer experience, we simplified and digitalised the management of consumer and customer complaints through a new application, ComReg. ComReg enables us to expedite and escalate complaints directly to the manufacturing source (factory) 90% faster than before. This in turn speeds up investigations and response to the consumer. With the implementation of this system, we have successfully achieved a 24% reduction in consumer complaints on manufactured products in 2019 compared with 2018.

Consumer Complaints Malaysia Target 14 Complaints Per Billion Sticks (CPB)



SUPPLY CHAIN

- **Quality Day**

To drive awareness on the importance of Quality Assurance throughout the organisation, the Company organised a Quality Day on 14 November 2019 in conjunction with the Group's World Quality Day. 120 participants attended the programme which covered topical issues relating to quality assurance in the Malaysian context. These include Key Complaints Improvement Initiatives, Next Generation Product Quality, Digitalisation of Complaint Management System, Product Shelf-Life and Integrated Pest Management.



- **Rethinking Operations – Integrated Work Systems**

Integrated Work Systems ("IWS") is the Group's global operations strategy which has resulted in clear productivity gains for the Company. Based on improving organisational capability, the strategy aims to achieve and sustain superior business results and to deliver a competitive advantage.

IWS instils a zero-loss mindset and eliminates processes which do not add value. It also promotes capability building and empowerment of employees to drive productivity improvement plans.

Our IWS journey began in 2018. However, it was not until 2019 that IWS was fully deployed and embedded within the Company's operations to address on-going supply chain challenges. The implementation of IWS has enabled us to sustain improvements in operations and enhance quality, inventory turns, lead time, cash flow and on-time delivery.

- **Improving Capabilities Through New Methods and Skills Training**

An important component in achieving productivity gain is the improvement of procurement methods and processes. This is coupled with enhancing the skills and capabilities of the procurement team members.

Two new procurement systems were implemented within the Company in 2019, leveraging on the Group's global systems. Malaysia was one of the pilot markets selected to deploy the Asia Pacific Middle East Tactical Procurement Hub ("TPH") which went live in July 2019. TPH is a new way of working, where tactical or maverick spend at end markets will be sourced centrally by British American Tobacco Global Business Services. Relevant stakeholders and our procurement team attended workshops and training sessions in preparation for the roll out of the TPH, using the new automated sourcing system called Coupa.

SUPPLY CHAIN

A new global initiative called Performance, Accuracy, Compliance and Efficiency Programme (“PACE”), an end-to-end platform using the Coupa system, starting from Procurement Demand and Sourcing right up to Requisition to Pay and Contract Management, went live in October 2019 for Procurement Demand and Sourcing. The PACE team conducted various workshops and training for our procurement team, Purchase Order creators and related stakeholders. We are one of the pilot markets to go live for Requisition to Pay and Contract Management in the first quarter of 2020, when Coupa will replace the current Procure to Pay by SRM and Contract Management will use the iCertis system.

Every year Global Procurement ensures internal procurement training is conducted for all procurement team members. In 2019, they conducted Procurement Business Manager training which was attended by the Procurement Business Manager covering modules on Business Engagement, Demand Capture, Category Sourcing, Procurement Governance and Talent Management. These training programmes are also utilised to upskill Procurement Business Managers to lead procurement departments at end markets.

FUTURE FIT

Information Technology

In 2019, our Information Technology (“IT”) agenda focused on driving future fit capabilities, cost optimisation initiatives and exploring new digital capabilities. Guided by the Group’s IT strategy, we continued to ensure our technology platform and capabilities are up-to-date and contemporary.

- **IT Infrastructure and Connectivity**

Virtual meetings among employees across the world are becoming increasingly common. However, to turn virtual meetings into highly productive sessions, we introduced the use of the Microsoft Teams platform. Through this platform, employees are able to collaborate on files with built-in Office 365 apps and SharePoint with end-to-end security, administrative control and compliance.

For cost effectiveness, the Company consolidated network providers under Orange Business Services (a leading telecommunications operator which supports the digital transformation of businesses) this year at the corporate headquarters and sales offices, resulting in significant savings and higher bandwidth.

- **Enhancing Trade Capabilities with GPS Capability**

In 2019, we installed 126 Global Positioning System (“GPS”) trackers to the field order management system to enable our trade team to have better insights and more detailed tracking of their movements. This has translated into more efficient and targeted route management for higher sales effectiveness. We have also seen a 43 percent decrease of vehicle collision-related incidents as compared to 2017.



07

Winning Organisation

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WINNING ORGANISATION



The strength of our people was truly put to the test this year. Operating in a highly regulated environment has pushed our people to think further out of the box in order to drive our business transformation and deliver our strategy.

CULTIVATING A WINNING ORGANISATION

Establishing a winning organisation is not an easy task, thus it has been essential for us to attract, develop and retain a diverse pool of talented people. The engine to any industry, we strongly believe that British American Tobacco Malaysia (“the Company”) is shaped by the quality of our people. Their perseverance, tenacity and grit combined with their diversified experiences has allowed the Company to emerge even stronger.

Our Winning Organisation strategy focuses on three key areas:

1. **Attract the Best**
2. **Invest in Leaders**
3. **Celebrate and Recognise Our People**

We are committed to developing a new generation of leaders and to unleash their full potential. The diversity of our people is what puts us in the lead while the collaborative culture we practise generates a fulfilling career path where both individuals and teams thrive.

ATTRACT The Best

It is important for us to convey an organisational message that is authentic and consistent. We want our future employees to understand our distinctive strengths, as well as our values and beliefs. Courage, resilience and drive are important attributes that we look for in talent.

Passion is the force behind what we do, and it pushes us to constantly grow to greater heights. It is about the ambition to achieve unprecedented standards, the courage to stand up for our ideas and contributions, and the tenacity to keep on fighting until we achieve our goals.

Talent Sourcing and Recruitment

We are fully committed towards improving our recruitment strategy and how we channel our resources to attract talent. We employ a robust recruitment and assessment approach to ensure that we attract the best talent.

Career Fairs

We amplify our talent brand through career fairs to attract and recruit young talents. Our participation in the Graduan Career Fair in the United Kingdom and Malaysia this year, has allowed us to engage and glean exceptional young Malaysian talents for our Global Graduate Programme who are our pipeline for future senior leadership positions.



New Technology to Enhance our Recruitment

As part of our efforts to leverage on digital and automation, the Company has now adopted technology such as video interviewing and virtual reality tours for our candidates. This innovation enhances the candidate experience and gives them a glimpse into our workspace, where they get to experience 'A Day at BAT'.

External Talent Engagement Day

We successfully rolled out our first external talent engagement day in 2019, attracting participation from more than 90 university students. The participants had an interactive session with our Leadership Team, career sharing from our employees and took part in a fun case study competition. Four of the participants were hired for our Global Graduate programme.

INVEST IN Leaders



Growth Academy

The Growth Academy Programme is a specially curated programme for our field force team. This 12-month structured programme provides our budding talent a well-rounded experience, giving them the opportunity to take on stretched responsibilities via challenging assignments.

The pilot programme was launched in 2018 and since then, several field force employees have been promoted upon completion of the programme. In 2019, nine field force team members joined the programme to upskill their functional and leadership skills.

A Blended Learning Approach

We continue to drive a 70/20/10 blended approach in our learning and development agenda. We are focused on providing our employees with exciting on the job learning opportunities, while maintaining coaching and networking platforms. Additionally, we provide various learning tools to accelerate our employees' development.

E-learning and online programmes have become an increasing part of our learning interaction. The ease of accessibility enables our employees to learn at their own pace, giving them options based on their learning needs, work and personal commitments.

We have teamed up with LinkedIn Learning to provide our people with over 6,500 courses in leadership, business, technology and creative skills.

In 2019, we rolled out a fun competition called 'Lynda Champion' as our way of rewarding those who pursued e-learning. The launch of the competition saw a significant increase in active users.

Cultural Confidence Workshop

As part of a global organisation, it is important to us that our people succeed from a culture fit and leadership perspective. In order to achieve this, we develop our talents to thrive on a global platform. A two-day Cultural Confidence workshop was run for 20 of our senior key talents, where the workshop helped them define critical personal goals and plans to facilitate their learning journeys to become global leaders.

In-house Leadership Training Programme

Our in-house leadership training programmes has continued to build leadership capabilities among our people. In 2019, 365 employees across all levels benefited from more than 30 training programmes, where their leadership, communication, teamwork and cultural awareness were enhanced through sessions such as *Impact and Gravitas*, *Product Knowledge Foundation*, *Leading Self*, *Leading Teams*, *Added Shareholder Value*, *POSITIVE Refresh* and *SCQuaRE*.



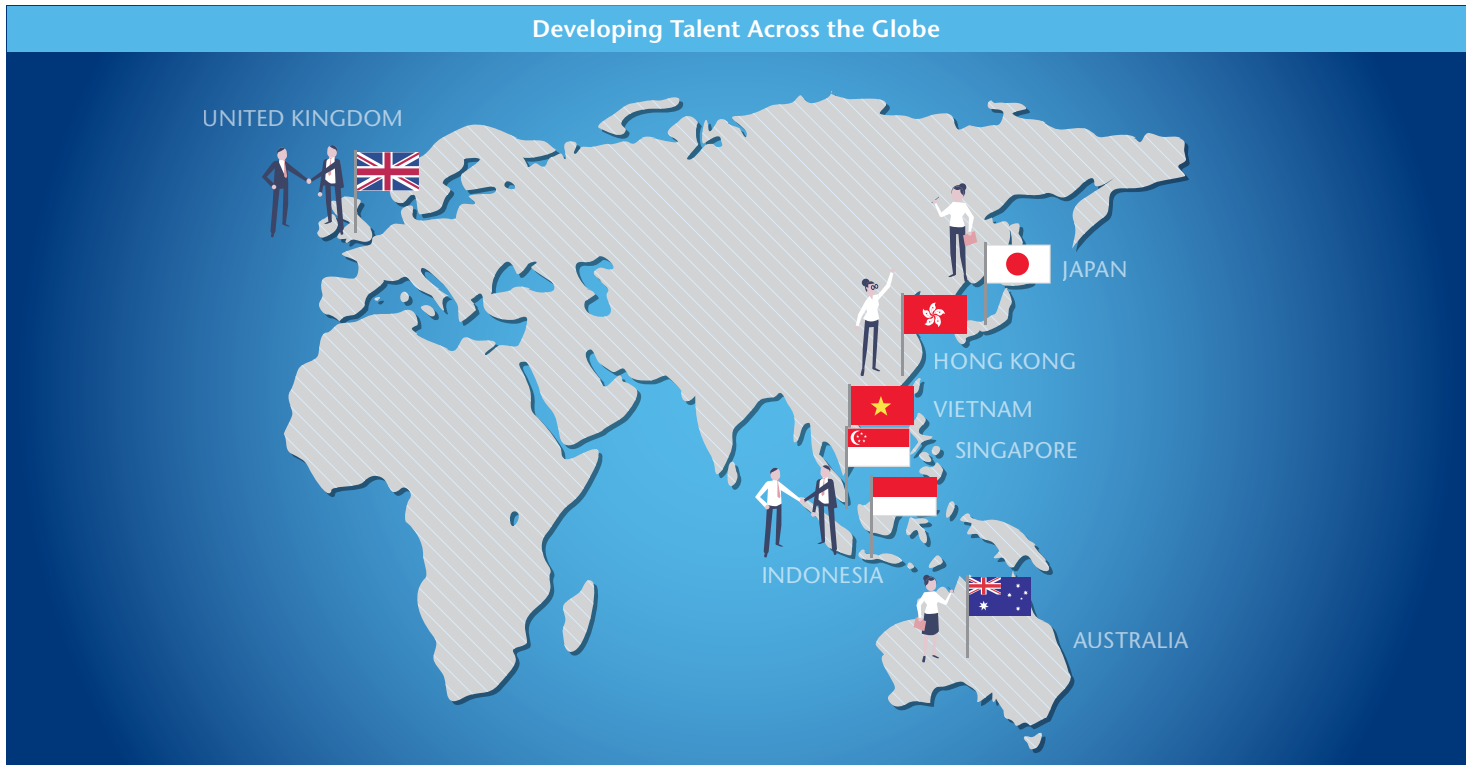
"The Growth Academy gave me the opportunity to work on a number of projects, which was very eye-opening. It was where I introduced the myNEWS Growth Plan. I managed to secure additional volume for myNEWS in the quarterly and year-end closing in 2019 and enhanced the payment process making it much more efficient. I am glad that I moved out of my comfort zone to challenge myself and join the Growth Academy."

Tayalan Manoharan, Territory Trade Executive

INVEST IN LEADERS

Developing Talent Across the Globe

We are very proud of our home-grown talents who have ventured out and achieved great milestones in other British American Tobacco p.l.c. Group companies around the globe. Pursuant to this, we are committed to provide opportunity to our junior and mid-management employees to obtain international exposure at an early stage of their career. To this end, we continue to accelerate the number of short-term assignments provided.



We are more than proud to say that we have Malaysians currently holding senior positions in other major markets and these include:

United Kingdom

Senior HR Business Partner, Global Research and Development

Hong Kong

Regional Head of Compliance

Regional Talent & Organisation Effectiveness Manager

Vietnam

Regional Manager

Singapore

Head of Trade

Area Manager

Commercial Finance Manager

Supply Planning Executive

Indonesia

National Sales Manager

Japan

NGP Marketing Innovation Manager

HR Group Manager – Marketing

Australia

Trade Programme Manager



“Being in an above market role has provided me with an opportunity to view the business from a “different lens” and I have gained valuable experiences on how business objectives are achieved with integrity while balancing its commercial gain and people needs.”

Claire Chan, Regional Head of Compliance, Hong Kong

INVEST IN LEADERS



Global Graduate Programme - BAT Grad Academy

The Global Graduate Programme is a key lever for us to groom young talent. Upon completing the one-year programme, global graduates from different countries across the globe are brought together for two weeks in BAT Academy in Horseley, United Kingdom.

Our global graduates are exposed to the experience of the British American Tobacco p.l.c Group, across multiple business areas. The programme also provides the graduates excellent networking opportunities to connect with global senior leaders and their peers in different markets.

Seven of our global graduates participated in the BAT Grad Academy in 2019. Throughout the programme, they participated in exciting business simulations, learned about the nature of a global Fast-Moving Consumer Goods business and engaged with peers worldwide. The graduates also had an opportunity to engage with our Chief Executive Officer, Jack Bowles and our Chief Marketing Officer, Kingsley Wheaton.



“The academy was an incredible experience as the amount of global exposure I received was just immense. I’m awed by the fact that even though we are all from different parts of the world, we were able to come together as one and work well as a team. We managed to overcome our cultural differences, which made this rewarding experience more fun and one that I will treasure forever.”

Melissa Ong, Global Graduate

INVEST IN LEADERS

GENESIS

Genesis is a sub-committee within the Company which comprises of current and active Global Graduates. Operating in a highly regulated environment has required resilience and perseverance from our people. As such, the Genesis team aims to inject more energy and motivation within the Company to foster better relations across functions.

In 2019, the following Genesis' initiatives took centre stage:

**Hackathon****Purpose**

- Harness British American Tobacco p.l.c. Group's diversity and drive inclusion and innovation by embracing employee's creative perspectives and ideas

Hacking Process

- 24 employees from various functions (Supply Chain, Finance, Marketing, Human Resources, Legal and External Affairs and Field Force) participated and provided solutions to our business challenge over a 2-days-1-night Hackathon session
- Participants adopted design thinking methodology to facilitate the ideation. Main components of the methodology include Emphasise, Define, Ideate, Prototype and Test

Results

- 200 ideas were generated
- 80 unique proposals were tabled
- 3 ideas were implemented

**House of BAT (HOBAT)****Purpose**

- Introduce a platform to enhance interaction between employees in various locations (Malaysia Head Office & Field Force Offices and Singapore Offices)
- Connecting individuals towards a common goal

Among initiatives that took place in 2019 to foster greater employee interaction and teamwork included a Corporate HQ treasure hunt, the mobilising of employees to support British American Tobacco Malaysia Foundation Corporate Social Engagement event, a series of fun brand knowledge quizzes, a mascot design contest and a creative photo contest.

**Work To Gather****Purpose**

- Genesis organised themed coworking space monthly aimed at breaking silos and bridging cross-functional relationship

Result

- The coworking space has successfully encourage more cross-functionally collaborations within the Company



INVEST IN LEADERS

Strength from Diversity

We take pride in our diversified network of team members. A key part of this diversity network is LILIN, our very own dedicated platform for our female employees to bond and support each other. Based on the Company's guiding principle of '*Strength from Diversity*', LILIN focuses on three areas, catering to different needs of female employees at different stages of her life journey.

The initiatives seek to provide the young future female leaders inspiration and perspective, give working mothers work/life balance as well as wellness-pursuit for our more experienced female team members, who are approaching the peak of their careers.

Throughout 2019, LILIN organised programmes tailored to inspire the women of BATM. We held three sessions, entitled 'Inspire Us', where our experienced and dynamic women leaders shared their experiences.

The ability to present a strong front is important to women in the corporate world. Thus, we make it a point to bolster our female employees' confidence and professional presence. We held workshops with top notch external speakers, allowing our female colleagues to learn how to build their own professional presence and be able to effectively engage with stakeholders.

A key highlight on our diversity pillar is International Women's Day, where we raised awareness on the importance of gender parity through fun initiatives to appreciate and recognise our female colleagues.



Women in Leadership - LITE Version

Taking the cue from our London office, we organised a 'LITE' version of a Women in Leadership training programme for our junior female employees. Under this 'LITE' version, we conducted three programmes which were attended by more than 50 of our female employees.

The programmes were:

- **Radiate Confidence**
unleashing the potential of our BATM Ladies by boosting their confidence in their leadership capabilities.
- **Declare Your Brand**
teaching our junior female members how to develop a powerful personal leadership brand.
- **Fail Forward**
guiding and mentoring our team members in how to turn failures into lessons, using the lessons to get ahead and succeed.



CELEBRATING AND Recognising Our People

The Company Long Service Award

BAT Malaysia values the hard work of our loyal employees. Our Long Service Award recipients truly exemplify the culture of the Company through their consistent drive for success and determination. They are beacon of inspiration to the rest of the organisation.

In 2019, we gave 18 highly committed and passionate individuals their Long Service Awards. Out of these 18 dedicated individuals, three completed 10 years of service, while five reached their 20-year mark. A further six were honoured for 30 years of service and the remaining four retired during the year after a long tenure with the company.



"In my 33 years with the Company, I have driven eight Managing Directors from six different countries in BAT Malaysia. My biggest role is to ensure that my bosses can go about their daily operations smoothly. I must plan out the routes that I am going to take to ensure they reach their destinations at the appointed time. Now, I can use Waze and Google Map, before I only had my old map to rely on, in addition to the language barriers between the foreign MDs and myself, it was quite a task!"

"I'm proud to know that my contribution to the Company has not gone unnoticed and being awarded the Long Service Award is my most memorable moment. It means a lot to know that my efforts are appreciated by the Company. It shows you how much the Company cares for ALL of its people."

Ismail Ahmad, Driver for the Managing Director

CELEBRATING AND RECOGNISING OUR PEOPLE

Bravo and Battlefield Awards

The Company recognises employees who have demonstrated strong commitment and have gone the extra miles to deliver the Company's goals. The Bravo Award honours employees who consistently display our ACIDS behaviours (Anticipate, Challenge, Inspire, Deliver with Integrity, Sharp and Impactful).

In addition to our Bravo Awards, we also recognise exceptional business contributions by our employees through the Battlefield Awards. This prestigious award is reserved for individuals who went above and beyond the call of duty to deliver outstanding business outcomes. Recipients of this award will receive up to three-months' salary.



Education Assistance

We believe that knowledge is power, and we have always encouraged our people to improve their capabilities by continuing their formal education. We provide financial assistance for those who decide to further their studies through professional programmes or postgraduate studies.

Coffee with Leadership Team

As a Company that works towards creating an engaging working environment, we organised bimonthly 'Coffee with Leadership Team' sessions. These sessions create a safe and relaxed space for employees to freely engage with the Leadership Team. The coffee chats allow two-way exchange of information and knowledge on different aspects of the business and those who attend are often encouraged to ask questions and voice any concerns that they may have.



Syed Ahmed Raza signed up for the education assistance initiative and has now successfully completed his Master of Business Administration from University of Warwick, United Kingdom. Since we launched this programme, our people have pursued their education and thrived further in their respective portfolios, making us proud of their development.

Syed Ahmed Raza
Brand Manager - New Generational Product
Education Assistance Recipient



Azlin Adanan was one of our Battlefield Award recipients. Leveraging on her strong technical and operational capabilities, Azlin streamlined key processes in her department and successfully secured significant saving worth GBP 3.3 million. Her dedication and tenacity proved to be exactly what was called for in a situation like this.

Azlin Adanan
Customs and Regulatory Manager
Battlefield Award Recipient

CELEBRATING AND RECOGNISING OUR PEOPLE

**Parents@BAT**

At BATM, we understand the challenges our employees experience when there is a new addition to the family in view of this, the Company launched Parents@BAT in 2019.

This initiative aims to provide support and flexibility to new parents. The goal of Parents@BAT is to help our team achieve a positive work-life integration between their family and career.

Under the Parents@BAT programme, we offer an extended paid maternity leave of 120 consecutive days for all permanent female employees. They also have the option of extending their maternity leave by taking up to 60 days of half-paid leave or 180 days of unpaid leave. We have also introduced Adoption Leave for parents who have taken the decision to pursue adoption.

We are fully supportive of our employees and strive to cultivate a conducive work environment for them. We also provide assurance with a 'return to work guarantee'.

In addition, we also allow parents, either biological or adoptive, to request for flexible work arrangements. They have the option to reduce their working days as well as to work from home. They also have access to an online portal, to assist with career discussions and the transition when they return from parental leave.

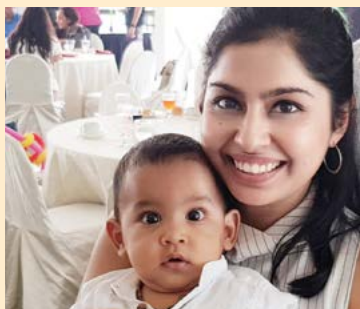
Employee Engagement Activities

We strive to energise and engage our people through fun and exciting activities throughout the year. We believe our people should not only work hard but should also be able to enjoy leisure and social activities together as a family. The British American Tobacco Malaysia Sports Club was set up to organise fun and exciting activities for all our team members. In 2019, the Sports Club ran a range of events which include recreational sports activities, festive lunches, health talks and sports competitions. Among the highlights of the year were the company-wide Kick-Off meeting in Kota Kinabalu, Treasure Hunt, White Water Rafting, BAT Got Talent, Sports Day, the Annual Dinner and Dance as well as our Family Day.

We were heartened to see how these activities encouraged teamwork and cultivated a sense of camaraderie among our employees, nurturing their mind, body and soul amongst the well-being initiatives held in 2019 including the International Fruits Day and Festive Celebrations.

**"Fri-Yay" and "Rest, Relax, and Refresh"**

Organising activities away from the office proved to be a good motivator for our employees. "We are mindful that work-life integration plays a big part in the lives of our employees. To this end, our "Fri-Yay" and "Rest, Relax and Refresh" initiatives made their debuts this year". Every quarter on a "Fri-Yay" Friday, our employees leave work as early as 3.30 p.m. to pursue their personal interest. In June, everyone enjoyed a full week off from work to "Rest, Relax and Refresh" and spend quality time for leisure and family.



"Being part of the BATM team has allowed me to embrace my role as a young mother. The Company's maternity leave policy gave me the time I need to breastfeed my baby and recover fully. I have had the privilege of enjoying my time with my new-born without having to worry whether I will be able to go back to work as the Company is fully supportive of my new role."

Azleena Saduruddin, a new mum who has benefited from Parents@BAT,

CELEBRATING AND RECOGNISING OUR PEOPLE



Employee Engagement: Your Voice 2019

Our biennial Employee Satisfaction Survey results improved in 2019, with an increase in sustainable engagement and high performance. Our sustainable engagement indicator was especially important as we scored above the global norm highlighting the commitment of our people in achieving company goals.

Awards and Accolades

We are proud that the Company is continuously recognised by the industry and external panels as a leading talent brand in Malaysia. In 2019, we are certified as the Top Employer in Malaysia and Asia Pacific for the third year in the row.

Our credibility as an employer of choice has also been amplified by the following awards received in the year:

- Top Employer in Malaysia and Asia Pacific 2020, by Top Employers Institute
- HR Best Companies to Work for in Asia, by HR Asia
- HR Excellence Award, by HR Excellence in the following categories:
 - Total Rewards Strategy
 - Employee Engagement
 - Innovative Use of HR Tech
 - Business Transformation
 - Workplace Wellbeing



08

Sustainability

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SUSTAINABILITY Statement

Sustainability at British American Tobacco (Malaysia) Berhad

Our sustainability pillar aims to extend British American Tobacco p.l.c. Group's agenda for a better tomorrow to the people that forms a part of our community. While building a sustainable business is a priority, the Company is equally committed to put in the 'heart' work to ensure the Malaysian community thrives.

As a brand that has a long-standing legacy in Malaysia, we are passionate about investing in the very community that have grown alongside the Company. It was therefore especially heartening that in 2018, British American Tobacco (Malaysia) (BATM) Foundation unveiled our transformed Corporate Social Responsibility ("CSR") platform titled BATM Social Engagement, Empowerment, and Development (S.E.E.D.) to benefit Malaysians most in need.

Sustainability Governance

Sustainability matters are the purview of the CSR Committee which comprises members of the Leadership Team and is chaired by the Managing Director. This Committee reports on Sustainability matters to the Board of Directors via the Audit Committee.

The focus areas of the CSR Committee are as follows:

CSR Committee Focus Areas



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



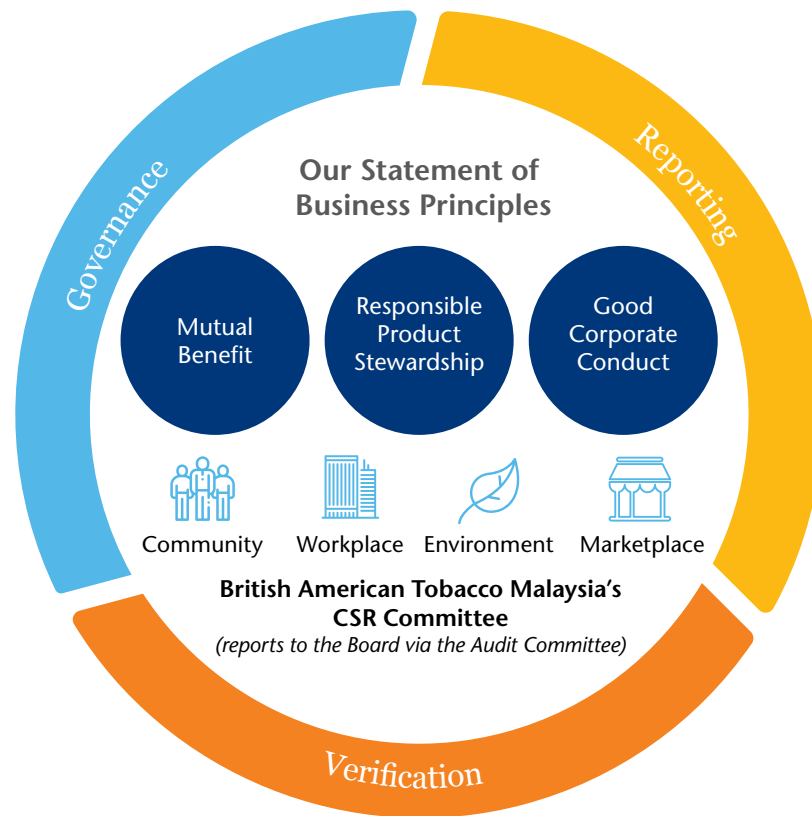
Monitoring alignment with the Company's Statement of Business Principles
– Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct

BRITISH AMERICAN TOBACCO MALAYSIA'S Sustainability Framework

The Company has a Sustainability Framework in place which focuses on creating value for shareholders and stakeholders in four key areas – Community, Workplace, Environment and Marketplace.

The Sustainability Framework is aligned to Bursa Securities' CSR Framework which acts as a guide for public listed companies in Malaysia. It is also aligned to the Statement of Business Principles of British American Tobacco p.l.c Group, which the Company has adopted.

British American Tobacco Malaysia Sustainability Framework



BRITISH AMERICAN TOBACCO MALAYSIA'S
SUSTAINABILITY FRAMEWORK**Stakeholders**

We strongly believe that continuous communication and engagement with stakeholders is important in building a sustainable business. By doing this, we are not only able to keep a close watch on issues that may concern stakeholders, but also understand how stakeholders' want to contribute to society. The Company uses a range of platforms to engage with stakeholders to build their trust. These are:

Stakeholders	Engagement Platforms	Issues	How We Addressed
Regulators	<ul style="list-style-type: none"> • Public consultations • Regular meetings 	<ul style="list-style-type: none"> • Illegal cigarettes • Regulations 	<ul style="list-style-type: none"> • A two-way dialogue and information sharing related to illegal cigarettes and its impact to government, society and industry
Consumers	<ul style="list-style-type: none"> • Customer service channels (DUNHILL and PETER STUYVESANT hotline) • Corporate email • Corporate website • Company press releases 	<ul style="list-style-type: none"> • Product information • Illegal Cigarettes 	<ul style="list-style-type: none"> • Full time call centre that attends to consumer queries and provide necessary information to keep consumers updated • Public awareness initiatives to educate media on illegal cigarettes
Employees	<ul style="list-style-type: none"> • Your Voice Engagement Survey • Multiple internal engagement channels (monthly townhall sessions, annual corporate sessions) • Leadership forums with extended and middle management • Interdepartmental corporate Away Days 	<ul style="list-style-type: none"> • Career planning and development • Fair and transparent rewards • Active engagement process across the organisation by Management team 	<ul style="list-style-type: none"> • Results from bi-yearly employment engagement survey incorporated into talent strategy • Various platforms to engage all employees
Investors and Analysts	<ul style="list-style-type: none"> • Annual General Meeting • Annual Report • Quarterly analyst briefings • Corporate website • Company press releases 	<ul style="list-style-type: none"> • Corporate strategy and financial performance • Corporate governance and compliance • Illegal Cigarettes 	<ul style="list-style-type: none"> • Numerous briefings conducted to analysts and investors on business performance and strategy
Media	<ul style="list-style-type: none"> • Press conferences • Media interviews and events • Formal and informal briefings 	<ul style="list-style-type: none"> • Corporate strategy • Financial performance • Products and services • Illegal Cigarettes 	<ul style="list-style-type: none"> • Regular media engagements conducted to provide updates on business performance and strategy, products and services, and address issues of consumers' concerns
Business Partners, Community & NGOs	<ul style="list-style-type: none"> • Engage and support business partners, corporates and NGOs in addressing issues in the community 	<ul style="list-style-type: none"> • Empowering underprivileged communities • Providing fair participation in the digital world whilst reducing e-wastes • Enabling fair access to education opportunities • EHS best practices • Compliance 	<ul style="list-style-type: none"> • British American Tobacco Malaysia Foundation continued to provide more than RM 100, 000 in scholarships to 25 aspiring leaders in 2019. • British American Tobacco Malaysia donated more than 600 digital assets to be refurbished and distributed to deserving non-governmental organisations and communities aimed at educating and empowering underprivileged youths across Malaysia • British American Tobacco Malaysia formed a one-year partnership with the MyKasih Foundation under their Food Aid Programme which aims to alleviate the burden of the B40 communities • We conducted briefings, information sharing as well as trainings with business partners to ensure compliance with regulations and standards

BRITISH AMERICAN TOBACCO MALAYSIA'S SUSTAINABILITY FRAMEWORK

Material Matters

The Company has identified five material matters which are most important for the sustainability of the business. This was determined following engagements with various stakeholders, namely shareholders, employees, consumers and suppliers as well as assessing the current or potential impact on the Company. The material matters are:

1. Illegal Cigarettes
2. Supply Chain
3. Employees
4. Environmental, Health and Safety
5. Education and Technology

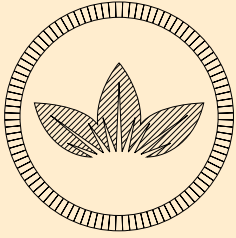
Materiality Matrix				
		Low	Medium	High
Level of interest to shareholders	High		<ul style="list-style-type: none">• Education and Technology	<ul style="list-style-type: none">• Illegal Cigarettes• Supply Chain
	Medium			<ul style="list-style-type: none">• Employees• Environmental, Health and Safety
	Low			
		Current or potential impact of the Company		

Disclosure Scope and Boundary

The Sustainability Statement covers British American Tobacco (Malaysia) Berhad and its wholly owned subsidiaries:

1. Commercial Marketers and Distributors Sdn. Bhd.
2. ROTHMANS Brands Sdn. Bhd.
3. Tobacco Importers and Manufacturers Sdn. Berhad

Together, the Company and its three subsidiaries above, form the operating companies of the Group in Malaysia. Unless otherwise stated, the Sustainability Statement covers the activities of the Group in Malaysia.



FEATURE STORY

FIGHTING BACK AGAINST ILLEGAL CIGARETTES

How British American Tobacco Malaysia Worked to 'Make the Invisible, Visible'.
Here is the Company's report from the 'frontlines' on how we were bolder, louder and more vocal on this black economy all through 2019.

Taking A Stand

Motivated by the commitment made to shareholders at the last Annual General Meeting, a series of proactive measures were set into motion by the Company. We had committed that the Company would be more visible and vocal in communicating the issues surrounding the illegal cigarette trade. The time had come for us to take bold steps, to show our passion and to deal with what is real. After all, this was for a more sustainable business environment, for shareholders and the Company.

We understood that for many Malaysians, the issue of cheap contraband cigarettes was not one that featured as part of their daily conversation. That meant we had to start from square one to educate the public that illegal cigarettes are a burning platform in Malaysia with serious consequences. This was an issue which needed urgent focus and swift action.

THE COST OF ILLEGAL TOBACCO IN MALAYSIA

A large illegal problem

- Highest illegal cigarette incidence in top 100 markets globally
- Illegal trade share grown rapidly in the last 10 years

Direct impacts

- Lost tax revenues
- Health policy undermined
- Funding of illegal activity and corruption

Wider impacts

- Factory closures
- Job losses
- Reduced activity in legitimate supply chain

Induced effects

- Less spending in the wider economy
- Damage to Malaysia's Gross Domestic Product, Jobs and Tax Revenue

Ultimately, it's not just a legal tobacco problem, it is everyone's problem

The problem of illegal cigarettes goes beyond the industry and is now deeply rooted in our civil society. We knew from varying data sources, this black economy does not just threaten legal tobacco companies, it is a national level threat to the country, its revenue, reputation and people. But the challenge for the Company was how to illustrate the size and impact of the illegal tobacco trade to the country. And yet, Malaysians were still blissfully ignorant to this threat just right outside their doorsteps.

Source: Oxford Economics

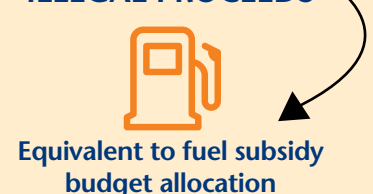
12billion
STICKS OF ILLEGAL CIGARETTES



5.3billion
EXCISE LEAKAGE



2.12billion
ILLEGAL PROCEEDS



Creating A Research and Fact-Based Platform

The best way to alert Malaysians to the issue was through a research-based and factual approach. As an industry, we have access to a wealth of data constantly tracking the size of the illegal market (and its recent rapid growth spurt) in Malaysia. This data is published and made available to the public as an industry standard report titled the Illicit Cigarettes Study ("ICS"). Commissioned by the Confederation of Tobacco Manufacturers Malaysia ("CMTM"), the ICS has existed for over 20 years and is the most robust form of measuring illegal cigarette incidences across the country as it covers the widest range of locations nationwide. The ICS is conducted on frequent intervals in order to track the spread and growth of illegal cigarettes in the country.

Beyond the size of the illegal tobacco trade, it was also important to detail the impact this black economy had on the country. To that effect, the Company worked with British American Tobacco p.l.c. to engage Oxford Economics, a world leader in global forecasting and qualitative analysis to conduct a study into the impact of the illegal tobacco trade on the Malaysian economy. It was important that the study be carried out by an independent and neutral third party in order to establish the credibility of the findings of the report. In June 2019, a report titled "The Economics of the Illicit Tobacco Trade in Malaysia" was published by Oxford Economics.

We Didn't Just Publish A Report, We Brought It 'Alive'

Beyond printing of the report, a robust dialogue featuring a high-calibre panel comprising international and local experts was organised to help decode key findings from the report. Participants included the likes of Datuk Seri Akhbar Sattar, criminologist and former President Transparency International Malaysia; Kenneth Head, former International Monetary Fund Africa South Regional; David Lum, Criminal Investigations Attaché of the US Internal Revenue Service; Datuk Charon Wardini Mokhzani, Managing Director Malaysian Industrial Development Finance Berhad; and author of the report, Pete Collings, Director of Economic Impact Consulting for Europe and Middle East at Oxford Economics.

What's Next?

The Company has and will continue to be bold and vocal in our efforts to mitigate the illegal cigarette trade in Malaysia. This is to safeguard not only our corporate survival but the society's socio-economic well-being. Until and unless there is a sustainable tobacco framework in place, we will not rest.



KEY FINDINGS

- 59 percent of Malaysia's cigarette market in 2018 was illicit. That is equivalent to 598 million packs of 20 cigarettes.
- The affordability level of legal cigarettes vs illegal cigarettes is a key driver of the illegal cigarettes. For B40 households, a pack of legal cigarettes is over 17 percent of daily income vs 4.8 percent for illegal cigarettes.
- The total amount of tax evaded by Malaysia's illegal tobacco trade in 2018 was over RM5.1 billion.
- The closure of two major cigarette factories as a result of the illicit trade has cost the Malaysian economy up to 5,750 jobs.
- The illegal cigarette trade fuels corruption, and violent crimes as the smugglers go to great lengths to protect their profits.
- The smugglers are part of transnational organised crime networks that can endanger public safety, public health, economic stability.

Footnote:

About Oxford Economics: Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college. Since then, it has become one of the world's foremost independent global advisory firms, providing reports, forecasts, and analytical tools globally.



Illegal trade in cigarettes is endemic



Facilitates organised crime and corruption



Revenue collection and health policy undermined



Growth of illegal activity coincided with tax increases & legal cigarettes becoming less affordable



Damages legitimated business and discourages Foreign Direct Investments



Leading to much wider negative economic effects



Factories may have closed but efforts to improve enforcement still require to curb illegal tobacco trade

Source: Oxford Economics

Marketplace

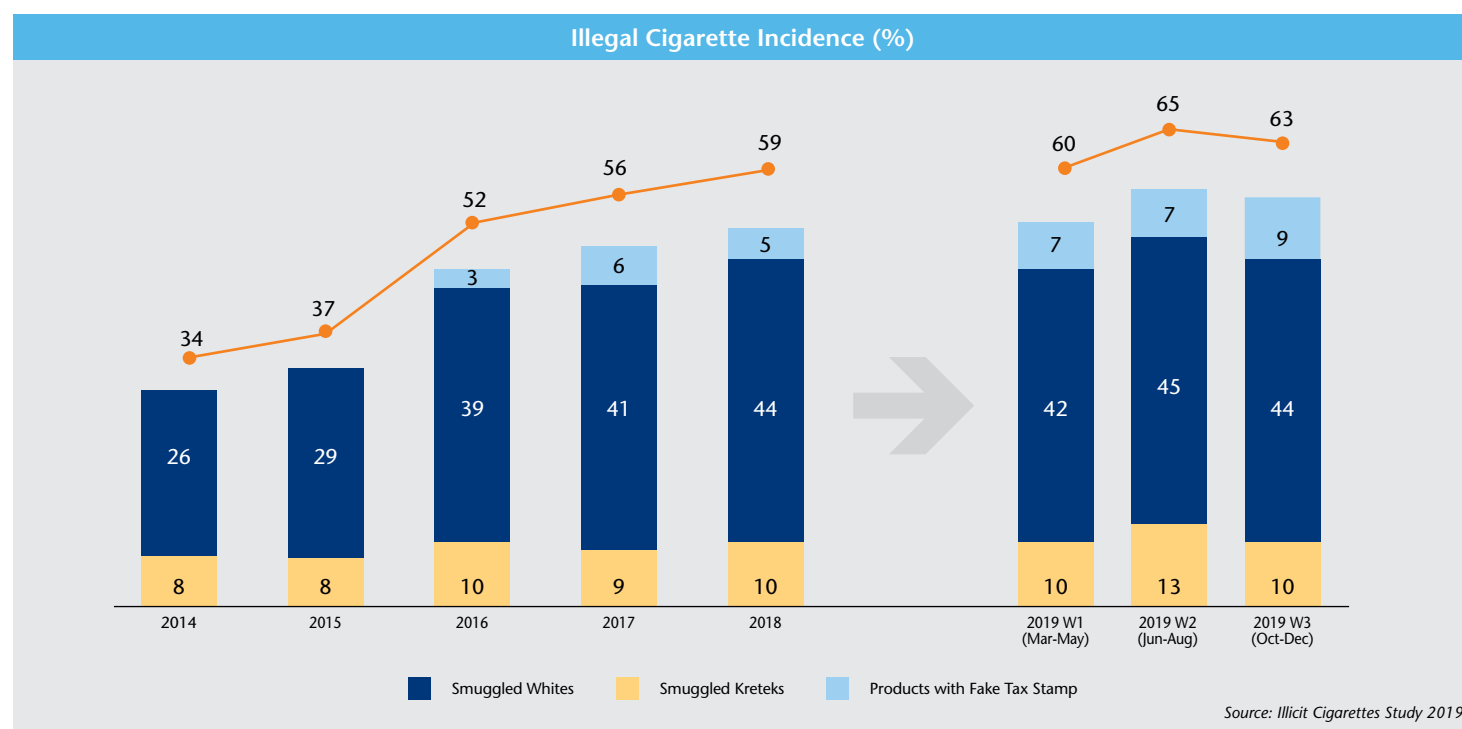
Material Matters: Illegal Cigarettes; Supply Chain

The Fight Against Illegal Cigarette Trade in Malaysia Continues

2019 marked another year where the illegal trade levels were concerning high in Malaysia. At the beginning of 2019, the illegal cigarette trade stood at 59% share of total market based on Nielsen's Illicit Cigarettes Study ("ICS"). By year end, this figure jumped to 63% of the total industry volume.

However, we were encouraged to see some positive initial steps taken by the government to address what is now an endemic issue. The Finance Minister announced the intention to recover RM1 billion out of the total RM5 billion excise tax evaded due to cigarette smuggling activities. This was coupled with the introduction of higher penalties effective January 2019 of a minimum RM100,000 fine or six months imprisonment for those caught trading in or possessing illegal cigarettes. On the back of the Oxford Economics report, law enforcement agencies also stepped up enforcement efforts to complement the new deterrents imposed by law.

Despite the government's ambitions and efforts, the syndicates behind the illegal cigarette trade have kept themselves several steps ahead of enforcement agencies. They employ complex, coordinated and evolving methods to evade the authorities. As a result, the Illicit Cigarettes Study 2019 study by Nielsen indicates that the illegal cigarette trade grew exponentially in the course of 2019, despite the increase in enforcement.



We strongly believe it is time for the government to take drastic and radical actions including demand driven solutions like a review of excise duties. The government must also tighten loopholes that are being exploited by the syndicates, in particular around transshipment or transit of cigarettes into Malaysia, as well as effective controls at entry points (ports and border crossings).

MARKETPLACE

Regulatory Developments

We are committed to upholding high standards of corporate conduct throughout our business operations. We believe how we achieve something is as important, if not of greater importance, than what we achieve. Recognising that we operate in a highly regulated industry, robust processes and strict governance are in place to ensure we are fully compliant with all existing legislation governing our products and business.

On regulation, we have always been clear that we support regulation that is based on robust evidence and thorough research, delivers on the intended policy aims and at the same time, allows businesses to operate and be competitive in the marketplace.

In the current operating landscape of the Malaysian tobacco industry where illegal cigarettes dominate 63% of the total marketplace, it is critical for the government to give serious evaluation on any introduction of new regulation to ensure it is not only enforceable on legal segment but also on the illegal segment. More importantly, any new regulation if at all introduced, must not worsen the current illegal cigarette trade situation further.

The real deal here is to ensure all regulations are enforced effectively by the relevant authorities on illegal cigarettes segment be it on pricing, product or packaging laws.

In 2019, the government announced the prohibition of smoking in any eating places effective from 1 January 2020. The Control of Tobacco Products Regulation ("CTPR") 2004 was amended to prohibit smoking in any eating places whether inside or outside of buildings where food is prepared, served or sold and includes:

- (a) any room or area on a ship or train where food is prepared, served or sold;
- (b) any area on a vehicle where food is prepared, served or sold, and any surrounding area within a radius of three meters from the vehicle; and
- (c) any area within a radius of three meters from any table or chair which is placed for the purposes of preparing, serving or selling food.



Community

Material Matters: Education and Technology; Environmental, Health and Safety; Employees

In 2018, the Company enhanced its commitment for community building in line with its new focus towards building a fair society. To achieve this, we unveiled British American Tobacco Malaysia SEED, a newly transformed platform that aims to bridge the economic gap for the B40 community in Malaysia.

Through BATM SEED, we aim to provide social engagement, empowerment and fair opportunities to disenfranchised communities in four main areas spanning Empowerment, Social Impact, Education and the Environment.

To fulfil our mandate, we actively engage with B40 communities in Malaysia to enable access to the digital world and offer tools to assist them in their daily lives. Our efforts are aimed at driving inclusive socio-economic progress. BATM SEED also calls for stronger participation from employees, encouraging them to volunteer their time, energy and resources.



BATM SEED INITIATIVES

2018

Single Mum, Recreative & Innovation (SURI)

The Picha Project

Great Vision Association Foundation

SOLS TECH

2019

MyKasih Foundation

Building Bicycles for the Underprivileged Communities in Sabah

Great Vision Association Foundation

SOLS TECH

SURI


The Picha Project


MyKasih

**SOLS
TECH**


GREAT VISION
CHARITY ASSOCIATION
PERSATUAN HARAPAN MULIA

COMMUNITY



Strategic Partnership with the MyKasih Foundation



Reducing poverty is a complex issue and requires a multi-pronged approach to achieve sustainable impact. In our efforts to create an equitable society and close the income gap as we progress into a high-income developed nation, we entered into a

strategic partnership with the MyKasih Foundation at the end of 2019. BATM SEED underpins our commitment and passion for Malaysia and Malaysians. Through this partnership with MyKasih, we will now have an avenue to create meaningful engagement touchpoints for communities most in need across the nation. Most importantly, through the MyKasih network, our employees are able to actively participate and volunteer their time, energy and resources towards giving back to the community.

The Company through British American Tobacco Malaysia Foundation has sponsored fifty (50) recipient families under the Food Aid Programme. Our first outreach as part of our contribution to the MyKasih foundation Food Aid Programme is in Bangi which saw the participation of over 60 BATM employees from the Klang Valley. During the event, employees organised activity booths for the 50 families present and guided these families through the cashless shopping experiences.

Supporting Underprivileged Communities in Sabah

At our Kick Off Conference in March 2019, we held a 'Build the Bike' Challenge which saw 500 employees building bicycles from scratch for children in Sabah. Our employees successfully built 60 bicycles, which were then donated to the indigenous Kadazan community. Some bicycles were also donated to a care home for underprivileged segments of community from a rural community in Kota Kinabalu, Sabah. Through this initiative, beneficiaries will now be able to travel conveniently around their residential area.

"What initially started as a competition turned into something that was heart-warming and emotional. I was most inspired by the teamwork that all of us showed towards building the bicycles. Knowing that it would be going to the underprivileged communities made us want to build the best bicycles. I hope this is something memorable that we've done for them."

Chandra Kumar sharing his experience of building the bicycle for the underprivileged communities in Sabah.

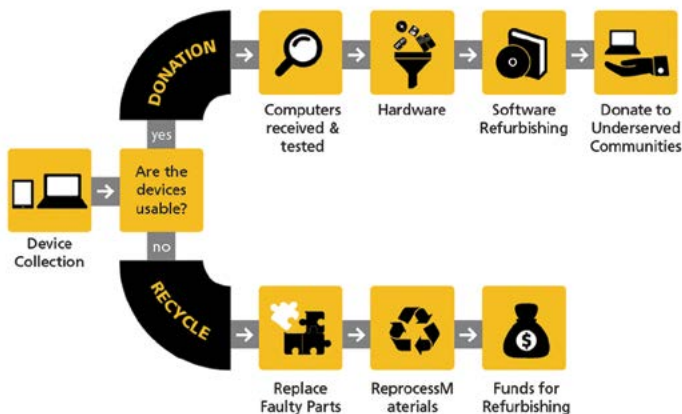


COMMUNITY

Providing Fair Participation in the Digital World whilst Reducing E-Wastes

The Company strongly believes that accessibility to technology will have a positive impact in driving the Malaysian community forward. With this in mind, we teamed up with SOLS TECH, a non-profit organisation that collects, refurbishes and distributes donated computers and gadgets to underserved communities. In 2019, we donated over 665 digital assets to SOLS TECH for distribution to underprivileged families, organisations and schools.

Forming a part of our initiative to take positive actions in ensuring a sustainable tomorrow, we have also leveraged on SOLS TECH's zero-waste platform to recycle more than 5,500 kg of e-wastes, comprising of laptops, printers, monitors and desktops.



Enabling Fair Access to Education Opportunities for Tomorrow's Leaders

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

Since the introduction of the BATM Foundation scholarship programme, we have invested over RM18 million which has benefitted more than 2,800 students. In 2019, BATM Foundation continues to service existing scholarships valued at over RM100,000 to 25 Malaysian students currently studying in higher-educational institutions. However, in 2017, we have decided to cease our scholarship programme and shift our focus to two new initiatives that began in 2019. To this end, we launched our Education Assistance Programme and began our partnership with the Great Vision Charity Association.

The Education Assistance Programme aims at giving our employees employees the opportunity to strengthen their skills set and pursue a higher education. This programme is open to all full-time employees who have completed at least two years of service with us and are seeking to complete part-time educational programmes that lead to qualifications such as PhD, Master's Degree, Degree, Diploma and Professional Certificates. Applications are open every year from 1 July to 31 August.

The Great Vision Charity Association (GVCA) is a non-profit voluntary charity organisation that emphasises the important role that education and awareness play in transforming our society. Under the Didik-Kasih Educare Programme, we have contributed RM100,000 to assist underprivileged students who wish to pursue tertiary studies by providing them with a start-up assistance and monthly allowance to cover their living expenses. This programme is in line with our commitment to invest in Malaysians, regardless of their background.



Workplace

Material Matters: Employees; Environmental, Health and Safety

Employee Value Proposition

The Company believes in creating a work environment for high performance. This is achieved by providing employees with propositions that are relevant and address their needs, and which also demonstrate the Company's commitment to employees.



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

Enhancing Health and Safety at Our Workplace

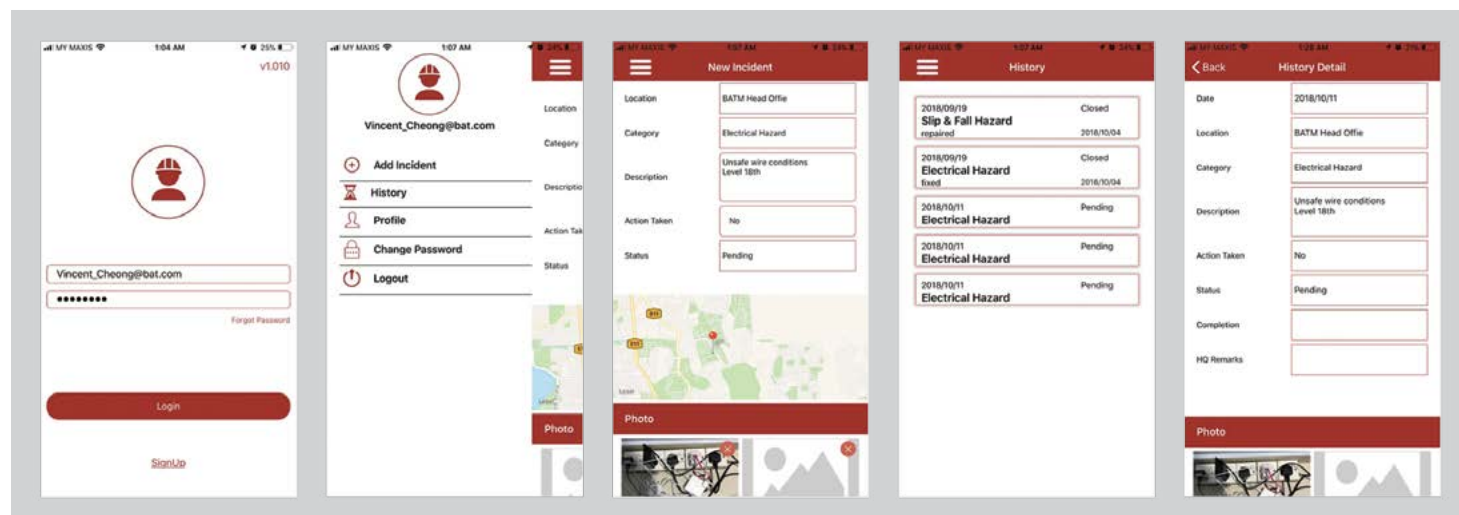
Driving effective Environment, Health, and Safety management for a zero-accident workplace is one of the top priorities of the Company. We have continued to conduct activities to reinforce health and safety best practices at the workplace, in line with our global campaign, *Closing the Gap to Zero*, which was initiated in 2012. This programme aims to reduce the number of workplace accidents to zero.

As of end-December 2019, the Company and its wholly owned marketing subsidiaries, Commercial Marketers and Distributors Sdn. Bhd. and Tobacco Importers & Manufacturers Sdn. Berhad achieved 865, 112 man-hours without a Lost Time Injury since September 2011. The Company has a good health and safety record and, under the Closing the Gap to Zero campaign, made further progress in reducing accidents across the business.

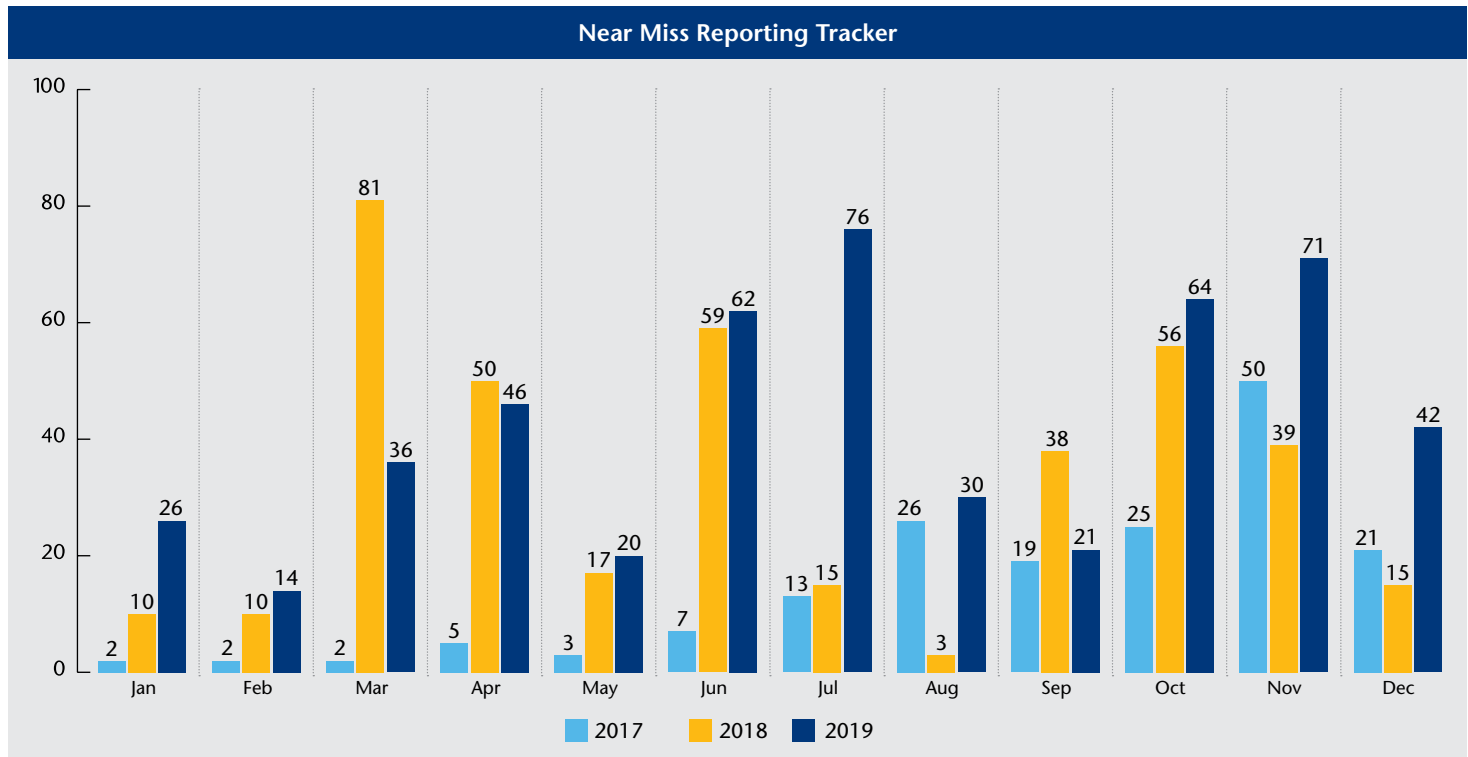
Near Miss Reporting

One of the best practices for workplace safety is for employees to provide timely feedback on safety related matters so that accidents can be prevented by identifying safety issues and learning from reports of near misses, unsafe acts or conditions.

To achieve this, we have in place a Near Miss Reporting programme to encourage employees to play an active role in observing and alerting the relevant teams of any unsafe conditions or near misses at or around the workplace. We believe this gives employees a sense of ownership in making their work environment a safer place. This effort has paid off, and since 2016, a total of 508 near misses were reported, preventing serious incidents. We further enhanced this programme by introducing a Near Miss Reporting mobile application in 2018, to make it more convenient for employees to alert us.



WORKPLACE

**Contractors EHS Enforcement and Reinforcement Programme**

In addition to employees, workplace safety is dependent on other third-party contractors who may perform certain business functions within our premises. As such, a programme to elevate the level of environmental, health and safety awareness among service providers has been in place since May 2016. The programme provides training to services providers on seven essential modules - Fall from Height Hazards, Hot Work, Entrapment Hazards, Slip Trip and Fall Hazards, Chemical and Fumigation Safety, Vehicle Impact and Permit to Work.

Defensive Driving Course

Workplace safety extends to business travel, particularly where the employees spend considerable time on the road. Our Field Force employees face daily risks while on the road and while loading and unloading products from their vehicles. Apart from dealing with the inherent road safety issues, they also face security risks from carrying high value legal cigarettes.

Field Force employees are trained in defensive driving, enabling them to identify and assess potential road hazards and make sound decisions in emergencies. They are also trained in basic vehicle safety checks, first aid and self-defence. To date, six training sessions have been conducted involving 120 employees. As part of continuous improvement, the Company had initiated a VR device system for better practicality. The defensive driving training is provided to all new employees, while a refresher course is organised to existing employees every three years. Each session is capped to 25 people for maximum impact, to ensure that every staff is being trained with due diligence.



WORKPLACE

Telematics monitoring of Fleet Vehicles

Telematics is a method of monitoring a vehicle by combining a Global Positioning System ("GPS") system with on-board diagnostics. In 2019, the Company installed 126 telematics monitoring systems which combines GPS technology and on-board diagnostics in all company fleet vehicles. This will help us better understand driver behaviour and adapt its processes and training for enhanced safety, cost management and route planning. In addition, we have seen a 43% decline in vehicle collision related incidents since we started introducing defensive driving training, telematics system and line manager monthly assessment on driving behaviours.

Health and Safety Training for New Employees

It is compulsory for all new employees to undergo training on health and safety at the workplace as part of their orientation and induction course. This equips them with the knowledge and awareness on risk mitigation processes at the workplace premises or out in the field. The topics addressed are those relating to common workplace accidents such as Slip Trip and Fall, Fire and Electrical Safety, Road Safety, Near Miss Reporting and Accident Reporting Procedures. In 2019, three training sessions were held for 45 new employees.

First Aid Training

The Company organised First Aid training for 16 Group employees. They are now competent first aiders.

Safety Day

A Group-wide Safety Day was organised with 250 participants taking part in a Fire Prevention Seminar to enhance the awareness of fire risks and prevention at both the workplace and at home.



The Company is proud that its consistent efforts to drive a high commitment to health and safety at work were recognised by the Malaysian Occupational Safety and Health Practitioners' Association ("MOSHPA") in 2019. The Company completed MOSHPA's Health and Safety Audit with Full Compliance. We also won the Gold Award for Retail and Wholesale of FMCG Product Category at the 15th MOSHPA OSH National Awards 2019, the Company's first health and safety award.

Environment

Material Matters: Environmental, Health and Safety

Environmental Policies

Our commitment to embed environmental responsibility throughout our business operations is aligned to the principles outlined in the Global Environment, Health and Safety Policy the British American Tobacco p.l.c. Group. We adopt the p.l.c. Group's policies to its fullest and comply with the policy in its entirety.

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 operations throughout the British American Tobacco p.l.c. Group.

All British American Tobacco p.l.c. Group's operating companies worldwide are required to:

- (i) comply with all applicable national and international laws and regulations affecting their business activities.
- (ii) establish procedures for assessing and reviewing the environmental, health and safety impacts of present and future activities on a regular basis.
- (iii) seek continually to identify proactive and cost-effective measures which it can take to safeguard the health and safety of its employees and non-company personnel on company premises and the physical environment.

Minimising Our Environment Impact For a Sustainable Future

We recognise the importance of understanding and taking positive actions to reduce our impact on the environment to proactively ensure environmental and business sustainability. We measure our impact through two indicators – energy consumption and water consumption.

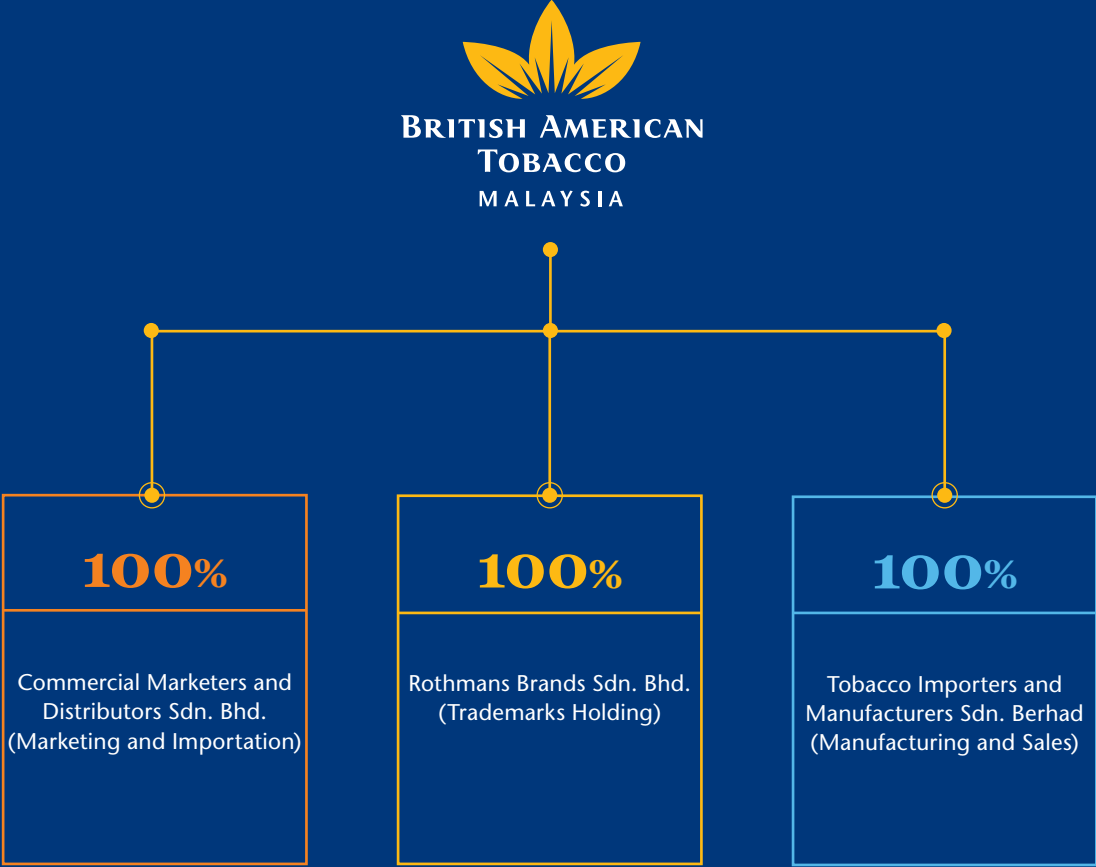
On a year on year comparison, we reduced energy consumption (direct and indirect) by 4.9% compared with 2018. This was due to initiatives to reduce electricity consumption at site offices, as well as expanding the usage of hybrid and Energy Efficient Vehicles ("EEV") vehicles and telematics systems in fleet vehicles to reduce fuel consumption.

Water consumption in 2019 decreased by 7% year-on-year. This was the result of water saving initiatives enforced in all site offices and warehouses.

	2018	2019	2018 vs 2019
Total Energy (GJ)	36,167	33,295	-4.9%
Total water withdrawn (m ³)	1,678	1,275	-7.1%

DISCLOSURE

Scope



GRI STANDARDS Guideline 2019

FINANCE

GRI Code	Disclosure Title	Responses/Results for 2019
Economic Performance		
201	Management Approach Disclosures: Economic Performance	The basis upon which the financials of the Company were derived are contained in the audited financial statements as contained in this Annual Report.
201-1	Direct Economic Value Generated and Distributed	<p>Direct Economic Value generated (revenues): RM 2,509 Million</p> <p>Economic Value Distributed:</p> <ul style="list-style-type: none"> - Operating Costs : RM 446 million - Employee Wages and Benefits : RM 83 million - Payment to Providers of Capital : RM 337 million - Payment to Government (Taxes) : RM 1,616 million - Community Investment : RM 2 million - Economic Value retained : (RM 44 million)
201-4	Financial Assistance Received from the Government	The Company did not receive any financial assistance from the government in 2019.
Indirect Economic Impacts		
203	Management Approach Disclosures: Indirect Economic Impacts	Not Applicable
203-1	Infrastructure Investments and Services Supported	Not Applicable
Public Policy		
415	Management Approach Disclosures: Public Policy	The Company has a policy on public contributions in SOBC.
415-1	Political Contributions	<p>There was no political contributions made by the Company in 2019.</p> <p>The Political Contributions section of the Standards of Business Conduct set out the policy on political donations. Contributions from the Company 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 the Company.</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>

GRI STANDARDS GUIDELINE 2019

MARKETING

GRI Code	Disclosure Title	Responses/Results for 2019
Indirect Economic Impacts		
203-2	Significant Indirect Economic Impacts	<p>Listed below are some significant indirect economic impacts to the Company in 2019:</p> <ul style="list-style-type: none"> - Despite positive trends in Malaysia's Gross Domestic Product performance in 2019, a significant portion of Malaysians continue to experience affordability stretch. The illegal categories presence remains high in the market i.e. illegal cigarettes stand at 63% of the market coupled with disruption from illegal vape to further pressure the legal nicotine landscape - The spike of confidence in consumers from 2018 general elections has tapered off to below optimistic level in 2019. This was driven by uncertainty in political and economic landscape of the country.
Customer Health and Safety		
416	Management Approach Disclosures: Customer Health and Safety	The Company has rigorous processes in place to ensure that our products are fit for sale and are in Compliance with the Control of Tobacco Product Regulations ("CTPR") 2004.
416-1	Assessment of the Health and Safety Impacts of Product and Service Categories	<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 per cent of our tobacco products are assessed to ensure compliance to the emission standard for cigarette as provided under the CTPR.</p>
416-2	Incidents of Non-Compliance Concerning the Health and Safety Impacts of Products and Services	The Company's products were in full Compliance with the CTPR.
Marketing and Labelling		
417	Management Approach Disclosures: Marketing and Labelling	The Company has a policy in place for marketing and labeling as provided by the CTPR and International Marketing Principles ("IMP").
417-1	Requirements for Product and Service Information and Labelling	<p>100 per cent of our cigarette packs and cartons are printed with Pictorial Health Warnings ("PHWs") as required under the CTPR.</p> <p>Furthermore, the CTPR 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>The Company is committed to 100 per cent compliance with these regulations under the CTPR, in addition to adherence to our IMP.</p> <p>For more information on our IMP, please see www.bat.com/imp</p>
417-2	Incidents of Non-Compliance Concerning Product and Service Information and Labelling	In 2019, the Company was in full compliance with the CTPR.

GRI STANDARDS GUIDELINE 2019

MARKETING

GRI Code	Disclosure Title	Responses/Results for 2019
Marketing and Labelling		
417-3	Incidents of Non-Compliance Concerning Marketing Communications	There were no incidents of non-compliance with regulations concerning marketing communications.

PROCUREMENT

Procurement Practices		
204	Management Approach Disclosures: Procurement Practices	Procurement has its own Procurement Policy and Procedures on Indirect Procurement since 2005 which are fully embedded in day to day practice related to procurement and spend with third party vendors.
204-1	Proportion of Spending on Local Suppliers	Being a global company, most common and high spend categories are sourced by global procurement with global vendors which have offices located at end markets across the world. Hence even though globally sourced, but as these global companies have foot prints locally and locally incorporated, the Company spends 95% with local suppliers. It is also due to the closure of PJ factory that results only in Indirects category spend and does not have Direct category purchases anymore (most Direct vendors are from overseas).
Supplier Environmental Assessment		
308	Management Approach Disclosures: Supplier Environmental Assessment	100 percent of our new suppliers are guided on environmental criteria as indicated in the Request for Proposal.
308-1	New Suppliers that were Screened Using Environmental Criteria	We use the Supply Chain Due Diligence process, where it includes assessing risks based on type of supplier, prioritising suppliers exposed to the highest risk, and monitoring and reviewing high-risk suppliers through self-assessment questionnaires, including environmental criteria or on-site audits and reviews that are delivered by appointed expert vendor, Intertek.
308-2	Negative Environmental Impacts in the Supply Chain and Actions Taken	There were no significant environmental impacts in the supply chain recorded in the Company in 2019. There were no recorded grievances about environmental impacts filed against the Company in 2019.
Freedom of Association and Collective Bargaining		
407	Management Approach Disclosures: Freedom of Association and Collective Bargaining	The Company have been practising freedom of Association and Collective Bargaining, however this is no longer applicable after the factory closure where there is no more association.
407-1	Operations and Suppliers in which the Right to Freedom of Association and Collective Bargaining May be at Risk	There was no risks in exercising freedom of association or collective bargaining in the Company in 2019 especially after the factory closure.

GRI STANDARDS GUIDELINE 2019

PROCUREMENT

GRI Code	Disclosure Title	Responses/Results for 2019
Child Labour		
408	Management Approach Disclosures: Child Labour	<p>The Company's Employment Principles builds on its commitment to good employment practices and workplace related human rights. It sets out a common approach to the development of policies and procedures, while recognising that we must take account of local labour laws and practices and the local political, economic and cultural context. Topics covered by our Employment Principles include:</p> <ol style="list-style-type: none"> 1) Equality of opportunity and non-discrimination. 2) Internal communications and the free flow of ideas. 3) Worker representation and freedom of association. 4) Fairness at work and the unacceptability of harassment and bullying. 5) Do not condone or employ child labour. 6) Forced or bonded labour is completely unacceptable. 7) Performance responsibility. 8) Health, safety and environmental responsibility. 9) Community contributions and skills development for employees and communities in markets where our companies operate. 10) Personal development and learning. 11) Reasonable working hours and family friendly policies. 12) Fair, clear and competitive remuneration and benefits.
408-1	Operations and Suppliers at Significant Risk for Incidents of Child Labour	This risk is mitigated through at the suppliers screening stage where the Request of Proposals states such restriction and then included in the agreement executed with vendors.
Forced or Compulsory Labour		
409	Management Approach Disclosures: Forced or Compulsory Labour	The Company'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.
409-1	Operations and Suppliers at Significant Risk for Incidents of Forced or Compulsory Labour	We use the Supply Chain Due Diligence, executed by our appointed expert vendor, Intertek, in selecting the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provisions of education and training, regulatory compliances, business ethics and environment, health and safety responsibility. Our suppliers are also required to sign on the Supplier Code of Conduct which include adhering to our policy on human rights.
Human Rights Assessment		
412-3	Significant Investment Agreements and Contracts that Include Human Rights Clauses or that Underwent Human Rights Screening	The Company's significant investments were with its suppliers. Our philosophy on supplier partnership was not just about procurement but how we could increase value in the supply chain. We use the Supply Chain Due Diligence, executed by our appointed expert vendor, Intertek, in selecting the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provisions of education and training, regulatory compliances, business ethics and environment, health and safety responsibility. Our suppliers are also required to sign on the Supplier Code of Conduct which include adhering to our policy on human rights.

GRI STANDARDS GUIDELINE 2019

PROCUREMENT

GRI Code	Disclosure Title	Responses/Results for 2019
Local Communities		
413	Management Approach Disclosures: Local Communities	The Company had been practising due diligence and care with local communities.
413-1	Operations with Local Community Engagement, Impact Assessments, and Development Programmes	No environmental impact assessment has been performed amongst our suppliers in 2019.
413-2	Operations with Significant Actual and Potential Negative Impacts on Local Communities	There were no significant impacts on local communities recorded in our suppliers in 2019
Supplier Social Assessment		
414	Management Approach Disclosures: Supplier Social Assessment	Supplier social assessment is an important aspect by procurement is its vendor management.
414-1	New Suppliers that were Screened using Social Criteria	<p>Using labour practices criteria: We use the Supply Chain Due Diligence process, where it includes assessing risks based on type of supplier, prioritising suppliers exposed to the highest risk, and monitoring and reviewing high-risk suppliers through self-assessment questionnaires, including environmental criteria or on-site audits and reviews that are delivered by appointed expert vendor, Intertek. Our suppliers are required to sign on the Supplier Code of Conduct which include adhering to our policy to labour practices</p> <p>Using human rights criteria: 100 percent of our new and existing strategic suppliers are reviewed through our major supplier programme, the Supply Chain Due Diligence process. This tool helps us assess whether our suppliers are meeting our human rights criteria and over time help achieve measurable improvements. If we identify human rights breaches in relation to a supplier, but there is no clear commitment to corrective action, persistent inaction or a lack of improvement, then our Standards of Business Conduct makes it clear that our work with that supplier should cease</p> <p>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</p>
414-2	Negative Social Impacts in the Supply Chain and Actions Taken	<p>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 the Company in 2019</p> <p>Significant actual and potential negative human rights impacts in the supply chain and actions taken: There were no human rights impact in the supply chain recorded in The Company in 2019</p> <p>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</p>

GRI STANDARDS GUIDELINE 2019

PROCUREMENT

GRI Code	Disclosure Title	Responses/Results for 2019
Organisation Profile		
102-9	Supply Chain	<p>Raw materials to Tobacco Importers and Manufacturers' Johor Bahru factory All raw material suppliers are sourced and managed globally and adheres to the Company Suppliers Designated code of conduct . Due to the small scale operations for Johor Bahru -> West Malaysia are purchased via BAT Singapore on a kitset model. Financially more viable due to low volumes and minimised risk exposure.</p> <p>Supply Chain Flow for Finished Goods : refer to Productivity Pillar on page 105.</p>
102-10	Significant Changes to the Organisation and its Supply Chain	<p>New Change : Tobacco Heated Products.</p> <p>Supply Chain Flow for THP : refer to Productivity Pillar on page 105.</p>

GENERAL

GRI Code	Disclosure Title	Responses/Results for 2019
General Disclosure		
102-1	Name of the Organisation	British American Tobacco (Malaysia) Berhad
102-2	Activities, Brands, Products and Services	Refer to Management Discussion and Analysis on page 42.
102-3	Location of Headquarters	British American Tobacco (Malaysia) Berhad Level 19, Guoco Tower, Damansara City No 6 Jalan Damanlela, Bukit Damansara 50490 Kuala Lumpur
102-4	Location of Operations	British American Tobacco Malaysia (Berhad) only operates in Malaysia.
102-5	Ownership and Legal Form	Refer to Notes to The Financial Statements on pages 176 to 232.
102-6	Markets Served	Refer to Management Discussion and Analysis on page 42.
102-7	Scale of Organisation	Refer to Management Discussion and Analysis on page 42 and Corporate Structure on page 5.
102-8	Information on Employees and Other Workers	Refer to Winning Organisation Pillar on pages 109 to 120 and GRI Specific Standard Disclosures 401.
102-12	External Initiative	Refer to Sustainability Pillar on pages 130 to 132.
102-13	Membership of Associations	<ul style="list-style-type: none"> Confederation of Malaysian Tobacco Manufacturers (CMTM) Malaysian International Chamber of Commerce and Industry (MICCI) Federation of Malaysian Manufacturers (FMM)
Strategy		
102-14	Statement From Senior Decision-Maker	Refer to Message to Shareholders on pages 7 to 10 and Management Discussion and Analysis on pages 35 to 40.
102-15	Key Impacts, Risks and Opportunities	Refer to Management Discussion and Analysis on pages 35 to 40.
Ethics and Integrity		
102-16	Values, Principles, Standards, and Norms of Behaviour	Refer to Statement of Corporate Governance on pages 57 to 72 and Standards of Business Conduct Statement on pages 73 to 75.
102-17	Mechanisms for Advice and Concerns About Ethics	Refer to Statement of Corporate Governance on pages 57 to 72 and Standards of Business Conduct Statement on pages 73 to 75.

GRI STANDARDS GUIDELINE 2019

GENERAL

GRI Code	Disclosure Title	Responses/Results for 2019
Stakeholder Engagement		
102-40	List of Stakeholder Groups	Refer to Stakeholders on page 124.
102-41	Collective Bargaining Agreements	Refer to Stakeholders on page 124.
102-42	Identifying and Selecting Stakeholders	Refer to Stakeholders on page 124.
102-43	Approach to Stakeholder Engagement	Refer to Stakeholders on page 124.
102-44	Key Topics and Concerns Raised	Refer to Stakeholders on page 124.
Reporting Practice		
102-45	Entities Included in the Consolidated Financial Statements	Refer to Notes to Financial Statements on pages 176 to 232.
102-46	Defining Report Content and Topic Boundaries	Refer to Aspects & Boundaries and Materiality on page 125.
102-47	List of Material Topics	Refer to Aspects & Boundaries and Materiality on page 125.
102-48	Restatements of Information	There is no restatement of information from previous report.
102-49	Changes in Reporting	Not applicable.
102-50	Reporting Period	Unless otherwise stated, all data covers the calendar year 1 January to 31 December 2019.
102-51	Date of Most Recent Report	Our latest annual report was published on 20 March 2019 for the period covering 1 January – 31 December 2018.
102-52	Reporting Cycle	British American Tobacco (Malaysia) Berhad has an annual reporting cycle.
102-53	Contact Point for Questions Regarding the Report	Refer to Corporate Information on page 14.
102-54	Claims of Reporting in Accordance with the GRI Standards	Refer to Global Reporting Initiative (GRI) Standards 2019 on pages 137 to 160.
102-55	GRI Content Index	Refer to Global Reporting Initiative (GRI) Standards 2019 on pages 137 to 160.
102-56	External Assurance	Not Applicable

GRI STANDARDS GUIDELINE 2019

CORPORATE SECRETARIAL

GRI Code	Disclosure Title	Responses/Results for 2019
Governance		
102-18	Governance Structure	Refer to Corporate Governance Overview on page 56.
102-19	Delegating Authority	Refer to Corporate Governance Overview on page 58.
102-20	Executive-Level Responsibility for Economic, Environmental, and Social Topics	Refer to Corporate Governance Overview on page 66.
102-21	Consulting Stakeholders on Economic, Environmental and Social Topics	Refer to Stakeholder Statement on page 124.
102-22	Composition of the Highest Governance Body and Its Committee	Refer to Corporate Governance Overview on pages 60 to 61.
102-23	Chair of the Highest Governance Body	Refer to Corporate Governance Statement on page 57.
102-24	Nominating and Selecting the Highest Governance Body	Refer to Nomination Remuneration Committee Report on pages 78 to 79.
102-25	Conflicts of Interest	Refer to the Standards of Business Conduct Statement on pages 73 to 75.
102-26	Role of Highest Governance Body in Setting Purpose, Values and Strategy	Refer to Corporate Governance Overview on page 58.
102-27	Collective Knowledge of Highest Governance Body	Refer to Corporate Governance Overview on pages 57 to 58.
102-28	Evaluating the Highest Governance Body's Performance	Refer to Nomination and Remuneration Committee Report on pages 77 to 80.
102-29	Identifying and Managing Economic, Environmental, and Social Impacts	Refer to Sustainability Pillar on pages 122 to 160.
102-30	Effectiveness of Risk Management Processes	Refer to Risk Management Committee Report and Statement of Risk Management and Internal Control on page 84 and pages 85 to 92.
102-31	Review of Economic, Environmental, and Social Topics	Refer to Sustainability Pillar on pages 122 to 160.
102-32	Highest Governance Body's Role in Sustainability Reporting	Refer to Corporate Governance Overview on pages 56 to 72.
102-33	Communicating Critical Concerns	Refer to Risk Management Committee Report and Statement of Risk Management and Internal Control on page 84 and pages 85 to 92.
102-34	Nature and Total Number of Critical Concerns	Not Applicable
102-35	Remuneration Policies	Refer to Nomination and Remuneration Committee Report on pages 77 to 80.
102-36	Process for Determining Remuneration	Refer to Nomination and Remuneration Committee Report on pages 77 to 80.
102-37	Stakeholders' Involvement in Remuneration	Refer to Nomination and Remuneration Committee Report on pages 77 to 80.
102-38	Annual Total Compensation Ratio	Not Applicable
102-39	Percentage Increase in Annual Total Compensation Ratio	Not Applicable

GRI STANDARDS GUIDELINE 2019

EHS

GRI Code	Disclosure Title	Responses/Results for 2019
Economic Performance		
201-2	Financial Implications and Other Risks and Opportunities due to Climate Change	<p>The Company 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 Sustainability pillar on page 135.</p>
Materials		
301	Management Approach Disclosures: Materials	The Company follow the global standard of IWS system to control of direct and indirect material sourcing to control wastages and privilege for production with proper planning.
301-1	Materials Used by Weight or Volume	<p>Total materials : 72, 82 tonnes</p> <p>Non-renewable materials : 0 tonnes (Parts, fuels, cleaning materials, chemicals and processing aids)</p> <p>Direct materials: 72, 82 tonnes (Leaf, wrapping, packaging, filter and flavouring)</p> <p>Normalised: 0.939 tonnes/million cigarette equivalent.</p> <p>This is the First Year running for the Company's Johor Bahru Nusajaya Manufacture plant ("JB NMF") hence this will be set as benchmark for 2020. The potential to decrease material will be to reduce the volume or to more effectively utilise material on the production floor.</p>
301-2	Recycled Input Materials Used	<p>Factory Operations:</p> <p>There is currently no recycled material used in the Company JB NMF Plant.</p>
301-3	Reclaimed Products and their Packaging Materials	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.
Energy		
302	Management Approach Disclosures: Energy	Energy Performance Data (KWH; tonnes; '000m ³ ; m ³) that has been received from a supplier/ vendor: utility/municipality (including energy provider: electrical power; diesel; natural gas; wood fuel); direct readings from energy and water meters; utility bills; water consignment notes and/ or invoices for waste management and service providers; litres of fuel consumed, e.g. Fuel Cards (TMD & Freight/Logistics Partners). Reflecting waste in tonnes; litres of fuel consumed, e.g. Fuel Cards (TMD & Freight/Logistics Partners). SAP data of leaf and direct materials for production; passenger, kilometres (business travel).

GRI STANDARDS GUIDELINE 2019

EHS

GRI Code	Disclosure Title	Responses/Results for 2019
302-1	Energy Consumption Within the Organisation	<p>Commercial: Total : 25,611 Gigajoules Non-renewable: 25,611 Gigajoules (Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)</p> <p>Renewable: 0 Gigajoules</p> <p>Normalised: 6.92 Gigajoules/million cigarette equivalent</p> <p>Achieved reduction of total energy consumption of -9 percent vs last year. This great achievement was garnered through the purchase of hybrid/ EEV vehicles and implementation of Telematics System to company fleet. Company fleet fuel consumption contributed of 61 % of overall energy consumption for Commercial.</p> <p>Factory Operations: Total : 866 Gigajoules Non-renewable: 866 Gigajoules (Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)</p> <p>Renewable: 0 Gigajoules</p> <p>Normalised: 8.4 Gigajoules/million cigarette equivalent</p>
302-2	Energy Consumption Outside of the Organisation	<p>Commercial: Total : 7,683 Gigajoules</p> <p>Non-renewable: 7,683 Gigajoules (Biz Travel - Air Flight, Finished Goods transportation – Sea, Road & Air Freight)</p> <p>Normalised: 2.07 Gigajoules/million cigarette equivalent</p> <p>Decrease of indirect energy consumption of 5 percent vs last year was recorded in 2019. This was primarily due to reduction of overall finished goods freight</p> <p>Factory Operations: Total : 71 Gigajoules</p> <p>Non-renewable: 71 Gigajoules (Biz Travel - Air Flight, Finished Goods transportation – Sea, Road & Air Freight)</p> <p>Normalised: 0.69 Gigajoules/million cigarette equivalent</p>
302-3	Energy Intensity	<p>Commercial : The intensity calculation is based on total energy used in British American Tobacco Malaysia's supply chain operations and marketing functions being the two biggest functions of the business divided by the total sales of volume sold.</p> <p>Total energy used was inclusive of direct and indirect energy.</p>
302-4	Reduction of Energy Consumption	<p>The Company's initiatives:</p> <p>The Company head office had been relocated to the Guoco Tower (certified green building) to achieve reduction initiatives of energy consumption for electricity and air conditioning energy usage. Furthermore the company also strongly support the initiatives to purchase company fleet vehicle with hybrid or EEV to reduce energy consumption and CO emission.</p>

GRI STANDARDS GUIDELINE 2019

EHS

GRI Code	Disclosure Title	Responses/Results for 2019
Energy		
302-5	Reductions in Energy Requirements of Products and Services	This is the First Year running for the Company JB NMF hence this will be set as benchmark for 2020. To potentially decrease the energy usage will be to reduce the volume or to more effectively plan out production schedules. Primary Manufacturing Plant – 240,542 kilowatt-hours (2019).
Water and Effluents		
303	Management Approach Disclosures: Water and Effluents	Our KPI regarding water focuses on reducing the volume we extract from the natural environment – that includes municipal supplies, groundwater resources (wells) and surface water resources; Therefore our focus shall remain: 1. Reducing water we use in our process: becoming more water efficient; 2. Reducing waste: identifying and fixing leaks; 3. Increase the volume of water we re-use through water recycling schemes – collection/reuse of collected rainwater/stormwater.
303-1	Interactions with Water as a Shared Resource	The Company facilities sourced water from its respective Government authorised state water supplier. The Company did not reuse any recycled water in 2019.
303-2	Management of Water Discharge-Related Impacts	Water source significantly affected withdrawal of water: The Company facilities sourced water from the respective Government authorised state water supplier. The water withdrawal did not affect any of the six sites designated under the Ramsar List of Wetlands of International Importance* in Malaysia. *These wetlands are included under the Ramsar Convention, which is an international treaty for the Conservation and Sustainability Utilisation of Wetlands
303-3	Water Withdrawal	Commercial: Total: 1275 cubic metres Normalised: 0.34 cubic metres/million cigarette equivalent The Company recorded a 24 percent decrease in water usage for 2019 due to water saving initiatives for commercial site office and warehouse. Factory Operations: Total: 406 cubic metres was used from the JB NMF in the year 2019.
303-4	Water Discharge	The Company facilities source water discharge through public water walkway provided by the government
303-5	Water Consumption	Commercial: Total: 1275 cubic metres Normalised: 0.34 cubic metres/million cigarette equivalent The Company recorded a 24 percent decrease in water usage for 2019 due to water saving initiatives for commercial site office and warehouse. Factory Operations: Total: 406 cubic metres was used from the JB NMF in the year 2019.

GRI STANDARDS GUIDELINE 2019

EHS

GRI Code	Disclosure Title	Responses/Results for 2019
Biodiversity		
304	Management Approach Disclosures: Biodiversity	The Company does not operate near protected area or high biodiversity value outside protected area.
304-1	Operational Sites Owned, Leased, Managed in, or Adjacent to, Protected Areas and Areas of High Biodiversity Value Outside Protected Areas	Information not reported as the Company does not operate near protected areas or areas of high biodiversity value outside protected areas.
304-2	Significant Impacts of Activities, Products and Services on Biodiversity	Information not reported as the Company does not operate near protected areas or areas of high biodiversity value outside protected areas.
304-3	Habitats Protected or Restored	There is no leaf plantation activity in Malaysia and the Company does not operate near protected areas or areas of high biodiversity value outside protected areas.
304-4	IUCN Red List Species and National Conservation List Species with Habitats in Areas Affected by Operations	Information not reported as the Company does not operate near protected areas or areas of high biodiversity value outside protected areas.
Emissions		
305	Management Approach Disclosures: Emissions	The Company set an absolute target of reduction in the emissions from our key manufacturing sites. We identify initiatives and projects in those locations that will deliver these sustainable reductions in emissions; Constant review the business cases for investment in these initiatives against our emissions reduction targets. Also focus on transport & warehouse energy efficiency projects (e.g. network optimisation, improved aerodynamics, hybrid/ electrical vans) driving innovation with our strategic Logistics partners.
305-1	Direct (Scope 1) GHG Emissions	Commercial: Direct green-house gas emissions (CO ₂) from Scope 1 used by the Company (Commercial - Fleet): 1,526 tCO ₂ e/ litre
305-2	Energy Indirect (Scope 2) GHG Emissions	Commercial : Direct green-house gas emissions (CO ₂) from Scope 2 used by the Company (Electricity): 1,568 tCO ₂ e/kwh
305-3	Other Indirect (Scope 3) GHG Emissions	Commercial: Direct green-house gas emissions (CO ₂) from Scope 3 used by the Company
305-4	GHG Emissions Intensity	Factory Operations: Direct green-house gas emissions intensity: 0.466 GJ/Total Production Volume
305-5	Reduction of GHG Emissions	This is the First Year running for the Company JB NMF hence this will be set as benchmark for 2020.
305-6	Emissions of Ozone-Depleting Substances (ODS)	The Company air conditioning equipment is chlorofluorocarbon (CFC) free.
305-7	Nitrogen Oxides (Nox), Sulfur Dioxides (Sox), and other Significant Air Emissions	The Company has no significant air emission incident reported to date.

GRI STANDARDS GUIDELINE 2019

EHS

GRI Code	Disclosure Title	Responses/Results for 2019
Effluents and Waste		
306	Management Approach Disclosures: Effluents and Waste	The Company's approach to waste management is aligned with the Waste Management Hierarchy: Reduce (the waste generated); Reuse (materials, where practical) and Recycle. Other waste management options employed by the Company include Other Disposal (incineration (with/without energy recovery) and Landfill.
306-1	Water Discharge by Quality and Destination	The Company site office and warehouse facilities discharged water through public waterways.
306-2	Waste by Type and Disposal Method	<p>Commercial: Hazardous Waste – 0 tonnes Non - Hazardous Waste – 3.47 tonnes</p> <p>The hazardous waste is recorded zero and non – hazardous waste was reduced by 50 percent as only confined to office waste and point of sales material waste</p> <p>Factory Operations: Hazardous Waste – 0.24 tonnes Non - Hazardous Waste – 19.23 tonnes</p>
306-3	Significant Spills	The Company did not record any significant spills in 2019.
306-4	Transport of Hazardous Waste	<p>Total: 0.24 tonnes</p> <p>All hazardous wastes were handled by our Waste Management Vendor: Zaquin Resources Sdn. Bhd to be disposed according to the schedule waste guideline and at approved Government site.</p>
306-5	Water Bodies Affected by Water Discharges and/or Runoff	<p>The Company 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 utilization of Wetlands. The Company did not reuse any recycled water in 2019.</p>

GRI STANDARDS GUIDELINE 2019

EHS

GRI Code	Disclosure Title	Responses/Results for 2019
Environmental Compliance		
307	Management Approach Disclosure: Environmental Compliance	<p>We are the world's most international tobacco company, and our operations spread across a diverse geography of countries. We are committed to operating responsibly in both the direct operations that we control, and throughout the wider supply chain that we influence.</p> <p>Responsibility is one of the cornerstones of our strategy, and we believe that good environmental practice is good business practice.</p> <p>To this end, we have implemented an environmental management system in accordance with the principles of ISO 14001. Further, we will:</p> <ul style="list-style-type: none"> • Comply with all legal and regulatory requirements governing environmental management in the countries where we operate. We will implement environmental management practices internally (often more stringent than the legal requirements in-country) and monitor compliance to them. • Understand our impacts on the environment in which we operate, and proactively put in place plans to minimise these impacts. • Use our established framework of policy, good practice and procedure to manage our environmental performance, and audit compliance to this via our internal auditing capabilities. • Monitor our performance through a set of key metrics and set targets for continuous improvement and publish our targets and performance annually through our Sustainability Report. We will use external assurance to verify our performance. • Provide training for staff and share good practice across the Group. • Include environmental considerations in our product design through the use of Sustainability Business Assessments ("SBA") and Product Lifecycle Analysis ("PLA"). • Work with suppliers, JV partners and service providers to reduce the impacts of our products and services across the total lifecycle, share good practices on environmental management and ensure that they are measuring and managing their business in an environmentally sustainable way. • Collaborate with key stakeholders through open dialogue, to better understand emerging issues, regulatory or societal expectations, and technological innovations. We will work with governments, NGOs, academics and other stakeholders to develop effective and sustainable solutions to the environmental challenges that we face.
307-1	Non-Compliance with Environmental Laws and Regulations	The Company was in full compliance with environmental laws and regulations for 2019.

GRI STANDARDS GUIDELINE 2019

EHS

GRI Code	Disclosure Title	Responses/Results for 2019
Occupational, Health and Safety		
403-1	Occupational Health and Safety Management System	<p>The Company believes in the active participation of each employee and others as appropriate, in promoting, achieving and maintaining the highest standards of health and safety, in so far as it is reasonably practicable.</p> <p>We will provide and maintain safe and healthy working conditions, equipment and systems of work for all employees and other associated personnel; and provide instruction, training and supervision as may be required for this purpose. Our approach will be based on hazard identification and risk assessment, for the purpose of effectively controlling health and safety risks in the workplace.</p> <p>The Company will meet its applicable health and safety legal and other obligations to employees and non-company personnel who may be affected by its business activities.</p> <p>All staff regardless of their level in the organisation must take reasonable care of the health and safety of themselves and others whilst at work, and co-operate fully with the Company in all health and safety related matters.</p> <p>Arrangements for carrying out our commitments will incorporate consultation with appropriate staff and others, and reference will be made to practical guidance and approved codes of practice.</p> <p>This policy statement, its commitments and implementing measures will be kept under review by the Management Board and updated, as often as may be appropriate to ensure our objectives are achieved. Any revision will be published by the Company and brought to the notice of all employees and other relevant personnel.</p>
403-2	Hazard Identification, Risk Assessment, and Incident Investigation	<p>The integrated environmental, health & safety management system (IMS-EHS) is that part of the overall management system of the Company that includes organisational structure, responsibilities, planning activities, practices, procedures, processes and resources for developing, implementing, reviewing and maintaining the environmental, health & safety (EHS) policy. The IMS-EHS is to be implemented by all operating and end-market companies.</p> <p>This proactive integrated EHS management system has been developed to describe, control and record all the relevant tasks connected with environmental protection and occupational health & safety in the Company and its operating companies. It is intended to simplify the structural and organisational arrangements in operating companies and improve information sharing and system transparency.</p> <p>An EHS Road Map has been developed as a tool to assess IMS-EHS implementation against set criteria and drive continual improvements. All companies are required to complete EHS Road Map templates annually, indicating current implementation, targets for the following year and long-term targets.</p>
403-3	Occupational Health Services	Not Applicable

GRI STANDARDS GUIDELINE 2019

EHS

GRI Code	Disclosure Title	Responses/Results for 2019
Occupational, Health and Safety		
403-4	Worker Participation, Consultation, and Communication on Occupational Health and Safety	<p>The companies have establish an EHS policy/steering committee chaired by the Operations Director responsible for EHS management. The Top team member responsible for EHS must be a member of the committee. All key functions must also be represented by managers appointed by their respective functional directors.</p> <p>EHS policy/steering committees must meet twice a year. The committee must work to a defined agenda and formal and actionable minutes with appropriate follow-up responsibilities prepared. Functions of the EHS Policy Committee include:</p> <ul style="list-style-type: none"> • continuously reviewing and assessing the effectiveness of the company's EHS Policy, EHS management systems and programmes; • deciding priorities, budgets timings and targets; • ensuring implementation of actions necessary to comply with laws/legislation and the Company's EHS policy objectives; • maintaining programmes; • forming a link with external audiences; • approving internal self-assessment reviews by completing the EHS Road Map templates at least annually; • reviewing and approving of the Control Navigator;
403-5	Worker Training on Occupational Health and Safety	<p>International and Regional trainings were provided to 406 employees and 4,040 hours were invested. Local trainings were provided to 319 employees and a total of 3,528 hours were invested.</p> <p>The training programmes offered are listed as follows:</p> <ol style="list-style-type: none"> 1) Local Training: 10 hours 2) International and Regional Training: 11 hours <p>The hours calculated are based on the average hours per participant.</p> <p>The central programmes were under the purview of the Company's Human Resources function and covered all other functions within the Company. The Global Leadership Curriculum includes all the leadership programmes wholly owned by British American Tobacco p.l.c. or Group while the non-GLC courses cover all the trainings conducted by externally-hired trainers, based on the employees' respective development needs.</p>
403-6	Promotion of Worker Health	<p>The Company is committed to the prevention of injury and ill-health and we strive for continual improvement in our health and safety management and performance through setting clear objectives, including the monitoring and measurement of key performance indicators.</p>

GRI STANDARDS GUIDELINE 2019

EHS

GRI Code	Disclosure Title	Responses/Results for 2019
Occupational, Health and Safety		
403-7	Prevention and Mitigation of Occupational Health and Safety Impacts Directly Linked by Business Relationships	<p>All management units must introduce programmes and procedures for assessing and controlling all foreseeable, significant EHS risks associated with all activities and processes of their operations which have the potential to cause harm to the health & safety of employees and non-employees on company premises and the environment which are relevant to the Company's policy objectives.</p> <p>The procedures for carrying on these activities and processes must be controlled effectively to prevent or minimise health & safety risks and environmental impacts, be properly implemented and understood by all employees and non-employees on company premises through appropriate education and training.</p> <p>Both health & safety and environmental risk assessment are required to assess the risks imposed by hazards and to develop appropriate corrective actions to mitigate risks as low as required by local legislation or BAT policy requirements, whichever is the highest. Risk assessment is crucial to demonstrate compliance with the Company EHS policies and guidelines and with relevant local regulations and standards. Additionally risk assessment is a crucial step in determining the consistency of decision-making and cost effectiveness in resource allocation to manage the health and safety and environmental risk profile of the business.</p>
403-8	Workers Covered by an Occupational Health and Safety Management System	<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) are members of the EHS Committee. This Committee is headed by a Chairman (Head of Production) and also includes representatives from Occupational Health, Security and an appointed secretary (EHS Manager).</p>
403-9	Work-Related Injuries	In 2019, the Company and its wholly owned marketing subsidiary, Commercial Marketers and Distributors Sdn Bhd & Tobacco Importers & Manufacturers Sdn Bhd achieved 777,158 man-hours without a Lost Time Injury since September 2011.
403-10	Work-Related Ill Health	There was no record of workers having high incidence or high risk of diseases relating to their occupation in the Company reported in 2019.
102-11	Precautionary Principle or Approach	Refer to Sustainability Pillar on page 135.

GRI STANDARDS GUIDELINE 2019

LEGAL

GRI Code	Disclosure Title	Responses/Results for 2019
Anti-Corruption		
205	Management Approach Disclosures: Anti-Corruption	The Company practices a zero tolerance approach on bribery and corruption. The zero tolerance approach means the Company and its employees must always be alert to the risks of the bribery and corruption.
205-1	Operations Assessed for Risks Related to Corruption	<p>It is a mandatory policy, set out in the Standards of Business Conduct, that the Company 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> <p>The Third-Party Anti Bribery and Corruption Procedure which was rolled out in 2018 seeks to appropriately identify, assess, mitigate and monitor bribery and corruption risk when dealing with third parties who are providing services to and on behalf of at the Company. All existing suppliers have undergone the review under the Procedure, which will also be applicable to all new suppliers.</p>
205-2	Communication and Training About Anti-Corruption Policies and Procedures	<p>All employees have access to and are made aware of the Standards of Business Conduct via its intranet and employee onboarding training, which includes detailed information on anti-corruption and bribery.</p> <p>In addition, employee who are managing third-party were trained on the Third-Party Anti-Bribery and Corruption Procedure.</p> <p>Reinforcement messages to all employees on the compliance to the Standards of Business Conduct was done in November 2019 during the annual Standard of Business Conduct sign-off.</p>
205-3	Confirmed Incidents of Corruption and Actions Taken	There was no incidence of corruption reported in at British American Tobacco Malaysia in 2019
Anti-Competitive Behaviour		
206	Management Approach Disclosure: Anti-Competitive Behaviour	The Company ensures its employees competes fairly, ethically and in line with the applicable laws. The Company also provides its employees a wide range of guidance documents which includes a Competition Compliance Procedure that guides business units and functions through identifying, assessing and mitigating competition law risks.
206-1	Legal Actions for Anti-Competitive Behaviour, Anti-Trust, and Monopoly Practices	<p>There was no legal against the Company for anti-competitive behaviour, anti-trust or monopoly practices in 2019.</p> <p>The Standard of Business Conduct embeds the principles of fair competition in conducting business. In addition, the Company's Competition Guidelines also ensures that business activities are not in any manner anti-competitive with law and regulations.</p>

GRI STANDARDS GUIDELINE 2019

LEGAL

GRI Code	Disclosure Title	Responses/Results for 2019
Non-Discrimination		
406	Management Approach Disclosures: Non-Discrimination	The Company does not tolerate any form of discrimination amongst its employees. The no-tolerance discrimination is embedded in the Standard of Business Conduct.
406-1	Incidents of Discrimination and Corrective Actions Taken	<p>There was no incident of discrimination at the Company in 2019.</p> <p>The Respect in the Workplace section of the Standards of Business Conduct makes clear the Company's commitment to treating all colleagues and business partners, inclusively, with dignity, and with respect.</p> <p>This includes specific provisions for promoting equality and diversity and preventing harassment and bullying. It details how all aspects of harassment are completely unacceptable and that the Company is committed to removing any such actions or attitudes from the workplace.</p> <p>The Standards of Business Conduct provides for a comprehensive whistleblowing procedure which enables any employee to raise any concern including that of discrimination</p>
Security Practices		
410	Management Approach Disclosures: Security Practices	"Delivery with Integrity" is at the heart of everything the Company group security does. The Company security practitioners recognises the importance and the emphasis, the Company places on individual accountability, its corporate values and strict adherence to the Standard of Business Conduct.
410-1	Security Personnel Trained in Human Rights Policies or Procedures	The Human Rights and Our Operations section of the Standards of Business Conduct ensures that the Company 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 the Company operates in.
Rights of Indigenous People		
411	Management Approach Disclosures: Rights of Indigenous People	The Company principles build its commitment on good employment practices and workplace related to human rights.
411-1	Incidents of Violations Involving Rights of Indigenous Peoples	<p>There were no incidents of violations involving rights of indigenous people at the Company in 2019.</p> <p>The Company's Employment Principles builds on its commitment to good employment practices and workplace related human rights. It sets out a common approach to the development of policies and procedures, while recognising that we must take account of local labour laws and practices and the local political, economic and cultural context. Topics covered by our Employment Principles include:</p> <ol style="list-style-type: none"> 1) Equality of opportunity and non-discrimination. 2) Internal communications and the free flow of ideas. 3) Worker representation and freedom of association. 4) Fairness at work and the unacceptability of harassment and bullying. 5) Do not condone or employ child labour. 6) Forced or bonded labour is completely unacceptable. 7) Performance responsibility. 8) Health, safety and environmental responsibility. 9) Community contributions and skills development for employees and communities in markets where our companies operate. 10) Personal development and learning. 11) Reasonable working hours and family friendly policies. 12) Fair, clear and competitive remuneration and benefits.

GRI STANDARDS GUIDELINE 2019

LEGAL

GRI Code	Disclosure Title	Responses/Results for 2019
Human Rights Assessment		
412	Management Approach Disclosures: Human Rights Assessment	The Company always conduct its operations in a way that respects the human rights of the employees, the people the Company deals with and the communities in which the Company operates.
412-1	Operations that have been Subjected to Human Rights Reviews or Impact Assessments	<p>The Human Rights and Our Operations section of the Standards of Business Conduct makes it clear that the Company 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, the Company will seek the views of stakeholders, including employees and their representatives. The Company 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>
412-2	Employee Training on Human Rights Policies or Procedures	<p>Trainings on human rights policies and procedures were provided to 2 employees and 72 hours were invested.</p> <p>Below are some examples of trainings that were attended:</p> <ol style="list-style-type: none"> 1) NEBOSH – Safety Processing Management (56 hours) 2) MAICSA Annual Conference 2019: Next Dimension in Governance (16 hours)
Socio-Economic Compliance		
419	Management Approach Disclosures: Socioeconomic Compliance	The socioeconomic compliance is a process by which the Company provides the guidance to its employee in handling these type of risks. The level of procedures include methods to detect and minimise such risks.
419-1	Non-Compliance with Laws and Regulations in the Social and Economic Area	<p>Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations:</p> <p>There was no significant fines or any non-monetary sanctions imposed on the Company in 2019 for non-compliance with law and regulations.</p> <p>Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services:</p> <p>The Company's products were in full compliance with the Control of Tobacco Product Regulations 2004.</p>
Customer Privacy		
418	Management Approach Disclosures: Customer Privacy	The Company treats its personal data of its consumers with high priority and integrity. In almost all of the Company's documentation and contracts provides a section in dealing with Personal Data. Personal Data of its customer or vendors or suppliers are considered as Confidential Information.
418-1	Substantiated Complaints Concerning Breaches of Customer Privacy and Losses of Customer Data	No complaints were received regarding breaches of customer privacy and losses of customer data.

GRI STANDARDS GUIDELINE 2019

HUMAN RESOURCE

GRI Code	Disclosure Title	Responses/Results for 2019
Economic Performance		
201-3	Defined Benefit Plan Obligations and Other Retirement Plans	In 2019, the Company contributed an additional four percent (4%) into the employees' accounts, above the mandatory employer Employees Provident Fund (EPF) contribution involve: twelve percent (12%) for salaries more than RM5,000 and thirteen percent (13%) for salaries less than RM5,000. Altogether, the Company contributed sixteen percent (16%) or seventeen percent (17%) to employees' EPF. Employees contribute eleven percent (11%) to EPF as per statutory requirements.
Market Presence		
202	Management Approach Disclosures: Market Presence	The Company has policies in place to ensure all Human Resource Practices are in line with local legislation and British American Tobacco p.l.c. Group directions.
202-1	Ratios of Standard Entry Level Wage by Gender Compared to Local Minimum Wage	For 2019, the Company ensured that its workforce irrespective of gender or location is compensated above the prescribed amount in the Minimum Wages Order 2016.
202-2	Proportion of Senior Management Hired from the Local Community	In 2019, the percentage of senior management in the Company at significant locations of operations that are hired from the local community represent eighty six percent (86%).
Employment		
401	Management Approach Disclosures: Employment	For 2019, the Company ensured that its workforce irrespective of gender or location is compensated above the prescribed amount in the Minimum Wages Order 2016. The Company has policies in place to ensure all Human Resources Practices are in line with local legislation and British American Tobacco p.l.c. Group directions.
401-1	New Employee Hires and Employee Turnover	<p>As at 31 December 2019:</p> <p>The total number of employees, who left employment in 2019 by age group:</p> <ol style="list-style-type: none"> 1) Less than 30 years old: 21 2) 30-50 years old: 38 3) Above 50 years old: 8 <p>The total number of employees who left employment in 2019 by gender:</p> <ol style="list-style-type: none"> 1) Male: 49 2) Female: 18 <p>The total number of employees who left employment in 2019 by region:</p> <ol style="list-style-type: none"> 1) North: 19 2) South: 9 3) East Malaysia: 1 4) Central: 9 5) HQ: 29 <p>The total number of new employee hires in 2019 by age group:</p> <ol style="list-style-type: none"> 1) Less than 30 years old: 22 2) 30-50 years old: 11 3) Above 50 years old: 1 <p>The total number of new employee hires in 2017 by gender:</p> <ol style="list-style-type: none"> 1) Male: 19 2) Female: 15

GRI STANDARDS GUIDELINE 2019

HUMAN RESOURCE

GRI Code	Disclosure Title	Responses/Results for 2019
401-2	Benefits Provided to Full-Time Employees that are not Provided to Temporary or Part-Time Employees	<p>The following benefits were provided to British American Tobacco Malaysia's full-time management and non-management employees:</p> <ol style="list-style-type: none"> 1) Medical Benefits 2) Annual, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, caregivers, enrichment and pilgrimage leave 3) Bonus 4) Group Team Life Insurance Scheme 5) Employees Provident Fund 6) Stock Ownerships (depending on grade) 7) Company vehicle and monthly cash allowance (depending on grade) 8) Corporate club membership (depending on grade) 10) Flexible Benefits
Employment		
401-3	Parental Leave	<p>As at 31 December 2019:</p> <p>Total number of employees that were entitled to parental leave, by gender:</p> <ol style="list-style-type: none"> 1) Female: 36 2) Male: 215 <p>Total number of employees that took parental leave, by gender:</p> <ol style="list-style-type: none"> 1) Female: 2 2) Male: 11 <p>Total number of employees who returned to work after parental leave ended, by gender:</p> <ol style="list-style-type: none"> 1) Female: 2 2) Male: 11
Diversity and Equal Opportunity		
405	Management Approach Disclosures: Diversity and Equal Opportunity	The Company is committed to ensure we have policies in place for diversity and equal opportunities among its employees. The Company is committed to ensuring equality and promoting diversity in the workplace.
405-1	Diversity of Governance Bodies and Employees	<p>The percentage of the Company's Board of Directors by gender:</p> <ol style="list-style-type: none"> 1) Male: 70 percent (5 out of 7 Directors) 2) Female: 30 percent (2 out of 7 Directors) <p>The percentage of British American Tobacco Malaysia's Board of Directors by age groups:</p> <ol style="list-style-type: none"> 1) Under 30 years old: 0 2) 30-50 years old: 30 percent (1 out of 7 Directors) 3) Over 50 years old: 70 percent (6 out of 7 Directors) <p>The percentage of employees in British American Tobacco Malaysia by gender:</p> <ol style="list-style-type: none"> 1) Male: 74.0 percent (342 out of 461 employees) 2) Female: 25.8 percent (119 out of 461 employees) <p>The percentage of employees in British American Tobacco Malaysia by age group:</p> <ol style="list-style-type: none"> 1) Under 30 years old: 18.9 percent (87 out of 461 employees) 2) 30-50 years old: 64.0 percent (295 out of 461 employees) 3) Over 50 years old: 17.1 percent (79 out of 461 employees)

GRI STANDARDS GUIDELINE 2019

HUMAN RESOURCE

GRI Code	Disclosure Title	Responses/Results for 2019
405-2	Ratio of Basic Salary and Remuneration of Women to Men	Male and female employees of the same grade shared the same salary scale. Starting salary might differ based on talent, experience and skills set. Male and female Management Trainees were paid equal basic salaries.
Labour/Management Relations		
402	Management Approach Disclosures: Labour/ Management Relations	The Company has policies in place to ensure all HR practices are in line with local legislation.
402-1	Minimum Notice Periods Regarding Operational Changes	As of 31 December 2019, there are no unionised employees in the Company.
Training and Education		
404	Management Approach Disclosures: Training and Education	The Company is highly committed to employees' development and has a robust learning and development agenda.
404-1	Average Hours of Training Per Year Per Employee	<p>International and Global trainings were provided to 356 employees with a total number of 3, 350 hours were invested. Local trainings for Global Leadership Curriculum (GLC) were provided to 319 employees and a total of 1,914 hours were invested. The training programmes offered are listed as follows:</p> <ol style="list-style-type: none"> 1) GLC Local training: 13 hours 2) International and Regional training: 206 hours <p>Employees profile: Male: 237 Female: 119 Non-management: 183 Management: 149 Senior Management: 24</p> <p>The hours are calculated based on the average hours per participant. The central programmes were under the purview of the British American Tobacco Malaysia's Human Resources function and covered all other functions within the Company. The Global Leadership Curriculum (GLC) includes all the leadership programmes wholly owned by British American Tobacco p.l.c. while the non-GLC courses cover all trainings conducted by externally-hired trainers with vast experience based on the employees' respective development needs and a focus to unlock the capabilities. We have a good mixed of diversity portfolio and employees from different seniorities levels ensuring all the employees are being empowered through constructive training curriculum.</p>

GRI STANDARDS GUIDELINE 2019

HUMAN RESOURCE

GRI Code	Disclosure Title	Responses/Results for 2019
Training and Education		
404-2	Programmes for Upgrading Employee Skills and Transition Assistance Programmes	<p>There are two types of GLC 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> <ol style="list-style-type: none"> 1) Leadership Training <ol style="list-style-type: none"> a. Leading Self b. Leading Teams c. Leading Managers d. Women in Leadership e. The BAT Academy f. Impact & Gravitas g. Impact & Gravitas Lite 2) Skills Training <ol style="list-style-type: none"> a. SCQuARE b. POSITIVE Refresh c. My Peak Performance d. Microsoft Excel 3) Human Resources Human Resources Development Programme 4) Finance Added Share Holders Value Workshop <p>British American Tobacco Malaysia also offers online training courses on Lynda where employees can access at their convenience to further bridge the gaps which were identified as key focus areas in 2019:</p> <p>Key capabilities of the focus to build was Invest in Leaders which comprises of topics such as: Empowerment, Learning Agility, Resilience, Brand Building, Digital DNA & Innovative Ecosystem. Example of E-learning video topic is as below:</p> <ol style="list-style-type: none"> 1) Thinks Strategically and Prioritises 2) Leads Change and Innovates 3) Develops Leaders and Teams 4) 2-Minute Tips for Marketing 5) 2-Minute Tips for Senior Leaders 6) Affiliate Marketing Foundations 7) Affiliate Marketing: Advertising 8) Brand and Marketing Integration 9) Building Customer Loyalty 10) Learning Agility 11) Learning Design Thinking: Lead Change in Your Organization 12) Marketing Foundations: The Marketing Funnel 13) Modeling Courageous Leadership: Intelligent Disobedience 14) Online Marketing Foundations: Digital Marketing Research
404-3	Percentage of Employees Receiving Regular Performance and Career Development Reviews	100 percent of employees, both management and non-management employees, received a formal performance appraisal and review during the reporting period.

09

Financial Statements

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DIRECTORS' Responsibility Statement

The Directors are required by the Companies Act 2016 (the Act) to prepare the financial statements for each financial year which have been made out in accordance with the provisions of the Act and the applicable approved accounting standards set out by Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year as well as of the results and cash flows of the Group and Company for the financial year.

In preparing the financial statements, the Directors are satisfied that the applicable approved accounting standards in Malaysia have been complied with and reasonable and prudent judgments and estimates have been made.

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

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

DIRECTORS' Report

for the year ended 31 December 2019

The Directors have pleasure in submitting their report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

Principal Activities

The Company is principally engaged in providing day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos, cigars and other tobacco products. The details of the subsidiaries are as stated in Note 13 to the financial statements.

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

Results

	Group	Company
	RM'000	RM'000
Profit for the year attributable to shareholders of the Company	345,699	305,749

Reserves and Provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the Company paid:

- i) fourth interim ordinary dividend of 47.0 sen per ordinary share totalling RM134,199,100 in respect of the financial year ended 31 December 2018 on 19 March 2019.
- ii) first interim ordinary dividend of 30.0 sen per ordinary share totalling RM85,659,000 in respect of the financial year ended 31 December 2019 on 25 June 2019.
- iii) second interim ordinary dividend of 26.0 sen per ordinary share totalling RM74,237,800 in respect of the financial year ended 31 December 2019 on 22 August 2019.
- iv) third interim ordinary dividend of 29.0 sen per ordinary share totalling RM82,803,700 in respect of the financial year ended 31 December 2019 on 26 November 2019.

The Directors declared a fourth interim ordinary dividend of 33.0 sen per ordinary share at the Board of Directors' meeting on 20 February 2020 amounting to RM94,224,900 in respect of the financial year ended 31 December 2019 which will be paid on 18 March 2020 to shareholders registered in the Company's Register of Members at the close of business on 6 March 2020. These financial statements do not reflect the fourth interim ordinary dividend which will be accounted for in the financial year ending 31 December 2020.

The Board of Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2019.

DIRECTORS' REPORT for the year ended 31 December 2019

Directors of the Company

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

Tan Sri Dato' Seri (Dr) Aseh Bin Haji Che Mat (Chairman)	
Dato' Chan Choon Ngai	
Datuk Oh Chong Peng	(Retired on 18 April 2019)
Datuk Zainun Aishah Binti Ahmad	
Datuk Lee Oi Kuan (f)	
Eric Ooi Lip Aun	(Appointed on 1 March 2019)
Hendrik Stoel	
Jonathan Darlow Reed	(Appointed on 20 February 2020)
Ricardo Martin Guardo	(Resigned on 1 November 2019)
Ignacio Ballester	(Appointed on 9 December 2019)

The name of the Directors of the Company's subsidiaries in office since the beginning of the financial year to the date of this report are:

Yap Chee Keong	
Song Yik Lin (f)	
Ricardo Martin Guardo	(Resigned on 1 November 2019)

Directors' Interests in Shares

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

	Number of ordinary shares			
	At 1.1.2019	Bought	Sold	At 31.12.2019

Company

Shareholdings in the name of the Director:

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

	Number of ordinary shares in British American Tobacco p.l.c.			
	At 1.1.2019/ *date of appointment	Bought	Sold	At 31.12.2019

Ultimate Holding Company

- British American Tobacco p.l.c.

Shareholdings in the name of the Director:

Hendrik Stoel	14,087	6,843	(1,590)	19,340
Datuk Lee Oi Kuan (f)	20,274	9,227	(2,133)	27,368
Ignacio Ballester	15,149*	-	-	15,149

DIRECTORS' REPORT

for the year ended 31 December 2019

Directors' Interests in Shares (continued)

	Number of ordinary shares in British American Tobacco p.l.c.			
	At 1.1.2019/ *date of appointment	Awarded	Vested	At 31.12.2019

Ultimate Holding Company

- British American Tobacco p.l.c.

Deferred Share Bonus Scheme & International Share Reward Scheme

Shareholdings in the name of the Director:

Hendrik Stoel	5,350	3,146	(2,027)	6,469
Datuk Lee Oi Kuan (f)	3,294	-	(3,294)	-
Ignacio Ballester	3,893*	2,096	(1,412)	4,577

	Number of options in ordinary shares in British American Tobacco p.l.c.				
	At 1.1.2019/ *date of appointment	Granted	Exercised	Lapsed	At 31.12.2019

Ultimate Holding Company

- British American Tobacco p.l.c.

Long-Term Incentive Plan

Shareholdings in the name of the Director:

Hendrik Stoel					
LTIP (12 May 2026)	5,266	-	(3,744)	(1,522)	-
LTIP (27 March 2027)	4,988	-	-	-	4,988
LTIP (26 March 2028)	6,962	-	-	-	6,962
LTIP (28 March 2029)	-	9,022	-	-	9,022
Datuk Lee Oi Kuan (f)					
LTIP (12 May 2026)	3,597	-	(2,557)	(1,040)	-
LTIP (27 March 2027)	3,670	-	(1,575)	(2,095)	-
LTIP (26 March 2028)	4,974	-	(983)	(3,991)	-
Ignacio Ballester					
LTIP (27 March 2019)	1,583*	-	(1,583)	-	-
LTIP (25 March 2020)	1,168*	-	-	(144)	1,024
LTIP (25 March 2021)	1,192*	-	-	(570)	622
LTIP (22 March 2023)	962*	-	-	(866)	96
LTIP (28 March 2024)	2,196*	-	-	(1,186)	1,010
LTIP (27 March 2025)	2,068*	-	-	(81)	1,987
LTIP (12 May 2026)	1,913*	-	-	(553)	1,360
LTIP (27 March 2027)	1,593*	-	-	-	1,593
LTIP (26 March 2028)	2,238*	-	-	-	2,238
LTIP (28 March 2029)	-	2,901	-	-	2,901

DIRECTORS' REPORT
for the year ended 31 December 2019**Directors' Interests in Shares (continued)**

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

Directors' Benefits

Since the end of the previous financial year, no Director has received nor become entitled to receive any benefit (other than the benefits included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 5 or the fixed salary of full time employees of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate pursuant to requirements under the Companies Act 2016, other than as may arise from equity-settled share-based compensation plans offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. is the ultimate holding company) as disclosed in Note 24 to the financial statements.

Issue of Shares and Debentures

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

Options Granted over Unissued Shares

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

Indemnity and Insurance Costs

During the financial year, Directors and Officers of the Group are covered under the Directors' and Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Group subject to the terms of the policy. The total indemnity coverage and premiums paid in respect of Directors' and Officers' Liability Insurance for the Directors and Officers of the Group were RM4,164,000 and RM22,000 respectively.

There were no indemnity and insurance costs effected for auditors of the Group and of the Company during the financial year.

Other Statutory Information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

- i) that would render the amounts written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent; or
- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading; or

DIRECTORS' REPORT
for the year ended 31 December 2019**Other Statutory Information (continued)**

- iii) which have arisen render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2019 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Holding Companies

The Directors regard British American Tobacco Holdings (Malaysia) B.V. (incorporated in Netherlands) as its immediate holding company and British American Tobacco p.l.c. (incorporated in England and Wales) as its ultimate holding company.

Auditors

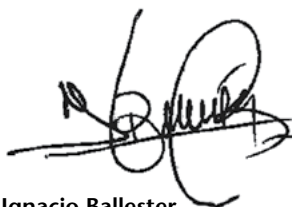
The auditors, KPMG PLT, have indicated their willingness to continue in office. The Directors had endorsed the recommendation of the Audit Committee for KPMG PLT to be re-appointed as auditors.

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

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



Hendrik Stoel
Managing Director



Ignacio Ballester
Finance Director

Kuala Lumpur

Date: 20 February 2020

INCOME Statement

for the year ended 31 December 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue	3	2,508,554	2,822,946	323,493	505,815
Cost of sales		(1,790,905)	(1,927,812)	-	-
Gross profit		717,649	895,134	323,493	505,815
Other operating income		5,622	22,189	2,299	2,532
Distribution and marketing costs		(137,001)	(170,133)	-	-
Administrative expenses		(105,414)	(106,860)	(1,725)	(10,102)
Other operating expenses		(2,639)	(3,792)	-	-
Profit from operations		478,217	636,538	324,067	498,245
Finance costs		(15,963)	(13,529)	(16,270)	(15,652)
Profit before tax	4	462,254	623,009	307,797	482,593
Tax expense	7	(116,555)	(154,478)	(2,048)	(1,383)
Profit for the year		345,699	468,531	305,749	481,210

The notes on pages 176 to 232 are an integral part of these financial statements.

STATEMENTS OF Other Comprehensive Income

for the year ended 31 December 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit for the year		345,699	468,531	305,749	481,210
Other comprehensive income, net of tax:					
Items that may be subsequently reclassified to income statement					
- changes in fair value of cash flow hedges	21	(2,480)	2,876	-	-
- deferred tax on fair value changes on cash flow hedges	14	595	(690)	-	-
Total other comprehensive (expense)/income for the financial year, net of tax		(1,885)	2,186	-	-
Total comprehensive income for the financial year		343,814	470,717	305,749	481,210
Profit attributable to:					
Shareholders of the Company		345,699	468,531	305,749	481,210
Total comprehensive income for the financial year attributable to:					
Shareholders of the Company		343,814	470,717	305,749	481,210
Basic earnings per ordinary share (sen)	8	121.1	164.1		

The notes on pages 176 to 232 are an integral part of these financial statements.

BALANCE Sheets

as at 31 December 2019

		Group		Company	
		2019	2018	2019	2018
	Note	RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	10	65,505	44,031	35,414	14,666
Computer software	11	1,429	1,429	3	3
Goodwill	12	411,618	411,618	-	-
Subsidiaries	13	-	-	973,395	973,395
Deferred tax assets	14	19,376	31,311	5,335	7,135
Total non-current assets		497,928	488,389	1,014,147	995,199
Assets held for sale	15	234	116	234	116
Inventories	16	98,251	162,282	-	-
Tax recoverable		8,222	9,416	2,038	3,494
Trade and other receivables	17	402,947	361,479	35,977	36,246
Derivative financial instruments	21	177	797	-	-
Cash and bank balances		20,386	78,627	12,286	73,330
Total current assets		530,217	612,717	50,535	113,186
Total assets		1,028,145	1,101,106	1,064,682	1,108,385
Equity					
Share capital	18	142,765	142,765	142,765	142,765
Cash flow hedge reserve		(1,511)	374	-	-
Retained earnings		247,327	278,528	318,026	389,177
Total equity		388,581	421,667	460,791	531,942
Liabilities					
Lease liabilities	22	21,844	-	20,707	-
Total non-current liabilities		21,844	-	20,707	-
Trade and other payables	19	170,661	235,867	580,605	576,443
Borrowings	20	421,000	410,000	-	-
Derivative financial instruments	21	2,171	198	-	-
Lease liabilities	22	4,357	-	2,579	-
Current tax liabilities		19,531	33,374	-	-
Total current liabilities		617,220	679,439	583,184	576,443
Total liabilities		639,564	679,439	603,891	576,443
Total equity and liabilities		1,028,145	1,101,106	1,064,682	1,108,385

The notes on pages 176 to 232 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF Changes in Equity

for the year ended 31 December 2019

		Non-distributable			Distributable	
	Note	Share capital RM'000	Cash flow hedge reserve RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	Total RM'000
Group						
At 1 January 2019		142,765	374	-	278,528	421,667
Profit for the year		-	-	-	345,699	345,699
Other comprehensive (expense)/ income:						
- changes in fair value of cash flow hedges	21	-	(2,480)	-	-	(2,480)
- deferred tax on fair value changes on cash flow hedges	14	-	595	-	-	595
Total comprehensive income		-	(1,885)	-	345,699	343,814
Transactions with shareholders:						
Expense arising from equity-settled share-based payment transactions	24	-	-	5,775	-	5,775
Recharge of share-based payments	24	-	-	(5,775)	-	(5,775)
Dividends for financial year ended 31 December 2018						
- fourth interim	9	-	-	-	(134,199)	(134,199)
Dividends for financial year ended 31 December 2019						
- first interim	9	-	-	-	(85,659)	(85,659)
- second interim	9	-	-	-	(74,238)	(74,238)
- third interim	9	-	-	-	(82,804)	(82,804)
Total transactions with shareholders of the Company		-	-	-	(376,900)	(376,900)
At 31 December 2019		142,765	(1,511)	-	247,327	388,581

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019
(continued)

	Note	Non-distributable			Distributable	Total RM'000
		Share capital RM'000	Cash flow hedge reserve RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
Group						
At 1 January 2018		142,765	(1,812)	-	241,148	382,101
Profit for the year		-	-	-	468,531	468,531
Other comprehensive income/(expense):						
- changes in fair value of cash flow hedges	21	-	2,876	-	-	2,876
- deferred tax on fair value changes on cash flow hedges	14	-	(690)	-	-	(690)
Total comprehensive income		-	2,186	-	468,531	470,717
Transactions with shareholders:						
Expense arising from equity-settled share-based payment transactions	24	-	-	4,463	-	4,463
Recharge of share-based payments	24	-	-	(4,463)	-	(4,463)
Dividends for financial year ended 31 December 2017						
- fourth interim	9	-	-	-	(122,778)	(122,778)
Dividends for financial year ended 31 December 2018						
- first interim	9	-	-	-	(94,225)	(94,225)
- second interim	9	-	-	-	(99,936)	(99,936)
- third interim	9	-	-	-	(114,212)	(114,212)
Total transactions with shareholders of the Company		-	-	-	(431,151)	(431,151)
At 31 December 2018		142,765	374	-	278,528	421,667

The notes on pages 176 to 232 are an integral part of these financial statements.

STATEMENT OF Changes in Equity

for the year ended 31 December 2019

	Note	-----Non-distributable-----		Distributable	Total RM'000
		Share capital RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
Company					
At 1 January 2019		142,765	-	389,177	531,942
Profit for the year		-	-	305,749	305,749
Total comprehensive income		-	-	305,749	305,749
Transactions with shareholders:					
Expense arising from equity-settled share-based payment transactions	24	-	3,729	-	3,729
Recharge of share-based payments	24	-	(3,729)	-	(3,729)
Dividend for financial year ended 31 December 2018					
- fourth interim	9	-	-	(134,199)	(134,199)
Dividends for financial year ended 31 December 2019					
- first interim	9	-	-	(85,659)	(85,659)
- second interim	9	-	-	(74,238)	(74,238)
- third interim	9	-	-	(82,804)	(82,804)
Total transactions with shareholders of the Company		-	-	(376,900)	(376,900)
At 31 December 2019		142,765	-	318,026	460,791

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019
(continued)

	Note	-----Non-distributable-----		Distributable	Total RM'000
		Share capital RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	
Company					
At 1 January 2018		142,765	-	339,118	481,883
Profit for the year		-	-	481,210	481,210
Total comprehensive income		-	-	481,210	481,210
Transactions with shareholders:					
Expense arising from equity-settled share-based payment transactions	24	-	2,740	-	2,740
Recharge of share-based payments	24	-	(2,740)	-	(2,740)
Dividend for financial year ended 31 December 2017					
- fourth interim	9	-	-	(122,778)	(122,778)
Dividends for financial year ended 31 December 2018					
- first interim	9	-	-	(94,225)	(94,225)
- second interim	9	-	-	(99,936)	(99,936)
- third interim	9	-	-	(114,212)	(114,212)
Total transactions with shareholders of the Company		-	-	(431,151)	(431,151)
At 31 December 2018		142,765	-	389,177	531,942

The notes on pages 176 to 232 are an integral part of these financial statements.

STATEMENTS OF Cash Flows

for the year ended 31 December 2019

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Operating activities					
Cash receipts from customers and fellow subsidiaries		2,467,068	2,950,649	98,404	66,442
Cash paid to suppliers, employees and fellow subsidiaries		(2,019,307)	(2,333,412)	(76,764)	(87,830)
Dividends received from subsidiaries		-	-	314,101	498,924
Cash from operations	23	447,761	617,237	335,741	477,536
Income tax (paid)/refund		(116,673)	(123,530)	1,208	(1,432)
Net cash flow from operating activities		331,088	493,707	336,949	476,104
Investing activities					
Property, plant and equipment	10				
- additions		(7,399)	(19,566)	(1,603)	(2,570)
- disposals		3,212	2,324	258	53
Assets held for sale					
- disposals		1,330	2,000	1,330	2,000
Interest income received		1,163	1,288	794	787
Net cash flow (used in)/from investing activities		(1,694)	(13,954)	779	270
Financing activities					
Dividends paid to shareholders	9	(376,900)	(431,151)	(376,900)	(431,151)
Interest expense paid on borrowings		(14,849)	(13,529)	(15,264)	(15,652)
Net drawdown of borrowings	20	11,000	32,000	-	-
Drawdown from subsidiary for cash pooling		-	-	-	39,625
Repayment to subsidiary for cash pooling		-	-	(2,019)	-
Payment on lease liabilities		(5,772)	-	(3,583)	-
Interest paid in relation to lease liabilities		(1,114)	-	(1,006)	-
Net cash flow used in financing activities		(387,635)	(412,680)	(398,772)	(407,178)
Net (decrease)/increase in cash and bank balances		(58,241)	67,073	(61,044)	69,196
Cash and bank balances at 1 January		78,627	11,554	73,330	4,134
Cash and bank balances at 31 December		20,386	78,627	12,286	73,330

The notes on pages 176 to 232 are an integral part of these financial statements.

NOTES TO THE Financial Statements

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

Registered Office and Principal Place of Business

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

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2019 comprise the Company and its Subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”).

The Company is principally engaged in providing day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos, cigars and other tobacco products. The details of the subsidiaries are as stated in Note 13 to the financial statements.

The Directors regard British American Tobacco Holdings (Malaysia) B.V. (incorporated in Netherlands) and British American Tobacco p.l.c. (incorporated in England and Wales), as its immediate and ultimate holding company respectively.

These financial statements were authorised for issue by the Board of Directors on 20 February 2020.

1. Basis of Preparation

(a) Statement of Compliance

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

The following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

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

- MFRS 17, *Insurance Contracts*

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

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

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

- from the annual period beginning on 1 January 2020 for those accounting standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2020.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation (continued)

(a) Statement of Compliance (continued)

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual period beginning on 1 January 2020 as it is not applicable to the Group and the Company.

The initial application of the accounting standards, interpretations or amendments are not expected to have any material financial impacts to the financial statements of the Group and the Company.

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis other than disclosed in Note 2.

(c) Functional and Presentation Currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of Estimates and Judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 10 – extension options and incremental borrowing rate in relation to lease
- Note 12 – impairment of goodwill
- Note 14 – deferred tax
- Note 30 – provision for restructuring expenses

2. Significant Accounting Policies

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

Arising from the adoption of MFRS 16, *Leases*, there are changes to the accounting policies applied to lease contracts entered into by the Group entities as compared to those applied in previous financial statements. The impact arising from the changes are disclosed in Note 31.

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, 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. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(a) Basis of Consolidation (continued)

(i) Subsidiaries (continued)

Investments in subsidiaries are measured in the Company's balance sheet at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(ii) Business Combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in income statement.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Acquisitions of Non-controlling Interests

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against the Group reserves.

(iv) Loss of Control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated balance sheet. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

(v) Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(b) Foreign Currency

Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at financial year end are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of equity instruments where they are measured at fair value through other comprehensive income or a financial instrument designated as a cash flow hedge, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve (FCTR) in equity.

(c) Financial Instruments

(i) Recognition and Initial Measurement

A financial asset or a financial liability is recognised in the balance sheet when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a financing component is initially measured at the transaction price.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial Instrument Categories and Subsequent Measurement

Financial Assets

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)**(c) Financial Instruments (continued)****(ii) Financial Instrument Categories and Subsequent Measurement (continued)*****Financial Assets (continued)*****(a) Amortised Cost**

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in income statement. Any gain or loss on derecognition is recognised in income statement.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(k)(i)) where the effective interest rate is applied to the amortised cost.

(b) Fair Value through Other Comprehensive Income**(i) Debt Investments**

Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt investment, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in income statement. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to income statement.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(k)(i)) where the effective interest rate is applied to the amortised cost.

(ii) Equity Investments

This category comprises investment in equity that is not held for trading, and the Group and the Company irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in income statement unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses accumulated in other comprehensive income are not reclassified to income statement. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to income statement.

(c) Fair Value through Profit or Loss

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

(ii) Financial Instrument Categories and Subsequent Measurement (continued)

Financial Assets (continued)

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (see Note 2(k)(i)).

Financial Liabilities

The categories of financial liabilities at initial recognition are as follows:

(a) Fair Value through Profit or Loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Group or the Company may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

- (a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;
- (b) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or
- (c) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the income statement.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognised the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the income statement, unless the treatment of the effect of changes in the own credit risk would create or enlarge an accounting mismatch.

(b) Amortised Cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the income statement. Any gains or losses is also recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)**(c) Financial Instruments (continued)****(iii) Hedge Accounting**

At inception of a designated hedging relationship, the Group and the Company document the risk management objective and strategy for undertaking the hedge. The Group and the Company also document the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash Flow Hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction and could affect the income statement. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in equity and the ineffective portion is recognised in the income statement. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into the income statement in the same year during which the hedged forecast cash flows affect the income statement. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into the income statement immediately.

The Group designate only the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts (forward points) and/or the foreign currency basis spread are separately accounted for as cost of hedging and recognised in a cost of hedging reserve within equity.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to income statement in the same period or periods as the hedged expected future cash flows affect the income statement.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to income statement.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

(iv) Derecognition (continued)

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(d) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property, plant and equipment, except for freehold land, are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other operating income" and "other operating expenses" respectively in the income statement.

(ii) Subsequent Costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to the income statement. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(d) Property, Plant and Equipment (continued)

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

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

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

(e) Leases

The Group has applied MFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

Current Financial Year

(i) Definition of a Lease Contract

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(e) Leases (continued)

Current Financial Year (continued)

(ii) Recognition and Initial Measurement

(a) As a Lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate. Generally, the Group entities use their incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The Group excludes variable lease payments that are linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in income statement in the period in which the performance or use occurs.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Group applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

The Group recognises assets held under a finance lease in its balance sheet and presents them as a receivable at an amount equal to the net investment in the lease. The Group uses the interest rate implicit in the lease to measure the net investment in the lease.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)**(e) Leases (continued)****Current Financial Year (continued)****(ii) Recognition and Initial Measurement (continued)****(b) As a Lessor (continued)**

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

(iii) Subsequent Measurement**(a) As a Lessee**

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in income statement if the carrying amount of the right-of-use asset has been reduced to zero.

(b) As a Lessor

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of other operating income.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease. The Group aims to allocate finance income over the lease term on a systematic and rational basis. The Group applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income. The net investment in the lease is subject to impairment requirements in MFRS 9, Financial Instruments (see Note 2(k)(i)).

Previous Financial Year**Leased Assets****(i) Finance Lease**

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition, the leased asset was measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset was accounted for in accordance with the accounting policy applicable to that asset.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(e) Leases (continued)

Previous Financial Year (continued)

Leased Assets (continued)

(i) Finance Lease (continued)

Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments were accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment was confirmed.

Leasehold land which in substance was a finance lease was classified as property, plant and equipment or as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating Lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership were classified as operating leases and, except for property interest held under operating lease, the leased assets were not recognised in the balance sheet. Property interest held under an operating lease, which was held to earn rental income or for capital appreciation or for both, was classified as investment property and measured using fair value model.

Payments made under operating leases were recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received were recognised in the income statement as an integral part of the total lease expense, over the term of the lease. Contingent rentals were charged to the income statement in the reporting period in which they were incurred.

Leasehold land which in substance was an operating lease was classified as prepaid lease payments.

(f) Intangible Assets

(i) Goodwill

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

(ii) Other Intangible Assets

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

(iii) Subsequent Expenditure

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

(iv) Amortisation

Goodwill and intangible assets with indefinite useful lives are not amortised but is tested for impairment annually and whenever there is an indication that it may be impaired.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)**(f) Intangible Assets (continued)****(iv) Amortisation (continued)**

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets.

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

Computer software	3 years
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Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate. The amortisation of computer software is recognised in administrative expenses.

(g) Inventories

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

The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(h) Contract Asset/Contract Liability

A contract asset is recognised when the Group's or the Company's right to consideration is conditional on something other than the passage of time. A contract asset is subject to impairment in accordance to MFRS 9, *Financial Instruments* (see Note 2(k)(i)).

A contract liability is stated at cost and represents the obligation of the Group or the Company to transfer goods or services to a customer for which consideration has been received (or the amount is due) from the customers.

(i) Contract Cost**(i) Incremental Cost of Obtaining a Contract**

The Group or the Company recognises incremental costs of obtaining contracts when the Group or the Company expects to recover these costs.

(ii) Cost to Fulfill a Contract

The Group or the Company recognises a contract cost that relate directly to a contract or to an anticipated contract as an asset when the cost generates or enhances resources of the Group or of the Company, will be used in satisfying performance obligations in the future and it is expected to be recovered.

These contract costs are initially measured at cost and amortised on a systematic basis that is consistent with the pattern of revenue recognition to which the asset relates. An impairment loss is recognised in the income statement when the carrying amount of the contract cost exceeds the expected revenue less expected cost that will be incurred. Where the impairment condition no longer exists or has improved, the impairment loss is reversed to the extent that the carrying amount of the contract cost does not exceed the amount that would have been recognised had there been no impairment loss recognised previously.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(j) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks, bank overdraft and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short-term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(k) Impairment

(i) Financial Assets

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost or fair value through other comprehensive income. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balances and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivable are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in the income statement and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in the income statement and the allowance account is recognised in other comprehensive income.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or fully) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures for recovery amounts due.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)**(k) Impairment (continued)****(ii) Other Assets**

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

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

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

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

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

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

(l) Equity Instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue Expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary Shares

Ordinary shares are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(m) Employee Benefits

(i) Short-term Employee Benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State Plans

The Group's contributions to statutory pension funds are charged to the income statement in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments are available.

(iii) Share-based Payment Transactions

A number of employees of the Group participate in equity-settled share-based compensation plans offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns 50 percent equity interest in the Company and is the Company's ultimate holding company).

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

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

(iv) Termination Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(n) Provisions (continued)

(ii) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(o) Revenue and Other Income

(i) Revenue from Contracts with Customers

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group or the Company recognises revenue when (or as) it transfers control over a product or service to the customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group or the Company transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided as the Group or the Company performs;
- (b) the Group's or the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) the Group's or the Company's performance does not create an asset with an alternative use and the Group or the Company has an enforceable right to payment for performance completed to date.

(ii) Dividend Income

Dividend income is recognised in the income statement on the date that the Group's or the Company's right to receive payment is established.

(iii) Interest Income

Interest income is recognised as it accrues using the effective interest method in the income statement except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(p) Borrowing Costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(q) Income Tax

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that they relate to a business combination or items recognised directly in equity or other comprehensive income.

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

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

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

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

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

(r) Earnings per Ordinary Share

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

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

(s) Operating Segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments results are reviewed regularly by the chief operating decision maker, which in this case Board of Directors of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

The Group operates on 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.

(t) Contingent Liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the balance sheet and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)**(u) Fair Value Measurement**

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

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

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

(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) Non-current Asset Held for Sale or Distribution to Shareholders

Non-current assets, or disposal group comprising assets and liabilities that are expected to be recovered primarily through sale or distribution to shareholders rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in income statement. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted associates and joint venture ceases once classified as held for sale or distribution.

NOTES TO THE FINANCIAL STATEMENTS

3. Revenue

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Revenue from contracts with customers:				
Sale of semi-finished goods, cigarettes, pipe tobaccos, cigars and other tobacco products	2,508,554	2,822,946	-	-
Other revenue:				
Dividend income from unquoted subsidiaries	-	-	314,101	498,924
Management fee from subsidiaries	-	-	6,807	4,771
Fee for usage of property, plant and equipment from subsidiaries	-	-	2,585	2,120
	2,508,554	2,822,946	323,493	505,815

The Group is primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products. Revenue of the Group is recognised at a point in time when it transfers controls of tobacco products to the customers. Payment terms given to customers range from 1 to 60 days from invoice date. Variable elements in consideration are those trade discounts, volume rebates, and trade incentives. The Group allows return only for exchange with new goods (i.e. no cash refunds are offered).

The Group applies the following practical expedients exemption on disclosure of information on remaining performance obligations that have original expected durations of one year or less.

4. Profit Before Tax

	Group		Company	
	2019	2018	2019	2018
Note	RM'000	RM'000	RM'000	RM'000

Profit before tax is arrived at after charging:

Auditors' remuneration:

- statutory audit	538	580	382	414
- non-audit fees	170	110	170	110

Raw materials and consumables used

182,848	208,956	-	-
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Excise duties

1,347,944	1,525,794	-	-
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Staff costs

6	83,251	110,325	16,488	27,732
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Property, plant and equipment:

- depreciation	10	7,501	6,953	2,730	2,592
- depreciation of right-of-use assets	10	6,732	-	4,165	-
- loss on disposal		26	549	152	165
- write-off		10	429	2	36

Computer software:

- amortisation	11	-	95	-	-
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Net loss on impairment of financial assets at amortised cost

18	31	-	-
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NOTES TO THE FINANCIAL STATEMENTS

4. Profit Before Tax (continued)

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before tax is arrived at after charging (continued):					
Rental of land, buildings and equipment		-	11,265	-	6,658
Expenses relating to:					
- short-term lease	a	1,880	-	937	-
- low-value assets	a	20	-	-	-
Inventories written-down		11,478	5,633	-	-
Finance costs:					
- lease liabilities		1,114	-	1,006	-
- borrowings		14,849	13,529	15,264	15,652
Restructuring expenses	30	15,420	-	2,330	-
and after crediting:					
Gain on disposal of assets held for sale		1,031	1,601	1,031	1,601
Reversal of impairment loss for prepaid tax stamp		-	19,300	-	-
Net foreign exchange gain		1,050	70	471	145
Interest income on deposits		1,163	1,288	794	787

Note a

The Group leases buildings with contract terms of less than one year. These leases are short-term leases and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

5. Directors' Remuneration

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fees	778	645	778	645
Other emoluments	8,949	9,591	8,949	9,591
	9,727	10,236	9,727	10,236

The estimated monetary value of benefits in kind provided to Directors of the Group and of the Company during the financial year amounted to RM829,000 (2018: RM914,000) and RM829,000 (2018: RM914,000) respectively.

Included within other emoluments are share-based payments amounting to RM644,000 (2018: RM615,000) which were made to certain Directors of the Group and of the Company (during their employment with the Group and the Company) by way of their participation in employee share schemes offered by British American Tobacco p.l.c. as disclosed in Note 24.

Details of the movements of certain Directors' equity-settled share-based payments arrangements during the financial year ended 2019, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows, representing costs incurred by the Group and the Company during the tenure of the Directors' service with the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

5. Directors' Remuneration (continued)

	Number of ordinary shares in British American Tobacco p.l.c.				
	At 1.1.2019	Awarded	Vested	Other movements*	At 31.12.2019
Executive Directors					
Deferred Share Bonus Scheme	11,705	7,231	(7,487)	3,661	15,110
International Share Reward Scheme	222	224	(180)	232	498
	11,927	7,455	(7,667)	3,893	15,608

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

Grant price	Number of options in ordinary shares in British American Tobacco p.l.c.				
	At 1.1.2019	Granted	Exercised	Other movements*	At 31.12.2019
£15.79	-	-	(1,583)	1,583	-
£22.58	-	-	-	1,024	1,024
£23.77	-	-	-	622	622
£35.05	-	-	-	96	96
£32.58	-	-	-	1,010	1,010
£36.25	-	-	-	1,987	1,987
£42.34	10,287	-	(7,313)	(1,614)	1,360
£52.11	11,959	-	(1,575)	(502)	9,882
£38.94	16,974	-	(983)	(1,753)	14,238
£30.83	-	18,502	-	-	18,502
	39,220	18,502	(11,454)	2,453	48,721

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

NOTES TO THE FINANCIAL STATEMENTS

6. Staff Costs

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Wages, salaries and bonuses	63,426	88,919	11,897	22,351
Defined contribution plan	8,409	9,212	827	1,318
Other staff related expenses	11,416	12,194	3,764	4,063
	83,251	110,325	16,488	27,732

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

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

Staff costs recharged by the Company to the subsidiaries amounted to RM15,664,000 for the year ended 31 December 2019 (2018: RM17,703,000).

7. Tax Expense

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Current tax expense				
- current year	101,989	153,523	248	212
- under/(over) provision in prior year	2,036	(4,710)	-	(11)
	104,025	148,813	248	201
Deferred tax expense/(credit)				
- reversal and origination of temporary differences	14,658	7,535	3,859	1,883
- over provision in prior year	(2,128)	(1,870)	(2,059)	(701)
	12,530	5,665	1,800	1,182
	116,555	154,478	2,048	1,383

	Group		Company	
	2019 %	2018 %	2019 %	2018 %
Reconciliation of tax expense				
Statutory tax rate	24	24	24	24
Expenses not deductible for tax purposes	2	2	1	1
Income not subject to tax	(1)	(1)	(24)	(25)
Average effective tax rate	25	25	1	-

NOTES TO THE FINANCIAL STATEMENTS

8. Earnings Per Share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and number of ordinary shares outstanding, calculated as follows:

	Group	
	2019	2018
Profit for the year (RM'000)	345,699	468,531
Number of ordinary shares at 31 December ('000)	285,530	285,530
Basic earnings per ordinary share (sen)	121.1	164.1

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

9. Dividends

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

	Sen per share	Total amount
	RM	RM'000
2019		
Fourth interim dividend 2018	47.0	134,199
First interim dividend 2019	30.0	85,659
Second interim dividend 2019	26.0	74,238
Third interim dividend 2019	29.0	82,804
Total amount	132.0	376,900
2018		
Fourth interim dividend 2017	43.0	122,778
First interim dividend 2018	33.0	94,225
Second interim dividend 2018	35.0	99,936
Third interim dividend 2018	40.0	114,212
Total amount	151.0	431,151

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

The Directors declared a fourth interim ordinary dividend of 33.0 sen per ordinary share at the Board of Directors' meeting on 20 February 2020 amounting to RM94,224,900 in respect of the financial year ended 31 December 2019 which will be paid on 18 March 2020 to shareholders registered in the Company's Register of Members at the close of business on 6 March 2020. These financial statements do not reflect the fourth interim ordinary dividend which will be accounted for in the financial year ending 31 December 2020.

The Board of Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment

	Freehold land	Leasehold land	Buildings (owned)	Buildings (right-of use assets)*	Machinery and equipment	Furniture and fittings	Motor vehicles	Capital work-in-progress	Total
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost									
At 1 January 2018	105	222	698	-	383	32,267	33,903	609	68,187
Additions	-	-	-	-	4,939	4,264	10,363	-	19,566
Disposals	-	-	-	-	-	(697)	(8,079)	-	(8,776)
Write-off	-	-	-	-	(108)	(10,469)	(1,279)	-	(11,856)
Reclassifications	-	-	-	-	609	-	-	(609)	-
Reclassifications to assets held for sale	-	-	(355)	-	-	-	-	-	(355)
At 31 December 2018/ 1 January 2019	105	222	343	-	5,823	25,365	34,908	-	66,766
Adjustment on initial application of MFRS 16	-	-	-	30,439	-	-	-	-	30,439
At 1 January 2019, <i>as restated</i>	105	222	343	30,439	5,823	25,365	34,908	-	97,205
Additions	-	-	-	1,534	-	937	6,444	18	8,933
Disposals	-	-	-	-	-	-	(8,902)	-	(8,902)
Write-off	-	-	-	-	-	(2,277)	-	-	(2,277)
Reclassifications to assets held for sale	(105)	(222)	(343)	-	-	-	-	-	(670)
At 31 December 2019	-	-	-	31,973	5,823	24,025	32,450	18	94,289

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment (continued)

	Freehold land	Leasehold land	Buildings (owned)	Buildings (right- of use assets)*	Machinery and equipment	Furniture and fittings	Motor vehicles	Capital work-in- progress	Total
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accumulated depreciation									
At 1 January 2018	-	73	668	-	116	16,811	15,683	-	33,351
Charge for the year	-	2	17	-	240	3,572	3,122	-	6,953
Disposals	-	-	-	-	-	(698)	(5,205)	-	(5,903)
Write-off	-	-	(125)	-	(108)	(10,303)	(891)	-	(11,427)
Reclassifications to assets held for sale	-	(22)	(217)	-	-	-	-	-	(239)
At 31 December 2018/ 1 January 2019	-	53	343	-	248	9,382	12,709	-	22,735
Adjustment on initial application of MFRS 16	-	-	-	-	-	-	-	-	-
At 1 January 2019, <i>as restated</i>	-	53	343	-	248	9,382	12,709	-	22,735
Charge for the year	-	1	5	6,732	284	3,828	3,383	-	14,233
Disposals	-	-	-	-	-	-	(5,664)	-	(5,664)
Write-off	-	-	(149)	-	-	(2,118)	-	-	(2,267)
Reclassifications to assets held for sale	-	(54)	(199)	-	-	-	-	-	(253)
At 31 December 2019	-	-	-	6,732	532	11,092	10,428	-	28,784
Carrying amounts									
At 1 January 2018	105	149	30	-	267	15,456	18,220	609	34,836
At 31 December 2018/1 January 2019	105	169	-	-	5,575	15,983	22,199	-	44,031
At 31 December 2019	-	-	-	25,241	5,291	12,933	22,022	18	65,505

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment (continued)

	Freehold land	Leasehold land	Buildings (owned)	Buildings (right- of-use assets)*	Machinery and equipment	Furniture and fittings	Motor vehicles	Total
Company	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost								
At 1 January 2018	105	222	698	-	108	22,110	2,204	25,447
Additions	-	-	-	-	-	1,443	1,127	2,570
Disposal	-	-	-	-	-	-	(624)	(624)
Write-off	-	-	-	-	(108)	(6,051)	-	(6,159)
Reclassifications to assets held for sale	-	-	(355)	-	-	-	-	(355)
At 31 December 2018/ 1 January 2019	105	222	343	-	-	17,502	2,707	20,879
Adjustment on initial application of MFRS 16	-	-	-	26,772	-	-	-	26,772
At 1 January 2019, <i>as restated</i>	105	222	343	26,772	-	17,502	2,707	47,651
Additions	-	-	-	97	-	449	1,154	1,700
Disposal	-	-	-	-	-	-	(1,171)	(1,171)
Write-off	-	-	-	-	-	(1,042)	-	(1,042)
Reclassifications to assets held for sale	(105)	(222)	(343)	-	-	-	-	(670)
At 31 December 2019	-	-	-	26,869	-	16,909	2,690	46,468

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment (continued)

	Freehold land	Leasehold land	Buildings (owned)	Buildings (right- of-use assets)*	Machinery and equipment	Furniture and fittings	Motor vehicles	Total
Company	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accumulated depreciation								
At 1 January 2018	-	73	669	-	108	8,483	1,056	10,389
Charge for the year	-	2	17	-	-	2,281	292	2,592
Disposal	-	-	-	-	-	-	(406)	(406)
Write-off	-	-	(126)	-	(108)	(5,889)	-	(6,123)
Reclassifications to assets held for sale	-	(22)	(217)	-	-	-	-	(239)
At 31 December 2018/ 1 January 2019	-	53	343	-	-	4,875	942	6,213
Adjustment on initial application of MFRS 16	-	-	-	-	-	-	-	-
At 1 January 2019, <i>as restated</i>	-	53	343	-	-	4,875	942	6,213
Charge for the year	-	1	5	4,165	-	2,351	373	6,895
Disposal	-	-	-	-	-	-	(761)	(761)
Write-off	-	-	(149)	-	-	(891)	-	(1,040)
Reclassifications to assets held for sale	-	(54)	(199)	-	-	-	-	(253)
At 31 December 2019	-	-	-	4,165	-	6,335	554	11,054
Carrying amounts								
At 1 January 2018	105	149	29	-	-	13,627	1,148	15,058
At 31 December 2018/ 1 January 2019	105	169	-	-	-	12,627	1,765	14,666
At 31 December 2019	-	-	-	22,704	-	10,574	2,136	35,414

* The Group leases office building, warehouse and factory that run for three years, with an option to renew the lease after that date.

Extension options

Some leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment (continued)

Significant judgements and assumptions in relation to leases

The Group assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. Group entities consider all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

The Group also applied judgement and assumptions in determining the incremental borrowing rate of the respective leases. Group entities first determine the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

11. Computer Software

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cost				
At 1 January	2,000	37,031	87	30,187
Write-off	-	(35,031)	-	(30,100)
At 31 December	2,000	2,000	87	87
Accumulated amortisation				
At 1 January	571	35,507	84	30,184
Charge for the year	-	95	-	-
Write-off	-	(35,031)	-	(30,100)
At 31 December	571	571	84	84
Carrying amounts				
At 31 December	1,429	1,429	3	3

12. Goodwill

	Group	
	2019 RM'000	2018 RM'000
Carrying amount at 31 December	411,618	411,618

NOTES TO THE FINANCIAL STATEMENTS

12. Goodwill (continued)

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

The carrying amount of goodwill is reviewed for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculations.

The key assumptions for the recoverable amount are management's current estimates of net cash flows over a period of ten years plus a terminal value (2018: five years) based on historical growth rate, taking into account industry developments and at the pre-tax discount rate of 13.8 percent (2018: 11.3 percent).

Based on the assessment, the recoverable amount exceeded the carrying amount of the goodwill. Accordingly, no impairment loss was recognised in 2019 (2018: Nil).

Based on sensitivity tests performed by the Group, any reasonable change in the key assumptions used will not result in any significant change to the results of impairment assessment.

13. Subsidiaries

	Company	
	2019 RM'000	2018 RM'000
Cost		
Unquoted shares in subsidiaries	975,262	975,262
Impairment losses	(1,867)	(1,867)
	973,395	973,395

The impairment loss recognised by the Company in prior years was in respect of its investment cost in Rothmans Brands Sdn. Bhd.

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

Name of entity	Principal place of business/country of incorporation	Principal activities
Commercial Marketers and Distributors Sdn. Bhd.	Malaysia	Marketing and importation of cigarettes, pipe tobaccos, cigars and other tobacco products
Rothmans Brands Sdn. Bhd.	Malaysia	Holding of trademarks
Tobacco Importers and Manufacturers Sdn. Berhad	Malaysia	Manufacture and sale of cigarettes and other tobacco related products
Commercial Marketers and Distributors Sdn. Bhd.*	Negara Brunei Darussalam	Dormant

* Not audited by KPMG PLT.

NOTES TO THE FINANCIAL STATEMENTS

14. Deferred Tax

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deferred tax assets					
At 1 January		31,311	37,666	7,135	8,317
Charged to income statements	14(i)	(12,530)	(5,665)	(1,800)	(1,182)
Credited/(Charged) to statements of other comprehensive income	14(ii)	595	(690)	-	-
At 31 December		19,376	31,311	5,335	7,135

Represented by:

Property, plant and equipment	2,196	2,657	372	-
Tax losses	3,025	3,675	3,025	2,837
Provisions	13,674	26,187	1,938	5,166
Cash flow hedge	481	-	-	-
Deferred tax assets (before offsetting)	19,376	32,519	5,335	8,003
Offsetting	-	(1,208)	-	(868)
Deferred tax assets (after offsetting)	19,376	31,311	5,335	7,135

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000

Deferred tax liabilities

At 1 January/31 December	-	-	-	-
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Represented by:

Property, plant and equipment	-	1,094	-	868
Cash flow hedge	-	114	-	-
Deferred tax liabilities (before offsetting)	-	1,208	-	868
Offsetting	-	(1,208)	-	(868)
Deferred tax liabilities (after offsetting)	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

14. Deferred Tax (continued)

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

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deferred tax assets				
Deferred tax assets to be recovered after more than 12 months	5,221	5,238	3,397	1,969
Deferred tax assets to be recovered within 12 months	14,155	26,073	1,938	5,166
At 31 December	19,376	31,311	5,335	7,135
(i) Charged to income statements:				
- Charged in respect of deferred tax assets	(12,530)	(5,665)	(1,800)	(1,182)
Net charge to income statements	(12,530)	(5,665)	(1,800)	(1,182)
(ii) Credited/(Charged) to statements of other comprehensive income:				
- Credited in respect of deferred tax assets	595	-	-	-
- Charged in respect of deferred tax liabilities	-	(690)	-	-
Net credit/(charge) to statements of other comprehensive income	595	(690)	-	-

15. Assets Held for Sale

	Group and Company	
	2019 RM'000	2018 RM'000
At 1 January	116	399
Transfer from property, plant and equipment	417	116
Disposals	(299)	(399)
At 31 December	234	116

The movements to assets held for sale was mainly attributed to the shop and office of the Group. Efforts to sell the assets held for sale have commenced, and a sale is expected by March 2020.

NOTES TO THE FINANCIAL STATEMENTS

16. Inventories

	Group	
	2019 RM'000	2018 RM'000
Raw materials	140	519
Finished goods	98,111	161,763
	98,251	162,282
Recognised in income statement:		
Inventories recognised as cost of sales	1,528,690	1,724,351
Write-down to net realisable value	11,478	5,633

17. Trade and Other Receivables

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Trade receivables	17.1	227,173	191,844	-	-
Allowance for impairment	17.1	(117)	(99)	-	-
Trade receivables, net		227,056	191,745	-	-
Amounts due from fellow subsidiaries*	17.2	30,039	20,164	315	4,538
Amounts due from subsidiaries	17.3	-	-	33,680	26,228
Other receivables, deposits and prepayments	17.4	145,852	149,570	1,982	5,480
		175,891	169,734	35,977	36,246
Total receivables		402,947	361,479	35,977	36,246

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

17.1 Trade Receivables

Credit terms of trade receivables range from 1 to 60 days (2018: 1 to 60 days).

17.2 Amounts Due From Fellow Subsidiaries

The Group's and the Company's amounts due from fellow subsidiaries are unsecured and interest free with a credit term of 30 to 60 days (2018: 30 to 60 days).

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and Other Receivables (continued)

17.3 Amounts Due From Subsidiaries

The Company's amounts due from subsidiaries are unsecured and interest free with a credit term of 30 days (2018: 30 days).

17.4 Other Receivables, Deposits and Prepayments

Included in other receivables, deposits and prepayments are prepaid excise duties of RM130,933,000 (2018: RM132,604,000).

18. Share Capital

	Group and Company			
	Number of shares 2019 '000	Amount 2019 RM'000	Number of shares 2018 '000	Amount 2018 RM'000
Ordinary shares issued and fully paid with no par value	285,530	142,765	285,530	142,765

19. Trade and Other Payables

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Trade payables	19.1	8,122	17,763	-	-
Trade accruals		42,261	54,816	-	-
Amounts due to subsidiaries	19.2	-	-	549,824	551,843
Amounts due to fellow subsidiaries*	19.3	51,848	43,936	19,326	700
Other payables and accruals		68,430	119,352	11,455	23,900
		170,661	235,867	580,605	576,443

Other payables and accruals comprise the following:

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Accruals for employee expenses		19,504	45,700	6,333	14,931
Accruals for administrative expenses		40,786	72,234	3,796	7,551
Provision for restructuring expenses		7,268	-	454	-
Other non-operating creditors		872	1,418	872	1,418
		68,430	119,352	11,455	23,900

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

NOTES TO THE FINANCIAL STATEMENTS

19. Trade and Other Payables (continued)

Movements of provision for restructuring are as follows:

	Group	Company
	RM'000	RM'000
At 1 January 2019	-	-
Provisions made during the year	15,420	2,330
Provisions used during the year	(8,152)	(1,876)
At 31 December 2019	7,268	454

19.1 Trade Payables

Credit terms of trade payables and suppliers of property, plant and equipment granted to the Group vary from cash term to 120 days (2018: cash term to 120 days).

19.2 Amounts Due to Subsidiaries

The Company's amounts due to subsidiaries are unsecured and subject to 3 percent (2018: 3 percent) interest per annum with a credit term of 30 days (2018: 30 days). Net changes from financing cash flows amount to RM2,019,000 (2018: RM39,625,000).

19.3 Amounts Due to Fellow Subsidiaries

The Group's and the Company's amounts due to fellow subsidiaries are repayable within credit terms of 30 to 60 days (2018: 30 to 60 days). These amounts are unsecured and interest free.

20. Borrowings

	Group	
	2019	2018
	RM'000	RM'000
Current		
Unsecured		
Revolving credit	271,000	340,000
Short-term loan	150,000	70,000
	421,000	410,000

The Group's borrowings have a maturity date between one week to three months. The Group's borrowings are denominated in Ringgit Malaysia and the fair value of borrowings is disclosed in Note 26.

NOTES TO THE FINANCIAL STATEMENTS

20. Borrowings (continued)

Reconciliation of movement of liabilities to cash flow arising from financing activities

	Net changes from financing cash flows			
	2018 RM'000	Drawdown RM'000	Repayment RM'000	2019 RM'000
Group				
Borrowings	410,000	1,215,000	(1,204,000)	421,000

	Net changes from financing cash flows			
	2017 RM'000	Drawdown RM'000	Repayment RM'000	2018 RM'000
Group				
Borrowings	378,000	447,000	(415,000)	410,000

21. Derivative Financial Instruments

	2019		2018	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Group				
Forward foreign exchange contract				
- cash flow hedges	177	2,171	797	198

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

During the year, a gain of RM214,000 (2018: RM610,000) arising from cash flow hedges was recognised in the income statement.

The Group's cash flow hedges are principally net exposure in the respective foreign currencies of future payment for finished goods and services, over a period of 6 to 18 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 over a period of 6 to 18 months (2018: 6 months).

Gains and losses recognised in other comprehensive income on forward foreign exchange contracts are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. During the year, the Group recognised a loss of RM2,480,000 (2018: gain of RM2,876,000) in the other comprehensive income and a gain of RM750,000 (2018: RM1,624,000) was reclassified from equity to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

21. Derivative Financial Instruments (continued)

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

Hedging Instruments	Currency	RM'000 equivalent	Average contracted rate
Group			
2019			
Currency to be received over the next 12 months USD38,736,000 (net)	US Dollar	161,390	1 USD = RM4.1664
2018			
Currency to be received over the next 12 months USD28,450,000 (net)	US Dollar	117,416	1 USD = RM4.1271

22. Lease Liabilities

During the year, the Group and the Company adopted MFRS 16, *Leases* and recognised lease liabilities as follows:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Less than one year	4,357	-	2,579	-
More than one year	21,844	-	20,707	-
Total	26,201	-	23,286	-

Group	At 1 January 2019 RM'000	Net changes from financing cash flows RM'000	Acquisition of new lease RM'000	At 31 December 2019 RM'000
Lease liabilities	30,439	(5,772)	1,534	26,201

Company	At 1 January 2019 RM'000	Net changes from financing cash flows RM'000	Acquisition of new lease RM'000	At 31 December 2019 RM'000
Lease liabilities	26,772	(3,583)	97	23,286

NOTES TO THE FINANCIAL STATEMENTS

23. Cash from Operations

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before tax	462,254	623,009	307,797	482,593
Adjustment for:				
Interest income	(1,163)	(1,288)	(794)	(787)
Property, plant and equipment:				
- depreciation	7,501	6,953	2,730	2,592
- depreciation of right-of-use assets	6,732	-	4,165	-
- write-off	10	429	2	36
- loss on disposal	26	549	152	165
Computer software:				
- amortisation	-	95	-	-
Assets held for sale:				
- gain on disposal	(1,031)	(1,601)	(1,031)	(1,601)
Net foreign exchange gain	(1,050)	(70)	(471)	(145)
Net loss on impairment of financial assets at amortised cost	18	31	-	-
Inventories written down	11,478	5,633	-	-
Interest expense	15,963	13,529	16,270	15,652
Changes in working capital:				
- inventories	52,553	68,721	-	-
- trade and other receivables	(41,715)	(57,974)	337	(19,065)
- trade and other payables	(63,815)	(40,779)	6,584	(1,904)
	447,761	617,237	335,741	477,536

Cash outflows for leases as a lessee

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Included in cash from operations:				
Payment relating to short-term leases	1,880	-	937	-
Payment relating to leases of low-value assets	20	-	-	-
Included in net cash flow used in financing activities:				
Payment of lease liabilities	5,772	-	3,583	-
Interest paid in relation to lease liabilities	1,114	-	1,006	-
	8,786	-	5,526	-

NOTES TO THE FINANCIAL STATEMENTS

24. Share-based Payments

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

Long-Term Incentive Plan (LTIP)

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

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

Deferred Share Bonus Scheme (DSBS)

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

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

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

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

Share-based Payment Expense

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

		Equity-settled	
	Note	2019 RM'000	2018 RM'000
Group			
LTIP	24.1	2,813	1,938
DSBS	24.2	2,925	2,460
Other schemes	24.3	37	65
Total recognised in the income statement		5,775	4,463
Company			
LTIP	24.1	2,031	1,400
DSBS	24.2	1,661	1,308
Other schemes	24.3	37	32
Total recognised in the income statement		3,729	2,740

NOTES TO THE FINANCIAL STATEMENTS

24. Share-based Payments (continued)

24.1 Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2019 and 31 December 2018, were as follows:

	Equity-settled Number of options in thousand	
	2019	2018
Group		
Outstanding at start of financial year	57	52
Granted during the period	32	25
Exercised during the period	(12)	(16)
Forfeited during the period	(15)	(4)
Outstanding at end of financial year	62	57
Exercisable at end of financial year	3	3

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £29.76 (2018: £36.66) for equity-settled options.

The outstanding shares for the year ended 31 December 2019 had a weighted average contractual life of 8.5 years (2018: 8.3 years) for the equity-settled scheme.

	Equity-settled Number of options in thousand	
	2019	2018
Company		
Outstanding at start of financial year	45	36
Granted during the period	23	18
Exercised during the period	(8)	(9)
Forfeited during the period	(13)	-
Outstanding at end of financial year	47	45
Exercisable at end of financial year	-	-

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £29.98 (2018: £40.35) for equity-settled options.

The outstanding shares for the year ended 31 December 2019 had a weighted average contractual life of 8.5 years (2018: 8.4 years) for the equity-settled scheme.

NOTES TO THE FINANCIAL STATEMENTS

24. Share-based Payments (continued)

24.2 Deferred Share Bonus Scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2019 and 31 December 2018, were as follows:

	Equity-settled Number of options in thousand	
	2019	2018
Group		
Outstanding at start of financial year	30	23
Granted during the period	20	13
Exercised during the period	(12)	(6)
Forfeited during the period	(1)	-
Outstanding at end of financial year	37	30
Exercisable at end of financial year	1	-

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £28.19 (2018: £41.23) for equity-settled options.

The outstanding shares for the year ended 31 December 2019 had a weighted average contractual life of 1.8 years (2018: 1.4 years) for the equity-settled scheme.

	Equity-settled Number of options in thousand	
	2019	2018
Company		
Outstanding at start of financial year	14	10
Granted during the period	12	7
Exercised during the period	(5)	(3)
Forfeited during the period	(1)	-
Outstanding at end of financial year	20	14
Exercisable at end of financial year	-	-

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £27.07 (2018: £41.18) for equity-settled options.

The outstanding shares for the year ended 31 December 2019 had a weighted average contractual life of 1.6 years (2018: 1.5 years) for the equity-settled scheme.

NOTES TO THE FINANCIAL STATEMENTS

24. Share-based Payments (continued)

24.3 Other Schemes

Share Reward Scheme and International Share Reward Scheme

Group

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 678 (2018: 542).

Company

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 538 (2018: 402).

Valuation Assumptions

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

	2019		2018	
	LTIP	DSBS	LTIP	DSBS
Group and Company				
Expected volatility (%)	22.0	22.0	18.0	18.0
Average expected term to exercise (years)	3.5	3.0	3.5	3.0
Risk-free rate (%)	0.7	0.7	1.0	1.0
Expected dividend yield (%)	6.5	6.5	5.0	5.0
Share price at date of grant (£)	30.83	30.83	38.94	38.94
Fair value at grant date (£)	21.93	25.35	29.39	33.50

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:

	2019	2018
	%	%
Group and Company		
Average share price volatility FMCG comparator group	18	18
Average correlation FMCG comparator group	28	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

24. Share-based Payments (continued)

Valuation Assumptions (continued)

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

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

25. Segment Reporting

The Company is domiciled in Malaysia. The revenue from external customers in Malaysia is RM2,508,554,000 (2018: RM2,822,946,000). The Group does not have any non-current assets that are located in countries other than Malaysia.

Segment analysis has not been prepared as the Group operates on 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.

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

	2019	2018
	RM'000	RM'000
- Customer A	740,329	821,834
- Customer B	571,305	634,684
- Customer C	462,751	540,553
- Customer D	311,796	359,908

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments

26.1 Categories of Financial Instruments

The table below provides an analysis of financial instruments categorised under MFRS 9 as follows:

- (a) Financial assets measured at amortised cost (FAAC); and
(b) Financial liabilities measured at amortised cost (FLAC).

2019	Carrying amount	FAAC / FLAC	Derivative used for hedging
	RM'000	RM'000	RM'000
Financial assets			
Group			
Trade and other receivables (excluding prepayments)	270,011	270,011	-
Cash and bank balances	20,386	20,386	-
Derivative financial assets	177	-	177
	290,574	290,397	177
Company			
Trade and other receivables (excluding prepayments)	34,307	34,307	-
Cash and bank balances	12,286	12,286	-
	46,593	46,593	-
Financial liabilities			
Group			
Borrowings	421,000	421,000	-
Trade and other payables	170,661	170,661	-
Derivative financial liabilities	2,171	-	2,171
	593,832	591,661	2,171
Company			
Trade and other payables	580,605	580,605	-

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.1 Categories of Financial Instruments (continued)

2018	Carrying amount RM'000	FAAC / FLAC RM'000	Derivative used for hedging RM'000
Financial assets			
Group			
Trade and other receivables (excluding prepayments)	223,378	223,378	-
Cash and bank balances	78,627	78,627	-
Derivative financial assets	797	-	797
	302,802	302,005	797
Company			
Trade and other receivables (excluding prepayments)	31,179	31,179	-
Cash and bank balances	73,330	73,330	-
	104,509	104,509	-
Financial liabilities			
Group			
Borrowings	410,000	410,000	-
Trade and other payables	235,867	235,867	-
Derivative financial liabilities	198	-	198
	646,065	645,867	198
Company			
Trade and other payables	576,443	576,443	-

26.2 Net Gains and Losses Arising from Financial Instruments

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Net gains/(losses) on:				
Derivative used for hedging				
- recognised in income statements	214	610	-	-
- recognised in other comprehensive income	(2,480)	2,876	-	-
Financial assets measured at amortised cost	915	1,066	862	800
Financial liabilities measured at amortised cost	(13,569)	(13,268)	(14,861)	(15,520)
	(14,920)	(8,716)	(13,999)	(14,720)

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.3 Financial Risk Management

The Group and the Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity and cash flow risk
- Market risk

26.4 Credit Risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from the individual characteristics of its receivables from customers, amounts due from fellow subsidiaries, short-term deposit and bank balances and outstanding forward exchange contracts. The Company's exposure to credit risk arises principally from amounts due from subsidiaries. There are no significant changes as compared to prior periods.

Trade Receivables***Risk Management Objective, Policies and Processes for Managing The Risk***

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount with clear approving authority and limits.

Approximately 78 percent (2018: 77 percent) of the Group's trade receivables are derived from its sales to four (2018: four) of its key customers. The Group closely monitors collections from these customers. At each reporting date, the Group and the Company assess whether any of the receivables are credit impaired.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or fully) when there is no realistic prospect of recovery. This is generally the case when the Group and the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities. The Group does not foresee any credit risk arising from amounts due from fellow subsidiary companies.

There are no significant changes as compared to previous year.

Exposure to Credit Risk, Credit Quality and Collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the balance sheet.

A significant portion of these receivables are regular customers that have been transacting with the Group.

Short-term advances are only provided to subsidiaries which are wholly-owned by the Company.

Concentration of Credit Risk

The exposure of credit risk for trade receivables, net of allowance for impairment losses, as at the end of the reporting period by geographic region covered Malaysia only.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.4 Credit Risk (continued)

Trade Receivables (continued)

Recognition and Measurement of Impairment Loss

The Group uses an allowance matrix to measure expected credit losses of trade receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

To measure the expected credit losses, trade receivables have been grouped based on credit risk and days past due.

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2019.

	Gross	Loss allowance	Net
Group	RM'000	RM'000	RM'000
2019			
Current (not past due)	221,947	(111)	221,836
Past due 1 – 30 days	1,924	(2)	1,922
Past due 31 – 60 days	135	-	135
Past due 61 – 90 days	273	(1)	272
Past due more than 90 days	2,894	(3)	2,891
	227,173	(117)	227,056
2018			
Current (not past due)	177,903	(89)	177,814
Past due 1 – 30 days	11,014	(7)	11,007
Past due 31 – 60 days	(297)	-	(297)
Past due 61 – 90 days	(655)	-	(655)
Past due more than 90 days	3,879	(3)	3,876
	191,844	(99)	191,745

Movements in the Allowance for Impairment in Respect of Trade Receivables

The movements in the allowance for impairment in respect of trade receivables during the year are as follows:

Group	RM'000
Balance at 1 January 2018	68
Net measurement of loss allowance	31
Balance at 31 December 2018/ 1 January 2019	99
Net measurement of loss allowance	18
Balance at 31 December 2019	117

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.4 Credit Risk (continued)

Amounts Due from Fellow Subsidiaries

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

	2019	2018
	RM'000	RM'000
Group		
Not past due	29,864	20,043
Past due 0 – 90 days	175	121
	30,039	20,164
Company		
Not past due	315	4,538

Generally, the Group and Company consider amounts due from fellow subsidiaries as low credit risk. The Company determines the probability of default for these amounts due from fellow subsidiaries individually using internal information. As at the end of the financial year ended, there was no evidence that the amounts due from fellow subsidiaries are not recoverable.

Cash and Bank Balances

The cash and bank balances are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amounts in the balance sheet.

These banks and financial institutions have low credit risks. In addition, all of the bank balances are insured by government agencies. Consequently, the Group and the Company are of the view that the loss allowance is not material and hence, it is not provided for.

Other Receivables

Expected credit loss of other receivables is determined individually after considering the financial strength of the other receivable. Based on management's assessment, the probability of the default of these receivables is low and hence, no loss allowance has been made.

26.5 Liquidity and Cash Flow Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables and borrowings.

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and bank balances 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 objective of treasury management in respect of cash and bank balances is to concentrate cash at the centre for better cash management.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.5 Liquidity and Cash Flow Risk (continued)

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

2019	Carrying amount	Contractual interest rate incremental borrowing rate	Estimated contractual cash flows	Under 1 year	1-2 years	2-5 years	More than 5 years
Group	RM'000		RM'000	RM'000	RM'000	RM'000	RM'000
Non-derivative financial liabilities							
Borrowings	421,000	3 – 4%	422,290	422,290	-	-	-
Lease liabilities	26,201	4%	29,331	5,280	4,170	13,121	6,760
Trade and other payables	170,661	-	170,661	170,661	-	-	-
	617,862		622,282	598,231	4,170	13,121	6,760
Derivative financial liabilities							
Derivative financial instruments							
Outflow	2,171	-	2,171	2,171	-	-	-
	620,033		624,453	600,402	4,170	13,121	6,760
Company							
Non-derivative financial liabilities							
Lease liabilities	23,286	4%	26,236	3,437	3,897	12,371	6,531
Trade and other payables	580,605	-	580,605	580,605	-	-	-
	603,891		606,841	584,042	3,897	12,371	6,531

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.5 Liquidity and Cash Flow Risk (continued)

2018	Carrying amount	Contractual interest rate	Contractual cash flows	Under 1 year
Group	RM'000		RM'000	RM'000
Non-derivative financial liabilities				
Borrowings	410,000	3 – 4%	411,395	411,395
Trade and other payables	235,867	-	235,867	235,867
	645,867		647,262	647,262
Derivative financial liabilities				
Derivative financial instruments				
Outflow	198	-	198	198
	646,065		647,460	647,460
Company				
Non-derivative financial liabilities				
Trade and other payables	576,443	-	576,443	576,443

26.6 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates and other prices that will affect the Group's and the Company's financial position or cash flows.

26.6.1 Currency Risk

The Group is subject to currency exchange risk as a result of its purchases of finished goods and services in foreign currencies. The currencies giving rise to this risk are US Dollar (USD), Great Britain Pound (GBP) and Euro (EUR). The currency profile of the assets and liabilities of the Group are disclosed in the respective notes to the financial statements.

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

The Group enters into forward foreign exchange contracts to hedge up to 95 percent of its exposure on foreign currency payables and on cash flows to be used in anticipated transactions denominated in foreign currencies for the subsequent 18 months. The Group's hedging period of 18 months is in line with the hedging period that was allowed under the Foreign Exchange Control guidelines enforced by Bank Negara Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.6 Market Risk (continued)

26.6.1 Currency Risk (continued)

Exposure to Foreign Currency Risk

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

	2019			2018		
	Denominated in			Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000	USD RM'000	GBP RM'000	EUR RM'000
Group						
Trade receivables	-	(12)	-	-	(3)	-
Trade payables	(265)	(59)	260	(1,598)	(295)	75
Cash and bank balances	3,233	1,061	124	1,318	554	128
Amounts due from fellow subsidiaries	6,536	20,812	-	196	17,879	-
Amounts due to fellow subsidiaries	(10,804)	(14,777)	(68)	(20,934)	(63)	-
Net exposure in the balance sheet	(1,300)	7,025	316	(21,018)	18,072	203
Company						
Trade payables	-	(68)	(23)	(48)	(303)	-
Cash and bank balances	1,398	652	-	1,000	249	-
Amounts due from fellow subsidiaries	-	-	-	-	4,358	-
Amounts due to fellow subsidiaries	-	(15,588)	-	-	(211)	-
Net exposure in the balance sheet	1,398	(15,004)	(23)	952	4,093	-

Currency Risk Sensitivity Analysis

A 10 percent (2018: 10 percent) strengthening of RM against the following currencies at the end of the financial year would have increased/(decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular ratio, remain constant and ignores any impact of forecasted sales and purchases.

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
USD	130	2,102	(140)	(95)
GBP	(703)	(1,807)	1,500	(409)
EUR	(32)	(20)	2	-

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.6 Market Risk (continued)

26.6.1 Currency Risk (continued)

Currency Risk Sensitivity Analysis (continued)

A 10 percent (2018: 10 percent) weakening of RM against the above currencies at the end of the financial year would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

26.6.2 Interest Rate Risk

Interest rate risk comprises interest price risk that results from borrowings at fixed rates and interest cash flow risk that results from borrowings at variable rates. Short-term receivables and payables are not significantly exposed to interest rate risk.

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on earnings, cash flow and economic value of the Group. As at the balance sheet date, there were no open interest rate swap contracts. Borrowings issued at floating rates expose the Group to risk of change in cash flows due to change in interest rate risks. The Group has floating rate borrowings as disclosed in Note 20.

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period are as follows:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fixed rate instruments				
Financial liabilities	26,201	-	23,286	-
Floating rate instruments				
Financial liabilities	421,000	410,000	-	-

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis point (bp) in interest rates at the end of reporting period would have increased/(decreased) equity and pre-tax profit by the amounts shown below:

Group	2019		2018	
	Profit or loss		Profit or loss	
	100 bp increase RM'000	100 bp decrease RM'000	100 bp increase RM'000	100 bp decrease RM'000
Floating rate instruments	(4,210)	4,210	(4,100)	4,100

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.7 Fair Value Information

The carrying amounts of cash and bank balances, short-term receivables and payables and borrowings reasonably approximate their fair values due to the relatively short-term nature of these financial instruments. Accordingly, the fair values and fair value hierarchy levels have not been presented for these instruments.

The Group measures its forward foreign exchange contracts (cash flow hedges) at fair values, as disclosed in Note 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.

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

27. Capital Management

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio.

The Group defines capital as net debt and equity. Net debt is calculated as total borrowings less cash and bank balances. The debt-to-equity ratios at 31 December 2019 and at 31 December 2018 were as follows:

	Group	
	2019 RM'000	2018 RM'000
Total borrowings (Note 20)	421,000	410,000
Less: Cash and bank balances	(20,386)	(78,627)
	400,614	331,373
Total equity	388,581	421,667
Debt-to-equity ratio	1.0	0.8

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

28. Capital Commitments

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Property, plant and equipment				
Contracted but not provided for	15	41	-	28

NOTES TO THE FINANCIAL STATEMENTS

29. Related Parties

Identity of Related Parties

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

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

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

Significant Related Party Transactions

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

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

	Group	
	2019 RM'000	2018 RM'000
(i) Purchase of goods		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
- PT Bentoel Internasional Investama, Tbk.	157,546	204,299
(ii) Procurement of services		
Procurement of information technology services from:		
- British American Shared Services (GSD) Limited	17,946	20,321
(iii) Technical and advisory (includes share-based payment charges)		
Payment for technical and advisory support services to:		
- British American Tobacco Investments Ltd.	18,343	23,990
- BAT Aspac Service Centre Sdn. Bhd.	18,317	14,798
	36,660	38,788
(iv) Royalties		
Royalties paid/payable to:		
- British American Tobacco (Holdings) Ltd.	85,116	93,858

NOTES TO THE FINANCIAL STATEMENTS

29. Related Parties (continued)

Significant Related Party Transactions (continued)

	Company	
	2019 RM'000	2018 RM'000
(i) Management fee		
Management fee received from:		
- Commercial Marketers and Distributors Sdn. Bhd.	6,442	4,548
- Tobacco Importers and Manufacturers Sdn. Berhad	365	223
	6,807	4,771
(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.	2,423	2,120
- Tobacco Importers and Manufacturers Sdn. Berhad	162	-
	2,585	2,120
(iii) Procurement of services		
Procurement of information technology services from:		
- British American Shared Services (GSD) Limited	1,196	5,761
(iv) Technical and advisory		
Payment of fees for technical and advisory support services to:		
- BAT Aspac Service Centre Sdn.Bhd.	12,744	9,215
(v) Interest expense		
Interest expense on cash pooling:		
- Commercial Marketers and Distributors Sdn. Bhd.	6,679	6,824
- Tobacco Importers and Manufacturers Sdn. Berhad	8,511	8,785
	15,190	15,609

NOTES TO THE FINANCIAL STATEMENTS

30. Restructuring Expenses

During the year, the Group had undertaken measures in restructuring the organisation to be more efficient, agile and focused to enable the Group to operate in challenging business environment. This restructuring resulted in reduction of workforce and reconstructed a new base for sustainable cost structure. The restructuring commenced in the fourth quarter during the year and is expected to be completed in 2020.

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

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Provision for redundancies	15,420	-	2,330	-

31. Significant Changes in Accounting Policies

During the year, the Group and the Company adopted MFRS 16.

Definition of a lease

On transition to MFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases. Therefore, the definition of a lease under MFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

Where the Group and the Company are a lessee, the Group and the Company applied the requirements of MFRS 16 using the modified retrospective approach.

At 1 January 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group entities' incremental borrowing rate as at 1 January 2019. The weighted-average rate applied is four percent. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 January 2019;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

NOTES TO THE FINANCIAL STATEMENTS

31. Significant Changes in Accounting Policies (continued)

31.1 Impact on Financial Statements

Since the Group and the Company applied the requirements of MFRS 16 using the modified retrospective approach, there are no adjustments made to the prior period presented.

The following table summarises the impacts arising from the adoption of MFRS 16 on the Group's and the Company's financial statements.

	Group	Company
	RM'000	RM'000
Operating lease commitments as at 31 December 2018 as disclosed in the financial statements	11,239	6,755
Discounted using the incremental borrowings rate at 1 January 2019	10,927	6,575
Recognition exemption for short-term leases	(1,416)	(751)
Recognition exemption for leases of low-value assets	(20)	-
Extension and termination options reasonably certain to be exercised	20,948	20,948
Lease liabilities recognised at 1 January 2019	30,439	26,772

STATEMENT BY DIRECTORS

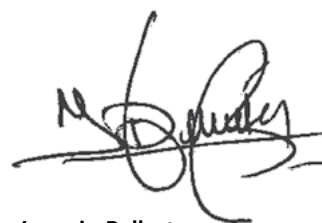
Pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 168 to 232 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2019 and of their financial performance and cash flows for the financial year then ended.

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



Hendrik Stoel
Managing Director



Ignacio Ballester
Finance Director

Kuala Lumpur

Date: 20 February 2020

STATUTORY DECLARATION

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Ignacio Ballester, 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 168 to 232 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Ignacio Ballester, passport: YB2197558, at Kuala Lumpur in the State of Federal Territory on 20 February 2020.



Ignacio Ballester
Finance Director

Before me:



LEVEL 25, MENARA HONG LEONG,
NO 6, JALAN DAMANLELA, BUKIT DAMANSARA
50490 KUALA LUMPUR

INDEPENDENT AUDITORS' REPORT

To the Members of British American Tobacco (Malaysia) Berhad

(Registration No. 196101000326 (4372-M))
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of British American Tobacco (Malaysia) Berhad, which comprise the balance sheets as at 31 December 2019 of the Group and of the Company, and the income statements, statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 168 to 232.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill - Assessment of potential impairment

Refer to Note 2(f)(i) - Significant accounting policy: Intangible Assets - Goodwill and Note 12 - Goodwill.

The key audit matter

The carrying amount of the Group's goodwill as at 31 December 2019 amounts to RM411,618,000.

The Group performs annual impairment assessment of its goodwill with indefinite useful lives by comparing the carrying amount of the goodwill against the discounted cash flow forecasts of the cash generating unit to determine the amount of impairment loss which should be recognised for the year, if any.

We have identified goodwill assessment as a key audit matter for the Group because:

- the carrying amount is significant to the Group's total assets; and
- there is significant judgement involved in the forecasting and discounting of future cash flows, which is the basis of the Group's assessment of the recoverability of the goodwill.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Registration No. 196101000326 (4372-M))
(Incorporated in Malaysia)

How the matter was addressed in our audit

Our audit procedures included, amongst others:

- Compared the Group's cash flow forecasts to the approved business plans by both the Board of Director and the management;
- Compared prior year cash flow forecasts to current year actual results to assess the performance of the business and the reliability of prior year's forecast;
- Tested the assumptions and methodologies used. To do this, we:
 - involved our internal valuation specialists to evaluate and compare the discount rate to similar companies in the market.
 - compared the key assumptions to externally derived data as well as our own assessments of the key inputs such as projected volumes and margins.
 - assessed the sensitivity of the outcome of the impairment assessment to changes in key assumptions.

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to communicate in our auditors' report.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Registration No. 196101000326 (4372-M))
(Incorporated in Malaysia)**

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Registration No. 196101000326 (4372-M))
(Incorporated in Malaysia)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 13 to the financial statements.

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Petaling Jaya

Date: 20 February 2020



Adrian Lee Lye Wang
Approval Number: 02679/11/2021 J
Chartered Accountant

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ANALYSIS OF Shareholdings

As at 28 February 2020

The total number of issued shares of the Company stands at 285,530,000 ordinary shares, with voting right of one vote per ordinary share.

Distribution of Shareholdings

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Shares
Less than 100	908	6.95	10,148	0.00
100 - 1,000	6,974	53.37	3,588,917	1.26
1,001 - 10,000	4,205	32.18	14,883,145	5.21
10,001 - 100,000	815	6.24	22,507,297	7.88
100,001 - 14,276,499 *	163	1.25	101,775,493	35.65
14,276,500 and above **	1	0.01	142,765,000	50.00
Total	13,066	100.00	285,530,000	100.00

Notes:

* Less than 5% of issued shares

** 5% and above of issued shares

Category of Shareholders

Category of Shareholders	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Shares
1. Individual	9,780	74.85	28,839,502	10.10
2. Body Corporate				
a. Banks/Finance Companies	12	0.09	2,399,796	0.84
b. Investments Trusts/Foundations Charities	4	0.03	14,388	0.01
c. Industrial and Commercial Companies	168	1.29	146,366,389	51.26
3. Government Agencies/Institutions	1	0.01	2,548	0.00
4. Nominees	3,099	23.72	107,906,376	37.79
5. Others	2	0.01	1,001	0.00
Total	13,066	100.00	285,530,000	100.00

ANALYSIS OF SHAREHOLDINGS

As at 28 February 2020

Substantial Shareholders

(As per Register of Substantial Shareholders)

No.	Name	Direct Interest		Indirect Interest	
		No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1.	British American Tobacco p.l.c.	-	-	142,765,000	50.00
2.	British American Tobacco (1998) Limited	-	-	142,765,000	50.00
3.	British American Tobacco (2012) Limited	-	-	142,765,000	50.00
4.	British American Tobacco (2009) Limited	-	-	142,765,000	50.00
5.	Weston (2009) Limited	-	-	142,765,000	50.00
6.	Weston Investment Company Limited	-	-	142,765,000	50.00
7.	British American Tobacco International (Holdings) B.V.	-	-	142,765,000	50.00
8.	British American Tobacco Holdings (The Netherlands) B.V.	-	-	142,765,000	50.00
9.	Allen & Ginter (UK) Limited	-	-	142,765,000	50.00
10.	Chelwood Trading & Investment Company Limited	-	-	142,765,000	50.00
11.	British American Tobacco (Industrie) GmbH	-	-	142,765,000	50.00
12.	British American Tobacco (Hamburg International) GmbH	-	-	142,765,000	50.00
13.	British American Tobacco International Investments B.V.	-	-	142,765,000	50.00
14.	British American Tobacco Malaysia (Investments) Limited	-	-	142,765,000	50.00
15.	British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.00	-	-

Directors' Direct and Indirect Interests in the Company and its Related Corporations

(As per Register of Directors' Shareholdings)

Number of ordinary shares					
Interest in the Company		Direct Interest		Indirect Interest	
No.	Name	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1.	Dato' Chan Choon Ngai	1,000	0.00*	-	-
2.	Datuk Lee Oi Kuan	100	0.00*	-	-

ANALYSIS OF SHAREHOLDINGS
As at 28 February 2020**Directors' Direct and Indirect Interests in the Company and its Related Corporations**

(As per Register of Directors' Shareholdings)

Interest in the Ultimate Holding Company - British American Tobacco p.l.c.		Number of ordinary shares in British American Tobacco p.l.c.			
		Direct Interest		Indirect Interest	
No.	Name	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1.	Hendrik Stoel	19,340	0.00*	-	-
2.	Datuk Lee Oi Kuan	27,368	0.00*	-	-
3.	Jonathan Darlow Reed	23,000	0.00*	-	-
4.	Ignacio Ballester	15,149	0.00*	-	-

Note:

* Less than 0.01%

Interest in the Ultimate Holding Company - British American Tobacco p.l.c		Number of ordinary shares in British American Tobacco p.l.c.	
		Direct Interest	
No.	Name	No. of Shares Held	
Deferred Share Bonus Scheme & International Share Reward Scheme			
1.	Hendrik Stoel	6,469	
2.	Jonathan Darlow Reed	4,237	
3.	Ignacio Ballester	4,577	

Interest in the Ultimate Holding Company - British American Tobacco p.l.c.		Number of options in ordinary shares in British American Tobacco p.l.c.	
		Direct Interest	
No.	Name	No. of Options Held	
Long Term Incentive Plan			
1.	Hendrik Stoel	20,972	
2.	Jonathan Darlow Reed	8,171	
3.	Ignacio Ballester	12,831	

Save as disclosed above, none of the Directors of the Company has any interest direct or indirect in the Company and its related corporations.

ANALYSIS OF SHAREHOLDINGS

As at 28 February 2020

List of Top Thirty Largest Shareholders

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

No.	Name	No. of Shares Held	% of Issued Shares
1.	British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.00
2.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund 4545 for Lazard Emerging Markets Portfolio	6,206,900	4.35
3.	Cartaban Nominees (Asing) Sdn Bhd GIC Private Limited for Government of Singapore (C)	4,725,300	1.65
4.	Cartaban Nominees (Tempatan) Sdn Bhd PAMB for Prulink Equity Fund	3,728,200	1.31
5.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (PAR 1)	3,522,200	1.23
6.	Cartaban Nominees (Asing) Sdn Bhd Exempt AN for State Street Bank & Trust Company (West CLT OD67)	3,451,730	1.21
7.	HSBC Nominees (Asing) Sdn Bhd SG Nantes for First Eagle Amundi Income Builder Fund	2,775,000	0.97
8.	HSBC Nominees (Asing) Sdn Bhd J.P. Morgan Securities PLC	2,673,746	0.94
9.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for Credit Suisse Securities (USA) LLC (PB Client)	2,385,500	0.84
10.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Vanguard Total International Stock Index Fund	2,346,169	0.82
11.	HSBC Nominees (Asing) Sdn Bhd JPMCB NA for Vanguard Emerging Markets Stock Index Fund	2,129,834	0.75
12.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Blackrock Frontiers Investment Trust PLC	1,992,000	0.70
13.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LSF)	1,954,300	0.68
14.	Citigroup Nominees (Asing) Sdn Bhd UBS AG	1,807,806	0.63
15.	Yap Ah Fatt	1,600,000	0.56
16.	Kam Loong Mining Sdn Bhd	1,560,000	0.55
17.	Cartaban Nominees (Asing) Sdn Bhd Exempt AN for Barclays Capital Securities Ltd (SBL/PB)	1,476,300	0.52

ANALYSIS OF SHAREHOLDINGS
As at 28 February 2020**List of Top Thirty Largest Shareholders (continued)**

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

No.	Name	No. of Shares Held	% of Issued Shares
18.	DB (Malaysia) Nominee (Asing) Sdn Bhd The Bank of New York Mellon for Invesco Asian Fund (UK)	1,398,300	0.49
19.	HSBC Nominees (Asing) Sdn Bhd Morgan Stanley & Co. International PLC (Firm A/C)	1,212,200	0.42
20.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Deutsche Trustees Malaysia Berhad for Hong Leong Penny Stockfund	1,200,000	0.42
21.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund WTAU for Wisdomtree Emerging Markets Smallcap Dividend Fund	1,163,000	0.41
22.	UOB Kay Hian Nominees (Asing) Sdn Bhd Exempt An for UOB Kay Hian Pte Ltd (A/C Clients)	1,119,682	0.39
23.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund IBE5 for Lazard/Wilmington Collective Trust	1,037,600	0.36
24.	Foo Khen Ling	900,000	0.32
25.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Lazard Emerging Markets Equity Fund	877,993	0.31
26.	Cimsec Nominees (Tempatan) Sdn Bhd Exempt An for CIMB Commerce Trustee Berhad for Pearson Trust (PB)	875,200	0.31
27.	Woon Chuan Keong	842,000	0.29
28.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LBF)	840,900	0.29
29.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Lazard Emerging Markets Fund	839,900	0.29
30.	Cartaban Nominees (Asing) Sdn Bhd GIC Private Limited for Monetary Authority of Singapore (H)	830,900	0.29
TOTAL		200,237,660	72.30

PARTICULARS OF Property

The property held by the Company and its Subsidiaries as at 31 December 2019 is as follows:

Location	Date of Purchase/ Last Revaluation	Usage	Approximate Age of Building (years)	Land/ Built-Up Area (square metres)	Net Book Value (RM'000)
Leasehold No 8, Jalan Melaka Raya 13, Taman Melaka Raya, Melaka (99 years lease expiring 7.7.2093)	30.3.1996	Shop and Office	24	143.00	234

CORPORATE Directory

Principal Offices

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

[Registration No. 196101000326 (4372-M)]

Head Office

Level 19, Guoco Tower

No. 6 Jalan Damanela

Bukit Damansara

50490 Kuala Lumpur

Tel : +60(3) 2720 8188

Fax : +60(3) 2720 8106

TOBACCO IMPORTERS AND MANUFACTURERS SDN. BERHAD

[Registration No. 196101000373 (4414-U)]

Level 19, Guoco Tower

No. 6 Jalan Damanela

Bukit Damansara

50490 Kuala Lumpur

Tel : +60(3) 2720 8188

Fax : +60(3) 2720 8106

COMMERCIAL MARKETERS AND DISTRIBUTORS SDN. BHD

[Registration No. 197801005300 (42316-T)]

Level 19, Guoco Tower

No. 6 Jalan Damanela

Bukit Damansara

50490 Kuala Lumpur

Tel : +60(3) 2720 8188

Fax : +60(3) 2720 8106

Manufacturing Plant

TOBACCO IMPORTERS AND MANUFACTURERS SDN. BERHAD

[Registration No. 196101000373 (4414-U)]

No. 4, Jalan Teknologi Perintis 1/2

Taman Teknologi Nusajaya

79250 Iskandar Puteri

Johor Darul Takzim

Tel : +60(7) 869 1686

Fax : +60(7) 869 1678

Branch Offices

PENANG

No. 50 Weld Quay

10300 Penang

Tel : +60(4) 261 8840

Fax : +60(4) 261 8799

IPOH

No. 120 Jalan Silibin

30000 Ipoh, Perak

Tel : +60(5) 528 7680 / 7689 / 7690

Fax : +60(5) 528 7684

SELANGOR

No. 3, Jalan Industri PBP3

Taman Perindustrian

Pusat Bandar Puchong

47100 Puchong, Selangor

Tel : +60(3) 5891 9888

Fax : +60(3) 5891 9882

KUALA LUMPUR

Unit BB1-1, Jalan Shamelin Niaga 2

Shamelin Heights Business Park

Taman Shamelin Perkasa

56100 Kuala Lumpur

Tel : +60(3) 9200 8370

Fax : +60(3) 9200 8371

MELAKA

No. 12 Jalan Abadi 3

Taman Malim Jaya

75250 Melaka

Tel : +60(6) 337 6593 / 336 5435

Fax : +60(6) 335 6449

JOHOR BAHRU

No. 4, Jalan Asas

Larkin Industrial Estate

80350 Johor Bahru, Johor

Tel : +60(7) 232 0412

Fax : +60(7) 238 6208

KUANTAN

PT64561, Jalan IM 3/15

Kawasan Perindustrian Ringan

Bandar Indera Mahkota

25200 Kuantan, Pahang

Tel : +60(9) 573 7831 / 8373

Fax : +60(9) 573 3484

KOTA BHARU

Lot PT 1453 & 1454

Kawasan Perindustrian Pengkalan

Chepa 2

Seksyen 39, Kemumin

16100 Kota Bharu, Kelantan

Tel : +60(9) 773 8831 / 8873

Fax : +60(9) 773 8968

KOTA KINABALU

Lot L180-101/000

Block A, HSK Industrial Centre

Jalan Bundusan

Mile 5 Off Jalan Penampang

89500 Kota Kinabalu, Sabah

Tel : +60(88) 722 628 / 629

Fax : +60(88) 722 630

KUCHING

Lot 1329, 1st Floor

Jalan Mersawa

Pending Industrial Estate

93450 Kuching, Sarawak

Tel : +60(82) 481 884 / 886

Fax : +60(82) 335 490

NOTICE OF Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Ninth Annual General Meeting (“AGM”) of British American Tobacco (Malaysia) Berhad (the “Company”) will be held at Connexion Conference & Event Centre, Nexus 2 & 3, Level 3A, Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur (the “Hall”) on Tuesday, 21 April 2020 at 9.30 a.m. for the following purposes:

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2019 and the Reports of the Directors and Auditors thereon.

Please refer to Explanatory Note 10 (Note A)

2. To re-elect the following Directors, each of whom retires pursuant to Clauses 109.1 and 109.2 of the Constitution of the Company:

- i. Tan Sri Dato’ Seri (Dr.) Aseh bin Haji Che Mat

**Ordinary
Resolution 1**

- ii. Datuk Christine Lee Oi Kuan

**Ordinary
Resolution 2**

Please refer to Explanatory Note 10

3. To re-elect the following Directors, each of whom retires pursuant to Clause 115 of the Constitution of the Company:

- i. Mr Jonathan Darlow Reed

**Ordinary
Resolution 3**

- ii. Mr Ignacio Ballester

**Ordinary
Resolution 4**

Please refer to Explanatory Note 10

4. To approve the payment of Directors’ fees and benefits to the Non-Executive Directors up to an amount of RM1,000,000.00 with effect from 21 April 2020 until the Company’s next AGM of the Company.

**Ordinary
Resolution 5**

Please refer to Explanatory Note 10

5. To re-appoint KPMG PLT as the Auditors of the Company for the financial year ending 31 December 2020 and to authorise the Directors to fix their remuneration.

**Ordinary
Resolution 6**

AS SPECIAL BUSINESS

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

6. **Proposed Renewal of Shareholders’ Mandate for the Company and its Subsidiaries to enter into the Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties (“Proposed Renewal of the Recurrent Related Party Transactions Mandate”)**

**Ordinary
Resolution 7**

“THAT, the Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 23 March 2020) granted by the shareholders of the Company authorising the Company and/or its Subsidiaries (“British American Tobacco Malaysia Group”) to enter into recurrent related party transactions of a revenue or trading nature (“Recurrent RPTs”) with Related Parties (as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad) as set out in Paragraph 2.2 and Appendix II of the Circular to Shareholders dated 23 March 2020 which are necessary for the British American Tobacco Malaysia Group’s day-to-day operations, be and is hereby renewed and approved, provided that:

- i. the transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders to the Company; and

NOTICE OF ANNUAL GENERAL MEETING

- 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 AGM of the Company following the AGM at which the Proposed Renewal of the Recurrent Related Party Transactions Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM the mandate is again renewed;
- ii. the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 340(2) of the Companies Act, 2016 (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act, 2016); or
- iii. revoked or varied by resolution passed by the shareholders in general meeting,

whichever is earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the Proposed Renewal of the Recurrent Related Party Transactions Mandate.

AND FURTHER THAT, as the estimated values of the Recurrent Related Party Transactions given in Appendix II of the Circular to Shareholders dated 23 March 2020 are provisional in nature, the Directors of the Company or any of them be and are hereby authorised to agree to the actual amount or amounts thereof, provided that such amount or amounts comply with the review procedures set out in Paragraph 2.3 of the Circular to Shareholders dated 23 March 2020."

Please refer to Explanatory Note 11

7. **Proposed Shareholders' Mandate for the Company and its Subsidiaries to enter into the new Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties ("Proposed New Recurrent Related Party Transactions Mandate")** **Ordinary Resolution 8**

"THAT, the Proposed New Recurrent Related Party Transactions Mandate (as defined in the Circular to Shareholders dated 23 March 2020) authorising the Company and/or its Subsidiaries ("British American Tobacco Malaysia Group") to enter into new recurrent related party transactions of a revenue or trading nature ("Recurrent RPTs") with Related Parties (as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad) as set out in Paragraph 2.2 and Appendix II of the Circular to Shareholders dated 23 March 2020 which are necessary for the British American Tobacco Malaysia Group's day-to-day operations, be and is hereby approved, provided that:

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

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

- i. the conclusion of the next AGM of the Company following the AGM at which the Proposed New Recurrent Related Party Transactions Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM the mandate is again renewed;
- ii. the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 340(2) of the Companies Act, 2016 (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Companies Act, 2016); or
- iii. revoked or varied by resolution passed by the shareholders in general meeting,

whichever is earlier;

NOTICE OF ANNUAL GENERAL MEETING

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the Proposed New Recurrent Related Party Transactions Mandate.

AND FURTHER THAT, as the estimated values of the Recurrent RPTs given in Appendix II of the Circular to Shareholders dated 23 March 2020 are provisional in nature, the Directors of the Company or any of them be and are hereby authorised to agree to the actual amount or amounts thereof, provided that such amount or amounts comply with the review procedures set out in Paragraph 2.3 of the Circular to Shareholders dated 23 March 2020."

Please refer to Explanatory Note 11

8. To transact any other business of which due notice shall have been given.

By Order of the Board

SHARIFAH THAHERAH SYED TAHA
MACS01735
Company Secretary

Kuala Lumpur
23 March 2020

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified. A proxy need not be a member of the Company.
2. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (Omnibus Account), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
3. The instrument appointing a proxy(ies) must be under the hand of the appointer or of his/her attorney duly authorised in writing. Where the instrument appointing a proxy(ies) is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised.
4. If there is no indication as to how a Member wishes his/her vote to be cast, the proxy will vote or abstain from voting at his/her discretion. In the event a Member duly executes the Proxy Form but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the Meeting as his/her proxy.
5. The original Proxy Form must be duly executed and deposited at the Registrar of the Company at Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for the taking of poll or **no later than 20 April 2020 at 12.00 p.m.**
6. Only Members whose names appear in the Record of Depositors as at 15 April 2020 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his/her behalf.
7. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the Resolutions set out in this Notice will be put to vote by poll.
8. In light of the current COVID-19 outbreak, all Members/Proxies including attendees to kindly take all necessary precautions and preventive measures as issued or directed by the Ministry of Health before attending the AGM.
9. **Registration of Members/Proxies**

Registration of Members/Proxies will start at 7.00 a.m. on the day of the AGM and the AGM will start at 9.30 a.m. sharp. The Members/Proxies are required to produce an identification document for registration.
10. **Explanatory Notes on Ordinary Business**

Note A

The Audited Financial Statements for the financial year ended 31 December 2019 under Agenda 1 are meant for discussion only in accordance with the provision of Section 340(1)(a) of the Companies Act, 2016, and it does not require a formal approval of the shareholders. Hence, this agenda will not be put forward for voting.

Ordinary Resolutions 1 and 2 - To re-elect Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat and Datuk Christine Lee Oi Kuan as Directors.

Clause 109.1 of the Constitution states that one-third (1/3) of the Directors shall retire from office and be eligible for re-election. Clause 109.2 further states that the Directors to retire in every year shall be those who have been longest in office since their last election.

Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat and Datuk Christine Lee Oi Kuan being eligible, have offered themselves for re-election at the 59th AGM.

The Nomination and Remuneration Committee had assessed the performance of the retiring Directors and recommended them for re-election as Directors due to their vast experience and contribution to the Company. Their profiles are stated in the Company's 2019 Annual Report. The Board has endorsed the Nomination and Remuneration Committee's recommendation subject to the shareholders' approval at this AGM.

NOTICE OF ANNUAL GENERAL MEETING

Ordinary Resolutions 3 and 4 - Re-election of Mr Jonathan Darlow Reed and Mr Ignacio Ballester as Directors.

Clause 115 states that the Directors shall have power to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors and Director so appointed shall hold office only until the next following annual general meeting, and shall then be eligible for re-election.

Mr Jonathan Darlow Reed and Mr Ignacio Ballester being eligible, have offered themselves for re-election as Directors at the 59th AGM. Their profiles are provided in the Company's 2019 Annual Report. The Board has endorsed the Nomination and Remuneration Committee's recommendation for re-election of Mr Jonathan Darlow Reed and Mr Ignacio Ballester subject to the shareholders' approval at this AGM.

Ordinary Resolution 5 – Payment of Directors' fees and benefits to the Non-Executive Directors.

The Company is seeking shareholders' approval for the payment of Non-Executive Directors' fees and benefits up to RM1,000,000.00 with effect from 21 April 2020 until the conclusion of the next AGM of the Company in 2021 pursuant to Section 230(1) of the Companies Act, 2016.

The details of the Non-Executive Directors remuneration structure adopted by the Company are as follows:

Structure	Chairman		Member	
	Fee (RM per annum)	Allowance (RM per annum)	Fee (RM per annum)	Allowance (RM per annum)
Board of Directors	345,000	154,092	100,000	-
Audit Committee	20,000	-	-	1,000
Nomination and Remuneration Committee	-	-	-	1,000
Risk Management Committee	-	-	-	1,000

The Non-Executive Directors who are shareholders of the Company will abstain from voting on Resolution 5.

11. Explanatory Notes on Special Business**Ordinary Resolutions 7 and 8 – Proposed Recurrent Related Party Transactions Mandate.**

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

Further information on the Proposed Renewal and New Recurrent Related Party Transactions Mandate is set out in the Circular to Shareholders dated 23 March 2020, which is available at the Company's corporate website at www.batmalaysia.com.

NOTICE OF ANNUAL GENERAL MEETING

12. Personal Data Privacy

By lodging of a completed Proxy Form to the Company and the Share Registrar (as the case maybe) for appointing a proxy(ies) and/or representative(s) to attend and/or in person at the 59th AGM and any adjournment thereof, a shareholder of the Company and the Share Registrar is hereby:

- i. consenting to the collection, use and disclosure of the member's personal data by the Company and to Share Registrar (as the case maybe) for the purpose of the processing and administration by the Company and the Share Registrar (as the case maybe) of proxy(ies) and representative(s) appointed for the 59th AGM (including any adjournment thereof) and the preparation and compilation of the attendance list, minutes and other documents relating to the 59th AGM (including any adjournment thereof), and in order for the Company and the Share Registrar (as the case maybe) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively the "**Purpose**").
- ii. warranting that where the member discloses the personal data of the shareholder's proxy(ies) and/or representative(s) to the Company and the Share Registrar (as the case maybe), the shareholder has obtained to prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company and the Share Registrar (as the case maybe) of the personal data of such proxy(ies) and/or representative(s) for the purpose ("**Warranty**"); and
- iii. agreeing that the member will indemnify the Company and the Share Registrar (as the case maybe) in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the Shareholder's breach of the Warranty.

For the purpose of the paragraph, "personal data" shall have the same meaning given in section 4 of Personal Data Protection Act 2010.

Statement Accompanying Notice of AGM

(pursuant to Paragraph 8.27(2) of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad)

The profiles of the Directors who are standing for re-election as per the Notice of 59th AGM are stated in the Annual Report 2019.

The details of the Directors' interest in the securities of the Company as at 28 February 2020 are stated in the Annual Report 2019.

ADMINISTRATIVE DETAILS FOR BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD 59th Annual General Meeting

Date : Tuesday, 21 April 2020

Time : 9.30 a.m.

Place : Connexion Conference & Event Centre, Nexus 2 & 3,
Level 3A, Nexus, Bangsar South City, No. 7, Jalan Kerinchi,
59200 Kuala Lumpur (the "Hall").

1. Public Health Preventive Measure

In light of the recent COVID-19 outbreak, we would appreciate if all Members/Proxies including attendees were to kindly take all necessary precautions and preventive measures as issued or directed by the Ministry of Health before attending the AGM.

Before the AGM,

- We will be conducting a compulsory body temperature screening at the entrance before attendees proceed to the registration counter.

Note:

You may not be allowed to enter the Hall if your body temperature is above 37.4°C (as per the guidelines issued by the Ministry of Health). Our medical officer will assist with further medical checks (if need be). Nonetheless, you will be registered and you will be receiving one (1) Door Gift and one (1) Packed Breakfast accordingly.

- Wearing a face mask in advance is highly appreciated. Face masks and hand sanitiser will be provided.
- We strongly advise you to frequently wash your hands, use the sanitiser, and wear the given face mask throughout the AGM.

2. Registration

- Registration will start at 7.00 a.m. at **Connexion Conference & Event Centre, Nexus 1, Level 3A, Nexus, Bangsar South City** and the AGM will start at 9.30 a.m. sharp. We strongly encourage you to come early to facilitate and ensure smooth registration.
- Please do read the signage to ascertain where you should register yourself for the AGM and join the queue accordingly.
- Please do produce your original National Registration Identification Card ("NRIC") or valid Passport (collectively referred as "Identification") at the registration counter for verification purposes. Kindly ensure you collect your Identification upon completion. No person will be allowed to register on behalf of another person even with the original Identification of that other person. Upon registration, you will be given an identification wristband.

- You must wear the identification wristband throughout the AGM. No person will be allowed to enter the Hall without the identification wristband. There won't be any replacement in the event that the identification wristband is lost, stolen and/or misplaced.

3. Entitlement to Attend and Vote

- Only Members whose name appears in the Record of Depositors as at **5.00 p.m. on 15 April 2020 ("General Meeting Record of Depositors")** shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time.
- If you wish to attend the AGM in person, please **do not** submit any Proxy Form.

4. Proxy

- If you are a Member of the Company as at 5.00 p.m. on 15 April 2020, you are entitled to appoint not more than two (2) proxies to exercise all or any of your rights to attend, speak and vote at the AGM.
- 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.
- To appoint a proxy(ies), the original Proxy Form which is attached together with the Company's Abridged Annual Report 2019 must be completed and signed, sent and delivered to the Company's Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for the taking of poll or **no later than 20 April 2020 at 12.00 p.m.**
- In the case of a member which is a company, the Proxy Form must be executed either under its seal or under the hand of any officer or attorney duly authorised.

ADMINISTRATIVE DETAILS FOR BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD 59TH ANNUAL GENERAL MEETING

5. Corporate Member

- Any corporate member who wishes to appoint a representative instead of a proxy to attend this AGM shall lodge the certificate of appointment under the seal of the corporation, at the office of the Company's Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than twenty-four (24) hours before the time appointed for the taking of poll or **no later than 20 April 2020 at 12.00 p.m.**

6. Revocation of Proxy

- If you wish to appoint a proxy, please note that the proxy may be revoked by:
 - attendance of the appointer at the AGM and exercising his/her voting rights at the AGM personally will automatically revoke the proxy;
 - notice of revocation of the Proxy Form or the authority served by 20 April 2020 at 12.00 p.m.;
 - appointing new proxy by depositing a new Proxy Form in favour of another person by 20 April 2020 at 12.00 p.m.; or
 - transfer of shares by the appointer.
- If you have submitted your Proxy Form prior to the AGM and subsequently decide to attend the AGM in person, please proceed to the Help Desk counter.

7. Help Desk

- Please proceed to the Help Desk counter for the following matters:
 - Any enquiry or clarification;
 - To revoke the appointment of your proxy/proxies. Upon your revocation of appointment, your proxy/proxies will not be allowed to attend the AGM; or
 - If you require any First Aid assistance once you have entered the Hall.

8. Refreshment

- The Packed Breakfast will be given to all shareholders by way of redemption Breakfast vouchers given during registration. The Packed Breakfast including tea or coffee will be made available from 7.00 a.m. to 9.30 a.m.
- There will be no food served after the AGM.

9. Door Gift

- Upon successful registration, a shareholder/proxy will be given one (1) Door gift and one (1) Breakfast voucher. The collection of the Door Gift and Breakfast voucher will be in accordance to the followings:
 - Each individual present as shareholder or proxy(ies) or corporate representative; or representing more than one (1) shareholder is entitled to one (1) Door Gift and one (1) Breakfast voucher only.
 - Additionally, if two (2) proxies represent one (1) shareholder, they will jointly be entitled to one (1) Door Gift and one (1) Breakfast voucher only.
 - If the proxy has obtained a Door Gift and a Breakfast voucher, a shareholder who subsequently decided to attend the AGM in person will not be given any Door Gift or Breakfast voucher.
 - If you lose or misplace your Door Gift or Breakfast voucher, you will not be entitled for a replacement.

10. Voting Procedure

- Voting at the 59th AGM will be conducted on polling basis. The Company's Share Registrar, Tricor Investor & Issuing House Services Sdn. Bhd., is appointed as the Poll Administrator to conduct the polling process. An Independent Scrutineer is appointed to verify and validate the results of the poll.

11. Annual Report 2019

- The Annual Report 2019 is available on Bursa Malaysia's website at www.bursamalaysia.com under the Company Announcements and also at the British American Tobacco Malaysia's website at www.batmalaysia.com.

12. No Smoking Policy

- A no smoking policy is maintained inside the Connexion Conference & Event Centre building. Your co-operation is much appreciated.

13. Other Meeting Details

- Free WIFI is available at the Connexion Conference & Event Centre for the convenience of shareholders/proxies.
- Indoor parking is available at the Connexion Conference & Event Centre (subject to availability). Please validate or exchange the parking card at the booth situated in the foyer.

14. Personal Belongings

- Please take care of your personal belongings. The organiser will not be held responsible for any lost item.

ADMINISTRATIVE DETAILS FOR BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD 59TH ANNUAL GENERAL MEETING

15. Enquiry

- If you have general queries prior to the AGM, please contact the the following person during office hours:

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

Location map to Connexion Conference & Event Centre

Connexion Conference & Event Centre

Nexus 2 & 3, Level 3A, Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur.



PROXY Form

British American Tobacco (Malaysia) Berhad

[Registration No. 196101000326 (4372-M)]

(Incorporated in Malaysia)



CDS ACCOUNT No.

I/We _____ (NRIC/Passport/Co. No: _____)
(Name as per NRIC/Passport/Certificate of Incorporation in Capital Letters)

of _____
(Full Address)

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint _____

(Name as per NRIC/Passport in Capital Letters)

(NRIC/Passport No.: _____) of _____
(Name as per NRIC/Passport in Capital Letters)

(Full Address)

and/or failing him/her _____ (NRIC/Passport No.: _____)

of _____
(Full Address)

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fifty-Ninth Annual General Meeting of the Company, to be held at Connexion Conference & Event Centre, Nexus 2 & 3, Level 3A, Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur on Tuesday, 21 April 2020 at 9.30 a.m., and at any adjournment thereof.

My/our proxy/proxies shall vote as follows:

(Please indicate with an "X" in the spaces provided below how you wish your votes to be cast on the resolutions specified in the notice of meeting. If you do not do so, your proxy/proxies will vote or abstain as he/she may think fit)

RESOLUTIONS		FOR	AGAINST
Ordinary Resolution 1	Re-election of Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat who retires pursuant to Clauses 109.1 and 109.2 of the Constitution of the Company.		
Ordinary Resolution 2	Re-election of Datuk Christine Lee Oi Kuan who retires pursuant to Clauses 109.1 and 109.2 of the Constitution of the Company.		
Ordinary Resolution 3	Re-election of Mr Jonathan Darlow Reed who retires pursuant to Clause 115 of the Constitution of the Company.		
Ordinary Resolution 4	Re-election of Mr Ignacio Ballester who retires pursuant to Clause 115 of the Constitution of the Company.		
Ordinary Resolution 5	Approval of payment of Directors' fees and benefits to the Non-Executive Directors with effect from 21 April 2020 until next Annual General Meeting of the Company.		
Ordinary Resolution 6	Re-appointment of KPMG PLT as Auditors of the Company for the financial year ending 31 December 2020 and to authorise the Directors to fix their remuneration.		
Ordinary Resolution 7	Proposed Renewal of the Recurrent Related Party Transactions Mandate.		
Ordinary Resolution 8	Proposed New Recurrent Related Party Transactions Mandate.		

Dated this day of 2020

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

	No. of Shares	Percentage
Proxy 1		
Proxy 2		
TOTAL		100

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

Notes:

1. A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified. A proxy need not be a member of the Company.
2. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominees may appoint in respect of each Omnibus Account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
3. The instrument appointing a proxy(ies) must be under the hand of the appointer or of his/her attorney duly authorised in writing. Where the instrument appointing a proxy(ies) is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised.
4. If there is no indication as to how a Member wishes his/her vote to be cast, the proxy will vote or abstain from voting at his/her discretion. In the event a Member duly executes the Proxy Form but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the meeting as his/her proxy.
5. The original Proxy Form must be duly executed and deposited at the Registrar of the Company at Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur **not less than twenty-four (24) hours** before the time appointed for the taking of poll or **no later than 20 April 2020 at 12.00 p.m.**
6. Only Members whose names appear in the Record of Depositors as at 15 April 2020 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his /her behalf.
7. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the Resolutions set out in this Notice will be put to vote by poll.
8. In light of the current COVID-19, all Members/Proxies including attendees to kindly take all necessary precautions and preventive measures as issued or directed by the Ministry of Health before attending the AGM.
9. **Registration of Members/Proxies**
Registration of Members/Proxies will commence at 7.00 a.m. on the day of the Meeting and the Meeting will start at 9.30 a.m. sharp. Members/Proxies are required to produce identification documents for registration.

Please refer to the personal data privacy terms as set out in the Notice of 59th AGM dated 23 March 2020.

Please fold here to seal

Affix postage stamp

The Share Registrar
British American Tobacco (Malaysia) Berhad
[Registration No. 196101000326 (4372-M)]
c/o Tricor Investor and Issuing House Services Sdn Bhd
[Registration No. 197101000970 (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) Berhad

[Registration No. 196101000326 (4372-M)]

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