

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
[Registration No. 196101000326 (4372-M)]
(Incorporated in Malaysia)

Minutes of the Sixtieth (60th) Annual General Meeting of British American Tobacco (Malaysia) Berhad (“**the Company**” or “**BAT Malaysia**”) held at the broadcast venue at Infinity Room, Level 16, Guoco Tower, Damansara City, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Thursday, 22 April 2021 at 9.30 a.m.

PRESENT

Tan Sri Dato’ Seri (Dr.) Aseh bin Haji Che Mat	:	Chairman Independent Non-Executive Director
Mr. Jonathan Darlow Reed	:	Managing Director
Dato’ Chan Choon Ngai	:	Independent Non-Executive Director
Mr. Eric Ooi Lip Aun	:	Independent Non-Executive Director
Datuk Christine Lee Oi Kuan	:	Non-Independent Non-Executive Director
Mr. Ignacio Ballester	:	Finance Director

IN ATTENDANCE

Ms. Sharifah Thaherah	:	Company Secretary
-----------------------	---	-------------------

BY INVITATION

Mr. Adrian Lee	Messrs. KPMG PLT (External Auditors)
Ms. Lee Seen Yin	Messrs. Jeff Leong, Poon & Wong

ATTENDEES

(646 Members, 53 Proxies and 1 Corporate Representative participated in the virtual meeting of the 60th Annual General Meeting as per the summary of attendance)

1. CHAIRMAN OF THE MEETING

Tan Sri Dato’ Seri (Dr.) Aseh bin Haji Che Mat chaired the 60th Annual General Meeting (“**AGM**” or “**Meeting**”) of the Company.

2. WELCOME ADDRESS AND HOUSE RULE

As the AGM was a fully virtual meeting, the Company Secretary shared that the Meeting was restricted to shareholders and authorised representatives of corporate shareholders. The Company had taken all efforts to ensure a smooth live streaming, however the quality of the broadcast for the recipients might be affected by the participants’ own internet bandwidth connection and stability. Shareholders were also encouraged to submit their questions early in the query box.

3. CHAIRMAN’S OPENING SPEECH

On behalf of the Board of Directors (“**Board**”) of the Company, the Chairman extended a warm welcome to the shareholders and authorised representative of corporate representatives, proxies and invitees to the AGM. On behalf of the Board, the Chairman

expressed his special gratitude to Management and all employees of the Company for their grit, dedication and resilience in turning around the business in 2020. The Chairman also thanked the shareholders for their continued support and loyalty.

The Chairman briefed the Meeting on the following:

- a) The Company operated with minimal disruptions and 2020 was a turnaround year with volume, profit, net turnaround and share growth representing the Company's strongest quarter on quarter performance since 2015;
- b) The level of tobacco black market is still at an all-time high, impacting the Company's revenue and profit from operations;
- c) Despite the trying times, the Company remained committed to returning value to shareholders declaring dividends of 83 sen per share for the financial year ended 2020; and
- d) Last year, the Company launched a bold campaign to "**Stop The Black Market**" which raised awareness of illegal tobacco. The Company is encouraged by Government's announcement on the range of measures to tackle the tobacco black market in the Budget 2021 . However, the problem was far from being resolved. Shareholders were also encouraged to be vocal and active advocates against the illegal market.

4. QUORUM

The requisite quorum being present pursuant to Clause 80 of the Company's Constitution, the Chairman declared the Meeting duly convened.

5. NOTICE OF MEETING

The Notice of the 60th AGM dated 24 March 2021 ("**Notice**") was announced to Bursa Malaysia Securities Berhad, published in the Company's website, advertised in the newspaper and circulated to all members on 24 March 2021.

6. VOTING PROCEDURES

Before proceeding with the agenda of the Meeting, the shareholders/proxies were briefed by the Chairman that pursuant to Paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the resolutions set out in the Notice would be voted on by way of poll.

The shareholders were also informed that the Company had appointed Tricor Investor & Issuing House Services Sdn. Bhd. as the poll administrator to conduct the e-voting process and Coopers Professional Scrutineers Sdn. Bhd. as scrutineer to validate the votes cast.

The shareholders were informed that the voting on the resolutions could be done at any time during the Meeting until the closure of the voting session. The polling process via remote participation and voting facility for the resolutions and hotline number for support were shared.

The Chairman informed the shareholders that the Board would make every effort to answer questions received prior to and during the Meeting. For questions that were not addressed at the Meeting, the Company would provide responses by email within five (5)

working days from the date of the Meeting. Mr. Loo Ling Wah and Ms. Joanne Chan, both being shareholders of the Company had agreed to be the proposer and seconder for all the resolutions tabled.

7. 2020 BUSINESS PERFORMANCE AND OTHER HIGHLIGHTS

The Chairman then invited the Managing Director, Mr. Jonathan Reed, to share the Company's 2020 business performance and other highlights. Mr. Jonathan Reed shared the key business performance and other highlights as follows:

- a) The Company is guided towards building "A Better Tomorrow™" by reducing the health impact of our business. It is a strategy that puts focus on our portfolio of new categories products, fuelled by investment from the continued delivery of our traditional tobacco business.
- b) In line with the Company ambition to deliver "A Better Tomorrow™", the Company anticipated a step change in new categories on a clear regulatory framework put in place by the Government.
- c) The illegal trade grew by 1 percentage point ("ppt") to 68% which translated to 12 billion sticks.
- d) Currently, there are 1.1 million vapour users in Malaysia which represents 22% of the number of total adult smokers. There are 97% vapour users using e-liquid containing nicotine, for which regulations are not in place. There is a significant untapped excise revenue opportunity for the Government and the industry to critically develop a regulatory framework for nicotine vapours as a sustainable future for the industry. This resulted in revenue losses of RM5.3 billion due to the black market.
- e) Value-For-Money segment had shown a stellar growth of 6 ppt in 2020.
- f) Total legal industry volume and the Company's volume had recorded an increase of 1.1 ppt in share of market.
- g) Dunhill remained strong and grew by 2.2 ppt within the premium segment.
- h) In the VFM segment, Rothmans and KYO had achieved a combined growth by 5.3 ppt.
- i) On the talent front, the Company constantly reviews and streamlines to drive a smarter, simpler organisation and empowered through the new Ethos, being Bold, Fast, Empowered, Responsible and Diverse.
- j) The Company's strategy focused on three pillars of environment, social and governance ("ESG") to deliver "A Better Tomorrow™". In 2020, the Company gained "Leadership in Energy and Environmental Design" certification, GOLD premier award for Occupational Safety and Health practitioner. The Company continued to uphold high standards of corporate governance and was duly recognised by MSWG Excellence Award for overall Corporate Governance and Industry Excellence Award.

8. 2020 FINANCIAL PERFORMANCE

The Finance Director, Mr. Ignacio shared with the shareholders the Group's 2020 financial performance as follows:

- a) Group revenue recorded RM2,315 million which was 8% lower as compared to the preceding year due to the combination of legal market contraction, COVID-19 and downtrading.
- b) The Group delivered cost optimisation with savings of RM21 million as compared to the preceding year.
- c) Profit from operations was RM346 million, a decline by 28% as compared to the preceding year. The impact from volume and mix in gross profit, COVID impact and one-off restructuring exercise.

9. 2021 OUTLOOK

The 2021 outlook was highlighted as follows:

- Combustible value growth through building strong portfolio to enable value growth and to unlock new revenue streams for sustainable growth;
- Step-change in new categories through driving step change in regulation for vapour, tobacco harm reduction;
- Simpler and smarter company and accelerate digital transformation;
- Driving sustainability with excellence in ESG; and
- Accelerating tomorrow's leaders through building high performing teams and attracting and retaining employees.

10. AUDITED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 AND THE REPORTS OF THE DIRECTORS AND AUDITORS THEREON

The Chairman informed the shareholders that the first item on the Agenda was to receive the Audited Financial Statements of the Company for the financial year ended 31 December 2020 together with the Reports of the Directors and Auditors thereon ("**2020 AFS**"). The first item on the Agenda was for discussion only and did not require voting.

11. ORDINARY RESOLUTION 1 RE-ELECTION OF DATO' CHAN CHOON NGAI IN ACCORDANCE WITH CLAUSES 109.1 AND 109.2 OF THE COMPANY'S CONSTITUTION

Ordinary Resolution 1 was in relation to the re-election of Dato' Chan Choon Ngai as a Director of the Company in accordance with Clauses 109.1 and 109.2 of the Constitution of the Company.

12. ORDINARY RESOLUTION 2 RE-ELECTION OF ERIC OOI LIP AUN IN ACCORDANCE WITH CLAUSES 109.1 AND 109.2 OF THE COMPANY'S CONSTITUTION

Ordinary Resolution 2 was in relation to the re-election of Eric Ooi Lip Aun as a Director of the Company in accordance with Clauses 109.1 and 109.2 of the Constitution of the Company.

**13. ORDINARY RESOLUTION 3
PAYMENT OF DIRECTORS' FEES AND BENEFITS TO THE NON-EXECUTIVE
DIRECTORS UP TO AN AMOUNT OF RM1,000,000.00 WITH EFFECT FROM THE 60th
AGM OF THE COMPANY UNTIL THE NEXT ANNUAL GENERAL MEETING OF THE
COMPANY**

Ordinary Resolution 3 was in relation to the approval of the payment of Directors' fees and benefits to Non-Executive Directors up to an amount of RM1,000,000.00 with effect from the 60th AGM until the next Annual General Meeting of the Company.

**14. ORDINARY RESOLUTION 4
RE-APPOINTMENT OF KPMG PLT AS AUDITORS OF THE COMPANY**

Ordinary Resolution 4 was in relation to re-appointment of 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. The retiring auditors, KPMG PLT have indicated their willingness to continue in office.

**15. ORDINARY RESOLUTION 5
PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR THE COMPANY AND
ITS SUBSIDIARIES TO ENTER INTO RECURRENT RELATED PARTY
TRANSACTIONS OF A REVENUE OR TRADING NATURE WITH RELATED PARTIES
("PROPOSED RENEWAL OF THE RECURRENT RELATED PARTY TRANSACTIONS
MANDATE")**

Ordinary Resolution 5 was in relation to the Proposed Renewal of the Recurrent Related Party Transactions Mandate. The details of which were set out in the Circular to Shareholders dated 24 March 2021.

The Chairman informed the Meeting that Mr. Jonathan Reed, Datuk Christine Lee Oi Kuan and Mr. Ignacio Ballester and persons connected with them, were deemed to be interested in the proposed resolution and as such, would abstain from voting on the resolution pertaining to the proposed renewal of shareholders' mandate for recurrent related party transactions in respect of their direct and indirect shareholdings in the Company.

16. QUESTIONS AND ANSWERS

The Chairman informed the Meeting that the Company had received questions from the Minority Shareholders Watch Group ("**MSWG**"). The questions posted by MSWG and the responses from Management were read out by the Company Secretary and Mr. Ignacio Ballester respectively and were shared to the shareholders on the screen.

The Company had also received questions prior to and during the Meeting. The shareholders were notified that questions would be summarised to avoid repetition. The Chairman, Mr Jonathan Reed, Mr. Eric Ooi Lip Aun and Mr Ignacio Ballester took turns to answer the questions. The shareholders were informed that the Company would provide email responses to questions that were not addressed within five (5) working days from the date of the Meeting.

A summary of questions by MSWG and the shareholders together with summarised responses by the Company was annexed hereto as Appendix A.

The Meeting then proceeded to vote and was adjourned for the counting of votes.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHADMinutes of the 60th Annual General Meeting held on 22 April 2021

17. DECLARATION OF POLL RESULTS

The Ordinary Resolutions tabled at the 60th AGM of the Company were duly passed by the shareholders of the Company and the poll results of the resolutions as summarised below:

	FOR		AGAINST		Result
	No. of shares	%	No. of shares	%	
<u>Ordinary Resolution 1</u> Re-election of Dato' Chan Choon Ngai as a Director	167,664,341	99.5324	787,750	0.4676	Carried
<u>Ordinary Resolution 2</u> Re-election of Eric Ooi Lip Aun as a Director	168,409,201	99.9741	43,590	0.0259	Carried
<u>Ordinary Resolution 3</u> Payment of Directors' fees and benefits to Non-Executive Directors	168,340,881	99.9413	98,809	0.0587	Carried
<u>Ordinary Resolution 4</u> Re-appointment of KPMG PLT as auditors	168,416,851	99.9938	10,440	0.0062	Carried
<u>Ordinary Resolution 5</u> Proposed Renewal of the Recurrent Related Party Transactions Mandate	25,648,499	99.9385	15,792	0.0615	Carried

18. CLOSURE

There being no other business to be transacted, the Meeting closed at 12:00 noon with a vote of thanks to the Chair.

**CONFIRMED AS CORRECT RECORD
OF THE PROCEEDINGS****TAN SRI DATO' SERI (DR.) ASEH BIN HAJI CHE MAT**

Chairman

Date: 20 May 2021

Questions received from MSWG and the Summarised Company's Responses

1. During the tabling of Budget 2021, the Government had said that it will enforce more stringent measures to clamp down on the illicit cigarettes market. The illicit market commanded 63% of the market share in 2020. The Company's profitability was severely affected by the illicit market as cigarettes in this market were priced lower than the Company's products.

a) What are the estimated losses to the Company from the burgeoning illicit cigarettes market in 2020?

- In 2020, the tobacco black market was estimated to be 12 billion cigarettes, this represents approximately RM5 billion in lost excise revenue for the Government. Our profitability at its peak was recorded at RM1.2 billion and from 2015 we've lost an average of RM180 million per year over the last five years. This was a consequence of the increase in illegal cigarette incidence that grew from 37% in 2015 to an all-time high of 63% in 2020.
- While we are seeing some traction by way of increased enforcement efforts to reduce the high levels of the tobacco black market, the reality is that the tobacco black market is still growing, but at a reduced rate.
- This is still a big issue impacting the industry and the journey towards reducing the tobacco black market is far from over. In order to shift consumers back towards legal consumption – the tobacco black market must be reduced by half.
- More needs to be done and we will maintain our efforts through our call to action campaigns like Stop the Black Market to ensure that this issue is constantly at the forefront.

b) The enforcement measures taken by the Government have been unsuccessful to curb the growth in the illicit cigarettes market. What are some of the measures that the Company has proposed to the Government to quell the growth of the illicit cigarettes market?

- The measures proposed by the Company were similar to the measures announced by the Government during Budget 2021, such as stricter controls on transit or transshipment, limiting entry points, stricter cigarette import licensing and enhancing the Multi-Agency Taskforce with the National Finance Crime Center and the Malaysian Anti-Corruption Commission.
- At this juncture, we'd like to credit the Finance Minister and his team for diligently reviewing the issue and committing dedicated resources to tackling the tobacco black market. We believe that these measures if enforced effectively, will help to restrict the supply of illegal cigarettes.
- However, to effectively reduce the tobacco black market, supply restrictions must be complemented with measures to address its demand due to the wide price gap between legal and illegal products, and the affordability pressures that consumers in Malaysia currently face.

- In order to address the demand issues of illegal cigarettes an affordable legal offer needs to be made available to smokers. In addition, a clear regulatory framework is urgently needed to address illegal vaping.

2. In 2020, the Company introduced its Corporate Purpose titled A Better Tomorrow™ (Page 19 of AR 2020) Among other things, the Company said while combustible tobacco will remain as its mainstay product, it will venture into more 'safe' products for its customers.

a) What are the proposed 'safe' products that the Company is planning to venture into?

Our purpose is to build A Better Tomorrow™ by reducing the health impact of our business. It is a strategy that puts focus on our portfolio of New Category products, fuelled by investment from the continued delivery of our traditional tobacco business.

Key parts to this are:

- Committing to providing adult consumers with a wide range of enjoyable and less risky products.
- Continuing to be clear that cigarettes pose serious health risks, and the only way to avoid these risks is not to start or to quit.
- Encouraging those who otherwise continue to smoke cigarettes, to switch completely to scientifically substantiated, reduced-risk* alternatives.
- As such, alongside our traditional cigarette products, our global portfolio of non-combustible products includes reduced-risk* alternatives such as vapour products, tobacco heating products, and modern oral nicotine pouches.
- The Company intends to focus its efforts on legalising nicotine vaping, and we aim to lead the discussion around the establishment of an appropriate regulatory framework for nicotine vaping as it represents a significant revenue opportunity for both the Government and the Company.

b) What are the Company's strategies to address the potential loss of customers if its 'safe' products do not appeal to customers who have been accustomed to its nicotine-based products?

- The BAT p.l.c. Group's growing range of reduced-risk* products includes our vapour, tobacco heating products, and modern oral products, which include oral tobacco and nicotine products. So far, the global success of our New Category products across many markets like US, Canada, UK, France, Germany, Japan, Korea and Pakistan indicates that consumers increasingly want access to reduced-risk* options.
- In Malaysia, we want to put a sharper focus on these New Category products as they represent a significant harm reduction and revenue opportunity. However, until a regulatory framework is in place to legalise New Category reduced-risk products, traditional cigarette products are core to our business and will remain relevant for Malaysian smokers for some time to come.

- 3. In Budget 2021, the Government announced that it will legalise the zero-nicotine vaping market. However, only 3% of the 1.1 million vape users in the country used zero nicotine products in 2020 (Page 19 of AR 2020).**

What is the long-term impact to the Company from this move by the Government?

- BAT Malaysia was encouraged when Budget 2021 announced the introduction of excise tax on vaping devices and zero nicotine liquids.
 - However, there are still over one million Malaysians consuming unregulated nicotine vapour products of unknown provenance and we believe that the policy change is long overdue.
 - We are hopeful that the Government will move towards regulating vapour e-liquids containing nicotine to make available regulated nicotine vapour products for consumers.
 - This is important as a robust regulatory framework for vapour products will ensure consumer safety and product quality. In addition, it also presents a significant revenue opportunity for the Government given the current excise regime introduced does not cover vapour e-liquids containing nicotine that form 97% of products sold in the market.
 - For BAT Malaysia, while the BAT p.l.c. Group has a broad portfolio of non-combustible reduced-risk* alternatives including vapour products. Commercial opportunities will only be accessed once there is a robust regulatory framework in place for the segment.
- 4. The Company's Other Operating Expenses rose sharply from RM2.6 million in FYE 2019 to RM9.5 million in FYE 2020 which represents an increase of more than 365% (Page 125 of AR 2020).**

These expenses are related to non-recurring costs in nature which are not related to the Company's principal activities. The increase of the operating expenses in financial year ended 2020 was largely attributed to the Dunhill HTL - Cigarillo machinery write off, which was a consequence of the Ministry of Health's decision to recategorise the product as a non-cigarette tobacco product.

- 5. Inventories rose sharply from RM98.2 million in FYE 2019 to RM229.9 million in FYE 2020. (Page 127 of AR 2020).**

a) What were the reasons for the sharp increase in inventories?

- 2020 was an unprecedented year with the COVID-19 pandemic disrupting businesses and supply chains globally. In BAT Malaysia, we experienced supply disruptions due to the port closures, container shortages, and factory shutdowns.
- As part of the Company's business continuity plans to ensure the supply of our products to the market was not disrupted, the Company took measures to increase the inventory levels by an additional 4 weeks, with the aim of mitigating the volatility in demand and risks of discontinued supply.

b) Has the Company taken measures to make provisions for slow moving and obsolete stocks?

Yes. It is the Company's practice, in line with the accounting standards, to make provisions for slow moving and obsolete stocks based on inventory levels, durations and product freshness.

Group Disclaimer:

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

Summary of Shareholders' Questions Received and the Summarised Company's Responses

- a) Questions: **Can BAT Malaysia provide shareholders with door gifts, vouchers or a token for shareholders who have and will continue to support BAT Malaysia?**

Response: As mentioned in our Notice of AGM dated 24 March 2020, we will not be providing any voucher or door gift. This includes e-vouchers as well.

The provision of gifts at AGM is not mandatory. The Company would like to focus on maximising value to you through the continuity of consistent dividend payout.

- b) Questions: **Is there any impact on the Company's sales and distribution when MCO 2.0 started in Jan 2021 and does the company have any future plan to overcome the effect of movement restrictions?**

Response: The pandemic did not significantly impact our overall performance. Only our duty-free sales were affected due to the regional and international travel restrictions which resulted in a marginal revenue decline of 2.5% year on year. In fact, BAT Malaysia grew quarter on quarter in the three closing quarters of the year delivering a turnaround performance for our shareholders.

The Company is agile and fast in responding to the MCO and is able to manage the situation and minimise the impact in the Domestic market. Nevertheless, the Company's Duty-Free volume will continue to be impacted as the Regional and International travel restrictions are still being imposed in Malaysia.

The Company's plan is to review stock levels, continue to support our customers and vendors where we deem necessary and monitor strictly our liquidity. As our people are our most important asset, we will continue to ensure that all measures are taken to ensure that we are fully compliant with SOPs and employees remain digitally connected and able to work from home seamlessly.

- c) Questions: **Any bonus issue to be declared and increase in dividends?**

Response: There is no plan to issue bonus shares.

The Group will remain strongly committed to a high payout of earnings in the form of dividends. At present, we do not foresee any change to this in the near future.

The Company's dividend payout ratio has been over 90% for the past 10 years. We are one of the top companies in Malaysia committed to paying high dividends and was recognised as a Top 10 dividend stock for 2020.

- d) Questions **Please share what is different in your business operation now versus the time when BAT shares were hovering around RM40. What does the Board think is needed to be done, barring more support from the Government to enforce policing against illegal imports to increase sales, to increase the value to shareholders?**

Response: The share price is a reflection of the tobacco black market in Malaysia where 63% of the market is illegal. Since the excise hike in 2015, we saw illegal cigarettes share growing by more than 25%. The growth of the tobacco black market combined with downtrading pressure has impacted the performance of the Company and the legal industry.

Additionally, illegal vaping has proliferated in the market with a 12% share of total nicotine market, sizeable but unregulated.

There are measures taken by the Company to protect the bottom line including strengthening our brands, our premium portfolio, rightsizing the organisation,

moving our factory to a cost effective location, and continuously optimising the operating expenses and maintaining high payout ratios to shareholders.

However, this alone will not be able to reinstate the share price to where it used to be, we need enforcement, an effective fiscal measure that acknowledges the affordability issue and regulation of nicotine vaping to deliver sustainable growth.

e) Questions: **Director's fees remain very high. How do you justify such high fees in times like these?**

Response: BAT Malaysia's remuneration policy for its Directors is tailored to provide a remuneration package that serves to attract, retain, and motivate directors of the calibre needed to manage the business of the Group. The Board believes in a competitive and transparent remuneration framework that supports the Director's responsibilities and fiduciary duties in advising the Group to drive the Group's long-term objectives and enhance stakeholder value.

The Group has consolidated the policies and guidelines it adheres to in arriving at the remuneration framework for the Directors. Further details on remuneration are disclosed in point 4 (Remuneration) in the Corporate Governance Overview chapter (Page 84) of the 2020 annual report.

f) Questions: **What is the outlook for GLO?**

Response: Reducing the health impact of our business by offering consumers options less risky alternatives is part of our corporate purpose of A Better Tomorrow™.

However, in Malaysia, the demand and market size for tobacco heated products like Glo is small. As such, in the area of New Categories, the Company intends to focus its efforts and investment on legalising nicotine vaping. We aim to lead the discussion around the establishment of an appropriate regulatory framework for nicotine vaping.

g) Questions: **Will the new office set up in Pakistan last year contribute to BAT Malaysia's financial performance?**

Response: BAT p.l.c. has set up a new shared service centre in Pakistan in 2020 which will be one of BAT's global service providers to Asia Pacific and Middle East countries. Once fully established, the Company will assess how we may benefit.

h) Questions: **Why are the levels of illegal cigarettes and tobacco still so high in Malaysia? What has the company done in order to tackle the tobacco black market? Is it effective? Is it enough?**

Response: The stark reality is that the current economic pressures faced by Malaysian consumers has resulted in consumers turning to cheap illegal cigarettes that cost far less than legal cigarettes. To put into context, a pack of illegal cigarettes sells for as cheap as RM4 for a pack of 20 cigarettes.

In our effort to draw attention to the seriousness of the tobacco black market in Malaysia, we launched a nationwide "STOP THE BLACK MARKET" campaign in 2020.

Numerous activities were undertaken including a nationwide survey. Based on the survey, 64% of Malaysians polled believe that the high price of goods, including cigarettes, is a key factor driving people to the black market. Key announcements were made in the tabling of Budget 2021 to tackle this issue. This is a good first step in tackling the tobacco black market. Measures relating to cigarette transshipment restrictions will contribute towards disrupting the supply of illegal cigarettes in Malaysia.

However, the problem is far from over. We believe enforcement alone will not solve this crisis. An effective fiscal measure that acknowledges the affordability issue must be considered by the Government.

- i) Questions: **Compared to FY19, BAT's FY20 gross and PBT profit margins have decreased, what is the reason behind this? Besides, what is the profit margin of BAT's Premium, Aspirational Premium, and Value-for-Money segments? Could you please show the profit margin of the aforementioned segments and some of your key products? For example, Dunhill, Rothmans, and Kyo.**

Response: In the legal industry, downtrading has continued as evidenced by the growth of the Value-For-Money ("VFM") segment. There is a shift from Premium and Aspirational Premium segment to VFM segment due to economic pressures and consumer affordability issues.

As the biggest player in the legal market, we have been impacted by this continuous downtrading. Our portfolio in the VFM segment grew by 5.3ppt, though we are encouraged by this growth, it has eroded the profit margins for 2020.

The profit margin for Premium portfolio is about 5 times more than that of the VFM portfolio. However, we normally do not provide any specific guidance on our profit margins.

To strengthen our portfolio, we will continue to grow Dunhill's leadership in the Premium market and drive further growth in the VFM segment through Rothmans and KYO.

- j) Questions: **What are your immediate goals anticipating tighter and stricter regulations to be placed on tobacco companies by the Government which may lead to a negative FDI and result in a severe impact to the business?**

Response: We are used to working in a highly regulated industry. As part of this we engage regularly with key government stakeholders to ensure sensible policy governing tobacco. Our particular focus is ensuring that any new regulations would not serve to grow the tobacco black market or illegal vaping.

- k) Questions: **What is your projected growth of net profit?**

Response: We are encouraged by three quarters of sustained growth in 2020. As you saw in the earlier presentation, we had grown in profit since Quarter 2 by 16%, 6% and 19% quarter on quarter. I believe that with the plans we have in place, it will allow us to maintain the same growth trajectory this year. However, as you know, we do not provide any specific guidance on our performance before our quarterly announcements.

We will continue to leverage on our turnaround in 2020 for us to go back to growth and build A Better Tomorrow™. We will continue to strengthen our portfolio by solidifying Dunhill's leadership in the Premium segment while driving further growth in the Value-for-Money category through Rothmans and KYO.

We will also maintain our initiative to continue discussions with our key stakeholders on the size of the illegal tobacco problem and how it might be solved.

We plan to lead the discussion around the establishment of an appropriate regulatory framework for nicotine vaping.

l) Questions: When is BAT Malaysia bringing its vapour products to Malaysia?

Response: The Government's intention to impose excise duties on vaping devices and zero nicotine liquids is a good start. However, zero nicotine liquids make up less than 3 percent of the Malaysian market.

We are hopeful that this is a move towards the legalisation of nicotine containing liquids in the near future.

In tandem with our purpose of "A Better Tomorrow™", while cigarettes will be at the core of our business for some time to come, we aim to generate an increasingly greater proportion of our revenues from products other than cigarettes, thereby reducing the health impact of our business.

m) Questions: What does ESG means for BAT? What are your ESG priorities? What percentage of the Company's budget has been dedicated to ESG?

Response: We have a long and proud history of ESG achievements, and we have transitioned from being a business where sustainability is important to one where it is front and center in all that we do.

Our ESG agenda creates shared value for our shareholders and broader stakeholders including consumers, society and employees. Our corporate purpose puts ESG front and center, with a principal focus on reducing the health impact of our global business to build A Better Tomorrow™.

Along with our principal focus, we retain a strong emphasis on other ESG priorities including addressing climate change and excellence in environmental management. At the same time, we remain committed to delivering a positive social impact and ensuring robust corporate governance across the Company.

The Company has and will allocate sufficient funds for initiatives in all areas of ESG.

n) Questions: What are your immediate goals?

Response: Put simply, delivering volume, revenue and profit growth in 2021. Cigarettes will remain a core revenue generator for the Company and we will continue to strengthen our portfolio with Dunhill and our VFM brands, as well as continuing to draw attention to and demand action on the tobacco black market.

At the same time, we will transform our business to build A Better Tomorrow™ for our shareholders and other stakeholders. Part of this ambition involves reducing the health impact of our business through offering a great choice of enjoyable and potentially reduced-risk products to our consumers.

Simply put this means, the Company would like to lead the discussion around the establishment of an appropriate regulatory framework for nicotine vaping.

o) Questions: The Biden administration considers cutting nicotine in cigarettes to make them 'non-addictive'. Please comment on the possible impact of this ruling on BAT.

Response: The recent media article relating to potentially stricter tobacco regulations in the United States will have no immediate impact on BAT Malaysia. BAT p.l.c. will continue to monitor the latest developments in the U.S regulatory environment.

- p) Questions: **Are there still any manufacturing operations in Malaysia? If not, why there is still a post of Director, Operations? Is that a best use of company talent or shareholder is paying a highly paid executive with low productivity?**

Response: Yes, we do have a manufacturing facility in Johor Bahru.

An experienced Operations Director is needed to ensure product quality, adherence to regulatory standards and delivery of our products to customers. Our operations department oversees environment, health and safety, logistics, facilities and the security of our people. This department also leads our procurement programme which identifies cost savings across the entire business. These savings are shown in page 42 of our Annual Report.

- q) Questions: **Can the company update us on its plans to challenge its competitor in the HNB segment (i.e. challenging Philip Morris' s IQOS)**

Response: Reducing the health impact of our business by offering consumers less risky alternatives like tobacco heating products (“THP”) is part of our corporate purpose of “A Better Tomorrow™”. In Malaysia, the demand and market size for THP products like Glo is small. As such, in the area of reduced-risk products the Company intends to focus its efforts and investment on legalising nicotine vaping, where there are an estimated of over 1 million vape consumers. We aim to lead the discussion around the establishment of an appropriate regulatory framework for nicotine vaping.

- r) Questions: **It must be frustrating for the people running the company that the key for BAT to turn around the company is dependent not within but outside on regulators in Malaysia, on regulations by the government to curb the black market. The black market on the other hand has grown, grown and grown to 63%. the value of the company hopelessly spirals down. BAT has sold the manufacturing facilities, downsizing, unable to do anything with the threat of the black market. Will you exit the market?**

Response: There are no plans to exit this market.

Tackling the tobacco black market remains a significant opportunity to go back to growth. Secondly, there is a sizeable nicotine vapour market which needs to be regulated as it represents a significant harm reduction and revenue opportunity.

Moreover, the Company remains committed to cost optimisation in order to consistently and sustainably deliver long-term growth. As such, the Company will always look for efficiencies by constantly reviewing our operating structure and processes with an aim to simplifying our business.

- s) Questions: **Is RM24mil increased of other expense in F2020 as mention during AGM will reflect in FY2021?**

Response: These expenses were largely attributed to the Dunhill HTL - Cigarillo machinery write off, which was a consequence of the Ministry of Health’s decision to recategorise the product as a non-cigarette tobacco product.

The Company’s aim is to grow revenue and profit by investing on key strategic growth initiatives. The Company’s operating expenditure for 2021 will strengthen our brands and set the platform for our New Categories business upon regulations being established.

Besides that, the Company will continue to find ways to optimise the cost base and reallocate resources when deemed necessary.

t) Questions: **I would like to enquire about the Net Debt Levels of the company of the past 4 year(s) which has been trending upwards. While I note some of these debts were used to purchase inventory in advance given potential MCO(s) - I would like to know how Management's plan to bring the Level of Debt Down (especially given that Dividend payout Ratio of the Company has generally been quite high).**

Response: The high net debt in 2020 was mainly driven by the need to increase stock coverage to face any potential disruption in the supply chain and the ongoing market volatility. This is expected to be one-off as we intend to return back to normal inventory levels once the uncertainties surrounding the pandemic are under controlled.

The targeted net debt level in 2019 (Debt/EBITA ratio) was less than 1.5 which was rated "AA" by Moody's Investor Service, an international credit rating agency.

u) Questions: **Any plan to enhance or create the liquidity of our shares?**

Response: These expenses were largely attributed to the Dunhill HTL – Cigarillo machinery write off, which was a consequence of the Ministry of Health's decision to recategories the product as a non-cigarette tobacco product.

BAT Malaysia's dividend payout ratio has been over 90% for the past 10 years. We are one of the top companies in Malaysia committed to paying high dividends, recognised as a Top 10 dividend stock for 2020.