

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No. 4372-M)
(Incorporated in Malaysia)

Summary of Minutes of the Fifty-Ninth (59th) Annual General Meeting of British American Tobacco (Malaysia) Berhad (“the Company” or “BATM”) held at the broadcast venue at Infinity Room, Level 16, Guoco Tower, Damansara City, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur (the “Hall”) on Monday, 15th June 2020 at 9.30 a.m.

1. CHAIRMAN’S OPENING SPEECH

On behalf of the Board of Directors (“Board”) of the Company, the Chairman extended a warm welcome to the shareholders, corporate representatives, proxies and invitees to the AGM. The Chairman expressed his gratitude to the management and all employees of the Company for their dedication and commitment towards the Company’s performance. The Chairman also thanked the shareholders for their continued support and loyalty.

The Chairman briefed the Meeting on the following:

- a) The Company resumed full operations in May and have remained resilient despite the nationwide pandemic and economic crisis;
- b) The level of illegal cigarettes registered at an all-time high and the share of the legal market was further eroded by the increase of illegal vaping. The Company nevertheless, maintained its position as the legal market leader;
- c) Despite the trying times, the Company remained committed to returning value to shareholders declaring dividends of 118 sen per share for the financial year ended 2019;
- d) As the Company moved forward, the Company would be focused on protecting the business and driving commercial growth, while it remained vocal advocates against high level of illegal cigarettes in the country. Shareholders were encouraged to be vocal and active advocates against the illegal market; and
- e) As a significant tax contributor, the loss in tax revenue that the government was experiencing due to the booming illegal cigarette trade was extremely worrying. The RM5.3 billion of lost tax revenue could be better used towards the fight against COVID-19 and the subsequent recovery of the Malaysian economy.

2. 2019 BUSINESS PERFORMANCE AND OTHER HIGHLIGHTS

Mr. Jonathan Reed shared the key business performance and other highlights as follows:

- a) A new corporate logo was launched and the evolution of the logo was in line with BAT p.l.c. Group strategy. The Group’s new purpose was to build a better tomorrow for consumers, society, employees and shareholders by reducing the health impact to consumers through offering a greater choice of enjoyable and lower risk products. BAT p.l.c.’s new growth model was designed to meet consumers’ evolving needs through the development of portfolio in tobacco, nicotine and beyond.
- b) The Company was operating in a pressurised environment caused by the rising level of cheap black market cigarettes and vaping products. The illegal trade grew by 3 ppt to 68% which translated to 7 out of 10 cigarettes sold were illegal cigarettes, making Malaysia the number 1 market for illegal cigarettes in the world.
- c) Total legal industry volume and the Company’s volume had contracted by 10% and

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12% respectively in year 2019 as compared to the preceding year.

- d) Rothmans, Value-For-Money segment had shown stellar growth of 3.2 ppt in 2019 with 6.7% share of market.
- e) The Company's market share was lower by 1.8 ppt and registered at 54.4% in 2019.
- f) Several cost initiatives saw savings of 13% versus the preceding year.
- g) Profit from operations declined by 25% versus the preceding year.
- h) In 2019, total consumption of illegal cigarettes and unregulated illicit vaping were 21 billion sticks which translated to 58% illegal cigarettes and 10% illegal vapour of the total market. This resulted in revenue losses of RM5.3 billion due to the black market.
- i) In tackling the black market, the Company undertook a study to assess the impact the black market has on Malaysia. The Oxford Economics study was used to reach out to policy makers to highlight the negative consequences of the black market. The Government had introduced more stringent penalties against people who dealt in the black market. The Company applauded the Government's initiative of forming a multiagency taskforce to focus on policy changes relating to transshipment and single point entry to restrict the inflow of illegal cigarettes into Malaysia. However, to effectively stop the black market, more drastic and radical actions were required.
- j) The legal industry continued to contract due to price increases as a result of the change from GST to SST and the introduction of the public place smoking ban.
- k) The Company's share performance was still impacted by downtrading as well as the growth of the black market.
- l) Dunhill's performance in 2019 was strong with 36.4% share of market reinforcing the Company's leadership in the premium segment. In addition, Peter Stuyvesant and Pall Mall performed solidly with a 9.6% share of market. Rothmans rapidly established a strong position in 2019 against other competitive offers in the value-for-money segment with a 3.2 ppt gain as compared to same period last year.
- m) GLO achieved approximately 10% share of segment. However, this category remained relatively small and stagnant with only 1% of total market volume. The Company would continue to monitor the revenue potential of this category.
- n) With regards to Dunhill HTL cigarillo case, the Company had filed a Judicial Review in Court in November 2019., The hearing would take place in August 2020.
- o) On the talent front, the Company restructured the organisation at the end of 2019. Notwithstanding, the Company had continued to invest in upskilling its employees. These efforts had resulted in the Company being recognised as a leading employer from external bodies such as HR Asia, Top Employer and Talentcorp.
- p) The Company's sustainability agenda focused on the three pillars of environment, social impact and governance. In 2019, the Company gained its first gold award for exemplary health and safety standards. The Company also contributed to support communities in need via a joint partnership with MyKasih and donation of digital assets to the underprivileged. The Company continued to uphold high standards of corporate governance and was duly recognised by MSWG Top 20 Excellence award and The Edge Billion Ringgit Club.

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3. 2019 FINANCIAL PERFORMANCE

The Finance Director, Mr. Ignacio Ballester shared with the shareholders the Group's 2019 financial performance as follows:

- a) Group revenue recorded RM2,509 million which was 11% lower as compared to the preceding year due to the combination of legal market contraction and downtrading.
- b) Gross profit margin downtrading combined with the one-off benefit from the removal of GST in 2018 impacted gross profit margin by 3.1 ppt.
- c) The Group delivered cost optimisation with a saving of RM51 million as compared to the preceding year.
- d) Profit from operations was RM478 million, a decline by 25% as compared to the preceding year. The impact from volume and mix in gross profit was offset by positive price and cost base savings.

4. 2020 OUTLOOK

The following 2020 outlook were highlighted as follows:

- a) MCO disrupted operating environment in the tobacco industry.
 - Johor Bahru factory was temporarily shut down while Indonesia factory continued to operate.
 - Duty free channel was impacted
 - Supply to retail was disrupted
 - 30% of retail outlets closed during the MCO period
- b) Operations resumed on 4th May 2020.
 - 100% Replenishment rate in the first week of May
 - Market share gained 3.3 ppt in the convenience channel due to high stock weights
 - Zero credit defaults from customers
 - Continued to optimized investment

5. 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 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.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHADSummary of Minutes of the 59th Annual General Meeting held on 15th June 2020**6. DECLARATION OF POLL RESULTS**

The Ordinary Resolutions tabled at the 59th 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 Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat as a Director	178,434,774	96.937	5,637,834	3.063	Carried
<u>Ordinary Resolution 2</u> Re-election of Datuk Christine Lee Oi Kuan as a Director	177,418,921	96.3850	6,653,687	3.6150	Carried
<u>Ordinary Resolution 3</u> Re-election of Mr. Jonathan Darlow Reed as a Director	183,825,695	99.8660	246,913	0.1340	Carried
<u>Ordinary Resolution 4</u> Re-election of Mr. Ignacio Ballester as a Director	184,025,695	99.9750	46,913	0.0250	Carried
<u>Ordinary Resolution 5</u> Payment of Directors' fees and benefits to Non-Executive Directors	178,961,323	97.2280	5,102,485	2.7720	Carried
<u>Ordinary Resolution 6</u> Re-appointment of KPMG PLT as auditors	183,852,984	99.9900	18,724	0.0100	Carried
<u>Ordinary Resolution 7</u> Proposed Renewal of the Recurrent RPT Mandate	41,093,645	99.4920	209,663	0.5080	Carried
<u>Ordinary Resolution 8</u> Proposed New Recurrent RPT Mandate	41,087,145	99.4770	216,163	0.5230	Carried

7. AFTER THE MEETING

The Company had received further questions which were submitted by shareholders through the online query box during the Meeting. The Management had reverted to each shareholder with answer(s) to his/her question(s) on 19th June 2020 as attached in Appendix B herein.

APPENDIX A

Questions received from MSWG and the Summarised Company's Responses

1) BATM has called for the establishment of a sustainable tobacco framework via several measures (page 40 of AR2019).

- a) It has called for the development of a tobacco policy to ensure level playing field for legal industry players such as introduction of an illicit fighter category and on new types of tobacco products comprising tobacco heating products and vaping. How does an "illicit fighter" work to achieve BATM's objective?**

An illicit fighter is a legal product that can compete legally with illicit products, and therefore is an alternative for illicit consumers to switch to. It is about tackling the black market not just via enforcement but also through a review of the regulatory and excise framework. We will continue to engage the Government for effective solutions to achieve a sustainable tobacco excise framework.

- b) BATM also urged the Ministry (MOH) to be accountable to act against illegal products that sell below the minimum selling price.**

However, it may not be MOH's role to act against the selling of illegal cigarettes as they are against smoking regardless of whether it is legal or illegal cigarettes. How effective can MOH be in relation to BATM's proposed sustainable tobacco framework?

The MOH must realise that the black market does not just impact tax revenues – these are contraband products that do not comply with MOH's regulations where:

1. They are sold below the minimum price of RM10; and
2. They do not carry health warnings.

Cheap black market cigarettes also drive youth smoking in Malaysia. A study by the MOH indicated that more than 70% of youth purchased black market cigarettes. Therefore, we encourage the MOH to train its sights on irresponsible retailers that sell cheap, black market cigarettes.

The Public Place Smoking Ban is a clear example that shows how MOH is more than capable of enforcing regulations and policies which fall under their jurisdiction. When the Public Place Smoking Ban came into effect, the MOH deployed more than 5,000 officers nationwide to ensure that smokers and eateries complied with the regulations.

- c) Prospects for BATM is grim due to lack of effective enforcement. Besides, the government may not want to promote smoking by lowering excise duty on cigarettes.**

What else can BATM do to ensure business continuity and corporate survival? Where does the Company see itself in the next five or ten years, assuming the current situation persists?

There is no question that conventional cigarettes are our main source of revenue. In order to ensure our survival, the high levels of the tobacco black market needs to be

addressed. Our business purpose does not change, and we will focus on protecting our business and continue driving commercial growth.

To secure the sustainability of the Company, we need to tackle the size of the black market and unlock the potential of Potentially Reduced Risk Products in Malaysia, which will reverse the trend of declining revenues and profit.

Moving forward, we will:

1. Work alongside regulatory stakeholders to establish sensible framework for our Potentially Reduced Risk Products, such as vaping;
2. Continue to work with Government on structural changes in excise and regulation to achieve stable operating environment;
3. Continue optimising our investment to drive commercial growth within the legal tobacco segment; and
4. Ensure that our portfolio and key brands like DUNHILL and ROTHMANS continue to grow.

2) Illegal trade is the largest competitor of tobacco companies globally.

What are the successful examples in other countries which BATM can adopt to fight against illicit cigarette trade?

Across the world, different countries have deployed a variety of strategies with varying degrees of success in order to reduce high levels of illicit cigarettes.

In South Africa, focus was given to ensure active enforcement efforts in order to reduce the levels of black market tobacco. Australia and the United Kingdom introduced multi-agency task forces to ensure coordinated Law Enforcement Agency responses to illegal tobacco. While for countries like Indonesia, Pakistan and Papua New Guinea, their Governments have adopted structural reviews of the existing tobacco frameworks and introduced multi-tier excise structures as a measure to combat the cigarette black market.

With such high levels of black market cigarettes in Malaysia, policy makers need to consider a combined approach of both excise reform and increased enforcement efforts. It is also critical that these strategies are given the utmost priority and commitment by the Government.

Consideration also needs to be given to ensure that the strategies developed cover not only for the short term, but for the long term also in order to effectively tackle this black market.

3) It was reported that MOH was mulling the introduction of plain packaging (with standardised colour, uniformed typeface and font across different brands, as well as substantial display of health warning labels) for cigarettes to reduce appeal of cigarettes to smokers and thus lowering the smoking population in the long term.

Such as measure has been implemented in a handful of countries like Australia, United Kingdom, Norway, Thailand has adopted the measure in September last year, while Singapore will enforce this from 1 July 2020.

How has BATM prepared itself to embrace this potential new measure?

There is no evidence that plain packaging will reduce the appeal of cigarettes to consumers. Our primary concern is that the introduction of plain packaging will exacerbate an already

rampant illegal tobacco trade. For example, we know that the illegal tobacco rate in Australia has grown since the introduction of plain packaging.

Simply put, BATM is in support of regulation that is consultative, evidence-based, delivers its policy aims and is not counter-productive. We would like to be consulted and given the chance to share our views in a transparent and fair manner when it comes to policies and regulations governing tobacco.

- 4) **BATM said illegal tobacco trade flourished further during Movement Control Order (MCO) period due to its wide accessibility. Besides, household spending on alcohol and tobacco during MCO period also fell significantly as consumers were cautious in their spending habit.**

How would these affect BATM's performance in FY2020 against the backdrop of the existing unresolved issues?

The Company's performance was not materially impacted during MCO. The only impact to the Company revenues have been from our duty-free channel – which represented 4% of the Company's revenue in 2019. This is due to the drastic reduction of duty-free stores and passenger footfalls during the MCO period.

During MCO, criminal syndicates were able to establish a virtual monopoly by ignoring MCO orders and profiteering from a national health and economic crisis. However, we have not seen any material impact on consumption within the legal tobacco market as this is due to the already high levels of the illegal cigarettes that existed pre-MCO.

That being said, the Company had closely monitored how consumer behaviours were adapting through this period. When we were allowed to resume operations during the CMCO, we adjusted our distribution model to ensure our products continued to reach our consumers.

As presented during the AGM, BATM's primary business objective and key focus remain solely on establishing a sustainable environment to protect the business and our investments here in Malaysia. Simply put, we will continue to ensure we have the right strategies in place in order to bring brands like DUNHILL back to growth and ROTHMANS to continue in its growth trajectory.

- 5) **BATM launched DUNHILL HTL-Cigarillo, a more affordable tobacco product priced at RM9 per pack in Sabah and Sarawak hoping to shift consumers from illegal to legal products (page 38 of AR2019).**

- a) **However, approvals on the product was later revoked by MOH. The issue is currently under judicial review before the High Court in Malaysia. On what premise do you think that the Court will rule in favour of BATM on the judicial review?**

The judicial review is an ongoing case. We would not be able to comment until the court has made its decision on the matter.

- b) **How is DUNHILL HTL-Cigarillo (which its wrapper is made of reconstituted tobacco, and which is marketed as a non-cigarette tobacco product) different from cigarettes brands under BATM in terms of ingredients and level of harmful compounds?**

DUNHILL HTL-Cigarillo is made of reconstituted tobacco, whereas conventional cigarettes comprise of tobacco wrapped in paper. Prior to its introduction, the Company had obtained all necessary approvals from the relevant authorities to introduce this product as a cigarillo.

Currently, as the judicial review is an ongoing case, we would not be able to comment until the court has made its decision on the matter.

6) BATM has launched GLO, a tobacco heating product (“THP”) in the fourth quarter 2019.

- a) Which segment does GLO fit into in a market that is filled with high levels of cheap illegal products? How was market reception towards GLO during the past few months? Has there been a significant switch to GLO from cigarettes among smokers? Which segment of smokers tend to switch to an alternative product like GLO?**

As shared in our earlier presentation, tobacco heating products (THP) captured only 1% of the total nicotine market in Malaysia. GLO is a very competitive offer and has achieved good initial results within this category, capturing 10% share of segment within 3 months of launch. However, the overall THP category growth over the last 5 quarters have been slow with an average growth of +0.1ppt quarter-on-quarter.

We expect the size of the THP category to remain small and stagnant, due to its high entry cost and inability to fully deliver on tobacco taste satisfaction. Consumers switching to THP are largely from the legal industry and are those looking for Potentially Reduced Risk Products.

- b) How competitive is GLO compared to IQOS introduced by Philip Morris Malaysia in terms of product design, user friendliness and affordability?**

The GLO device with its premium alloy body and distinct contemporary colours is simple and intuitive. Simply put, it is easy to use, charge and clean, this making it pragmatic for users to own and maintain. Affordability wise, GLO is priced competitively in the market.

- c) When does BATM expect GLO to make a significant contribution, e.g.: more than 5% to revenue?**

As mentioned previously in 6(a), we expect the size of the THP category to remain small and stagnant. However, we will continue to assess the opportunity of this category for the future. Until the market of Potentially Reduced Risk Products matures, conventional cigarettes will continue to be the commercial driver of the Company.

7) BATM has commissioned research firm Oxford Economics to study the impact of illegal cigarette trade on the Malaysian economy in 2019.

- a) How much has BATM spent to commission the study?**

Our parent company, British American Tobacco p.l.c. is extremely concerned of the impact that the high levels of illicit trade in Malaysia has on the Company's

sustainability. Globally, Malaysia is the number one country in the world for illegal cigarettes.

To that effect, and with the long-term sustainability for the legal tobacco industry in Malaysia at stake – British American Tobacco p.l.c. commissioned and funded the cost for Oxford Economics to prepare a report to:

1. Quantify the amount of potential tax revenue that Malaysia loses through the illicit tobacco market; and
2. Highlight the wider and less obvious economic consequences of illicit trade on the Malaysian economy.

b) Based on what research methodology did Oxford Economics arrive at figures like 1,000 packs of illegal cigarettes are sold every minute and 59% (equivalent to 598 million packs of 20 cigarettes) of Malaysia's cigarette market in 2018 was illicit?

The Oxford Economics study used data from the Illegal Cigarettes Study (ICS) conducted by Nielsen. The ICS conducted in 3 waves per year, and is done annually; whereby in total, 153,000 pack of litters were collected nationwide for examination.

The ICS is a methodology used worldwide for more than 20 years.

More details on the ICS can be found in our BATM website under the section 'Our Industry/Illegal Tobacco Trade'.

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

a) **Question:** **How has the MCO impacted BAT Malaysia?**
Respond: As mentioned earlier in the Company's Business and Financial Performance update, the Company's performance was not materially impacted during MCO. The only impact to the Company's revenue have come from duty free channel – which represented in 2019, 4% of total Company's revenue. This is due to duty free stores and passenger footfall being drastically reduced during the MCO period.

b) **Question:** **Can you comment on the current market and regulatory situation in e-cigarettes? Currently most consumers are no longer consuming traditional cigarettes. Is BATM following the current trend of producing electronic cigarettes?**

Respond: As shared in the earlier presentation, illegal vaping or e-cigarettes make up 10% of the total market. The swift growth of illegal vaping is concerning as this category is currently unregulated. BAT Group would like to offer Malaysian consumers our range of e-cigarette products. To that effect, the Company is committed to unlocking the vapour category in Malaysia for the shareholders and stakeholders.

c) **Question:** **What is the sales proportion between premium brand versus Value-For-Money brands? How will the proportion look like in the longer term?**

Respond: Today, Dunhill, our premium brand captures 36.4% share of market, being the no. 1 brand in Malaysia as well as the benchmark and leader in the premium segment.

Whilst, the portfolio offered in the Value-For-Money segment, Rothmans, continues to deliver a strong performance in 2019 capturing a 5.5% share of market. As affordability remains one of the main concerns for Malaysian consumers, it is inevitable that the Value-For-Money segment would continue to grow while Premium and Aspirational premium segments would continue to be vulnerable.

d) **Question:** **Can you please update us on the issue of illegal cigarettes in Malaysia?**

Respond: 2019 had been a very challenging year. The Company is operating in a pressurised environment caused by the rising levels of cheap contraband cigarettes and illegal vaping. Total illegal nicotine in Malaysia accounted for 68% in 2019, rising rapidly from 33.5% in 2015. This means 7 out of 10 cigarettes sold are illegal, making Malaysia the no 1 global market for illegal cigarettes. In these five short years, cheap contraband cigarettes have become the 'norm'.

It is also a concern that the negative consequence of the tobacco black market has impacted the government's revenues, the country's reputation and health policy. Every year, the Government loses RM5.3 billion to the black market which can be used to rebuild the economy post the COVID crisis.

Malaysia's tobacco market had been dominated by the black market and making legal industry unsustainable. Going forwards, the tobacco industry needs a sustainable tobacco framework to be in place to protect the rights of legal companies. It is our hope that the Government would be bold enough to take on new and unconventional methods to tackle this problem.

There needs to be effective structural reforms and sensible fiscal policies that would govern the nicotine landscape to ensure the sustainability of the legal industry along with the eradication of the illegal cigarette trade.

e) **Question:** **Why are we not allowed to attend AGM physically?"**

Respond: As we are still in the RMCO (Recovery Movement Control Order), we are not allowed to hold any large gatherings as per the direction of the National Security Council.

We are also complying with the Securities Commission guidance on the conduct of general meetings which provide that meetings should not have more than 20 attendees.

- f) **Question:** **Due to the MCO, shareholders and proxies are restricted to attend the meeting in person. We are urged to use other alternatives such as RPV. Though it may not be so lively but no choice. As such, I wonder if the Management Board may consider sending the gift vouchers by post or through email letters for participants who join the meeting via RPV.**

Respond: We would not be distributing any door gifts or gift vouchers for Members or Proxies who participated in this AGM today. We are following the direction of the Ministry of Health who discourage the distribution of gifts and vouchers as they may carry the COVID-19 virus.

- g) **Question:** **Would the Company look into more restructuring exercises beyond what had already been announced given the current tough business environment?**

Respond: The Company undertook a restructuring exercise in Q4 2019 to streamline the organization in order to be more agile and focused to meet the challenges of the operating environment. The decision was made in line with BAT Group's strategy to simplify the company, delivering a stronger, simpler and faster organization. This exercise is still on-going and expected to be completed by this year.

- h) **Question:** **Why is the share price dropping? Do you think it is a fair reflection of the Company?**

Respond: The Company's share performance reflects the investment community's lack of confidence in the Government's ability to tackle the illegal cigarette problem. This problem has become so large that it has impacted all segments of society, from businesses to the lives and health of Malaysians. The current share price is not a fair reflection of the strength and quality of the Company.

The recent share price drop has driven the Company to find solutions. The Company request shareholders to convince the government to tackle the black market.

- i) **Question:** **Does the Company plan to maintain the current dividend payout?**

Respond: For the past 10 years, the Company had been paying between 90% to 98% of dividends (excluding special dividends) and the Company is committed to do that and retain small percentage for future investment. The Company dividend payout is in line with the Company's commitment to reimburse maximum value to shareholders.

The Company do not foresee to change this in the foreseeable future.

APPENDIX B

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

- a) **Question:** **Why my questions were not responded to during the Meeting.**
Respond: We would like to state that at the start of the AGM and also during the AGM, we had informed shareholders that all their questions will be answered via email within 5 working days from the date of the AGM. We appreciate your questions and want to provide our comprehensive response which we are doing so here.
- b) **Question:** **I understand that all BAT Malaysia's cigarettes are imported from its sister company's Indonesia factory.**
i) May I know what is the arrangement on the purchase price and currency?
ii) If it is in USD, will strengthening of USD against MYR affect our company's gross margin?
Respond: Our cigarettes are mainly imported from our Indonesia source factory. The cigarettes that we purchase are denominated in USD and purchased following globally approved transfer pricing policies.

Any material foreign exchange rate impact will be covered by our FX hedges (following the foreign exchange control guidelines enforced by Bank Negara Malaysia). The range of our hedge ratio within 18 months of the transaction date is between 50% to 95%.
- c) **Question:** **Our company has seen our legal market share drop from 56.3% in FY2018 to 54% in FY2019.**
i) Why do we lose out in the legal market?
ii) What will the management do in protecting or growing our legal market share?
Respond: The legal market has been under pressure on 2 fronts:
 - Contraction in volumes due to illegal cigarettes and illegal vapour; and
 - Within legal downtrading to the value-for-money segment
As the largest player in the legal market with 65% share of the Premium segment, the Company had experienced more loss than the players which had a smaller share of premium. The business is committed to remain competitive with the strongest brands in the market. In essence, we would continue to strengthen our brand performance and focus on consumer relevant launches. Additionally, the stability of the legal market and subsequently our shares, are contingent upon strong enforcement against illegal cigarettes.
- d) **Question:** **How is the management relationship with the Government, especially with Ministry of Health ("MoH")?**
i) Referring to events like Heat-Not-Burn approval lagging far behind Philip Morris, SST pricing issue, custom raided cigarillo etc.
ii) All these events seem to suggest that our Company doesn't have a good relationship with the government.
iii) Possible reason could be that management overly vocal in claiming Malaysia has a very high illegal cigarette market share.
Respond: We value a good working relationship with all government agencies, including the MoH. We would continue to improve this relationship so that we can tackle the tobacco black market together.
- e) **Question:** **Rather than keep trying to pressure the Government and causing bad relationship with Government, should the management be more focus on things that you have better control with, such as:**
i) Growing or protecting your legal market share,
ii) Introduce more appealing products,
iii) Promoting benefits of smoking legal cigarettes to consumers on aspects like illegal cigarettes may have questionable quality and safety cannot be guarantee etc.

Respond: We will focus on protecting our business and continue to drive commercial growth. We must secure the sustainability of the Company in order to unlock new categories like Potentially Reduced Risk Products (PRRPs) in Malaysia and reverse the trend of declining revenues and profit. Moving forward, we will:

- Continue optimising on investments that will drive commercial growth within what's left of the legal tobacco segment.
- Ensure that key brands like DUNHILL and ROTHMANS continue to do well.
- Continue to drive for action on the tobacco black market in this country.
- Work alongside with regulatory stakeholders to establish sensible and solid framework for our PRRPs.

Malaysia cannot continue to allow the illegal operators to thrive in this market. We need a sustainable legal industry to grow and improve shareholder returns.

f) Question: **How are the gross margins of Glo, comparing to Dunhill, Peter Stuyvesant and Rothman?**

Respond: Glo is competitively priced and delivers a healthy margin in comparison with Dunhill, Peter Stuyvesant and Rothmans.

g) Question: **Why our Premium Brand and Aspiration Premium Brand are losing out in legal market? Obviously from your presentation, this is not due to down trading, nor illegal market growing, as you are comparing your market share in legal specific segment.**

Respond: Industry volumes contracted due to rising levels of cheap black-market cigarettes and down trading. Our Company's market share is impacted as our portfolio is more premium skewed.

h) Question: **Can management elaborate more on the 63% illegal cigarette market?**

- i) Last year September, during The Edge interview with BAT ex-MD and ex-CFO, they had mentioned about fake tax stamp and quasi legal players.**
- ii) Who are these quasi legal players? Why are they quasi legal?**
- iii) Do these illegal cigarettes being produced locally, or smuggled in?**
- iv) How do fake tax stamp work? Can these fake tax stamps be easily produced?**

Respond: The 63% black market consists of smuggled cigarettes with some trying to look like a legal cigarette by applying a fake tax stamps whilst some bearing the brands purportedly of legal company. Regardless of whichever form it takes, the black market has been rising rapidly since 2015. It is also a serious concern to see how the tobacco black market has impacted the Government's revenues, the country's reputation and health policy. Every year, the Government loses RM5.3bn to the black market which can be used to fund COVID recovery and stimulate the economy.

i) Question: **Can Management share the trend of our countries smoking rate, cigarette consumption per capita, and estimated total numbers of smokers (both legal and illegal market) in Malaysia?**

- i) Has it been growing or reducing over the past 5 years?**
- ii) How reliable are the statistic on illegal cigarette market share? Last year, during The Edge interview with Ex-Deputy Minister of Health, he seems to suggest that the reported illegal cigarette market shares of over 60%, these numbers are disputable.**

Respond: Based on the latest MOH's National Health and Morbidity Study 2019, the prevalence of current smokers in Malaysia is at 21.3 percent but it is unclear in terms of total number of smokers. Our observation suggests that total number of smokers have increased as a result of easy and wide availability of cheap tobacco black market in Malaysia. Alarmingly, the number of underage youth picking up smoking has also increased due to illegal cigarettes. Based on the last available study commissioned by the Ministry of Health in 2017, one out of seven Form One to Form Five students have picked up smoking, and 71.6% of youth were purchasing illegal cigarettes.

In terms of the statistics on illegal cigarettes, the study is carried out by an internationally reputable research agency that has presence in more than 100 countries. The Illegal Cigarettes Study in Malaysia has been done consistently for more than 25 years using proven methodology used in more than 30 countries worldwide. The methodology had also been validated by the Royal Malaysian Customs.

j) **Question:** **Can the shrinking of legal market be caused by the shrinking in total industry volume (both legal and illegal), than due to losing it to illegal market?**

Respond: We foresee that the industry and our business will continue to be challenged by:

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

k) **Question:** **I bought this share at around RM50/=:, in other countries cigarettes company are doing very well, can the Company go for e-cigarettes business too?**

Respond: This will be dependent on the regulations that the Government is looking to put in place. It is important that sustainable and sensible regulations are developed to ensure there is sufficient control on e-cigarettes and allows all participants a level playing field. It is also important for the regulations to be clear and easily understood to help consumers make informed choices. The Company is in support of regulations that are consultative, evidence based, deliver on policy aims and aren't counterproductive. The Company would like to be consulted and given the chance to share our views in a transparent and fair manner when it comes to policies and regulation governing e-cigarettes.

l) **Question:** **I hope the Board give us e-vouchers for attending this virtual AGM. If there is no vouchers, I suggest all the BOD don't get paid for attending this AGM too in order to save money for the company.**

Respond: As mentioned in our Notice of Adjourned AGM dated 15th May 2020, we will not be providing any breakfast voucher or door gift in accordance to the direction issued by the Ministry of Health. This includes e-vouchers as well. The provision of gifts at annual general meetings has always been a gesture of goodwill and not compulsory. The Company would like to focus on maximizing value to you through the continuity of consistent dividend payout.

m) **Question:** **Good morning Mr Chairman. I must admit that while at the initial phase there were some technical problems conducting the RPVs, over time and with experience gained, our Share Registrar has managed to smoothen the entire RPV process now. Thank you to Tricor Share Registrars. Does our company have any plans to move into new business? Diversifying, I mean.**

Respond: In response to your question, we will focus on protecting the core of our business and continue driving commercial growth where there is available opportunity, namely in the Potentially Reduced Risk Products (PRRPs) segment, when regulations permit the sale of these products within a sustainable framework. Moving forward, we will:

- Continue to drive investments within the legal tobacco segment.
- Ensure that key brands like DUNHILL and ROTHMANS continue do well.
- Remain vocal and active on the high levels of illegal cigarettes in this country.
- Work alongside with regulatory stakeholders to establish sensible and solid framework for our PRRPs. It is important that sensible regulations are crafted to ensure the products are responsibly sold. It is also important for the regulations to be clear and easily understood as this will help consumers make an informed choice.

Malaysia cannot continue to allow the illegal operators to thrive in this market. We need a sustainable legal industry to grow and improve shareholder returns.

n) Question: **The Company's share price has dropped from RM 30 to hardly maintain at RM 11 within one year really frustrated us as minority shareholder. Any effort to push up a little at least reduced our losses? BAT can be considered the worse performing stock currently.**

Respond: The Company's share performance reflects the investment community's lack of confidence in the Government's ability to tackle the illegal cigarette problem. The current share price is not a fair reflection of the strength and quality of the Company. The current share performance is a reflection of the size of the illegal black market and this is our number priority to address to ensure share price growth and shareholder returns.

We will continue to focus on protecting our business and continue driving commercial growth. We must secure the sustainability of the Company in order to unlock new categories like Potentially Reduced Risk Products (PRRPs) in Malaysia and reverse the trend of declining revenues and profit. Moving forward, we will:

- Continue optimising on investments that will drive commercial growth within what's left of the legal tobacco segment.
- Ensure that key brands like DUNHILL and ROTHMANS continue do well.
- Remain vocal and active on the high levels of illegal cigarettes in this country.
- Work alongside with regulatory stakeholders to establish sensible and solid framework for our PRRPs.

Malaysia cannot continue to allow the illegal operators to thrive in this market. We need a sustainable legal industry to grow and improve shareholder returns.

o) Question: **What is strategy to win over black market smuggled products?**

Respond: The Company cannot fight against the illegal cigarette trade alone. Our strategy is to work with multiple stakeholders such as the Government, shareholders and the investment community to tackle the tobacco black market. In particular, we urge shareholders as well as the investment community to be more vocal and be active advocates of this issue, including reaching out to their political representatives for action. The more Malaysians bring this issue to light and call for this problem to end, the more likely our policymakers will listen and finally take definitive action to combat this issue once and for all.

p) Question: **IQOS is going to be growth area?**

Respond: IQOS is a tobacco heating product sold by Philip Morris. In terms of the tobacco heating product segment, this segment captured only 1% of the total nicotine market in Malaysia. Our GLO is a very competitive offer and has achieved good initial results within this category, capturing 10% share of segment within 3 months of launch. However, the overall THP category growth over the last 5 quarters have been slow with an average growth of +0.1 ppt quarter-on-quarter. We expect the size of THP category to remain small and stagnant due to its high entry cost and inability to fully deliver on tobacco taste satisfaction. Consumers switching to THP are largely from the legal industry and are those looking for potentially reduced risk products.

q) Question: **What is the dividend policy?**

Respond: For dividend payout, in the past 10 years, the Company had been paying between 90% to 98% of dividends (excluding special dividends) and we are committed to do that and retain small % for future investment. Our dividend payout is in line with our commitment to reimburse maximum value to shareholders. We do not foresee any change to this in the foreseeable future.

r) Question: **Will business continue to get worse?**

Respond: The Company will focus on protecting our business and continue driving commercial growth. We must unlock new categories like Potentially Reduced Risk Products (PRRPs) in order to secure the sustainability of the Company to help us reverse the trend of declining revenues and profit. Moving forward, we will:

- Continue optimising on investments that will drive commercial growth within what's left of the legal tobacco segment,
- Ensure that key brands like DUNHILL and ROTHMANS continue grow,
- Remain vocal and active on the high levels of illegal cigarettes in this country,
- Work alongside with regulatory stakeholders to establish sensible and solid framework for our PRRPs.

Malaysia cannot continue to allow the illegal operators to thrive in this market. We need a sustainable legal industry to grow and improve shareholder returns.

- s) **Question:** **Noted the illicit cigarette industry is trending high each year, which was reported in many quarters. May i know what is the strategy the Company has adopted to deal with Government and thus far, what is the Government's stand pertaining to this? At least, please let us know the policy maker's intent or any result of the Company's discussion with Government.**

Respond: The Company and its shareholders have suffered through consecutive years of declining revenue and profit since the surprise excise hike in 2015 that led to the boom in illegal cigarettes. We are heartened by the PM's commitment towards spending wisely and plugging leakages. Black market tobacco is a major leak, one that is valued at over RM5 billion in lost revenue every year. Law enforcement agencies are taking the right action – but they need to be coordinated through a dedicated multi-agency taskforce and supported by strong policy impacting areas such as transshipment and point of entry into Malaysia.

- t) **Question:** **What is Company's next 5 years business map?**

Respond: The Company will continue to focus on protecting our business and driving commercial growth. We must secure the sustainability of the Company in order to unlock new categories like Potentially Reduced Risk Products (PRRPs) in Malaysia and reverse the trend of declining revenues and profit. Moving forward, we will:

- Continue optimising on investments that will drive commercial growth within what's left of the legal tobacco segment.
- Ensure that key brands like DUNHILL and ROTHMANS continue do well.
- Remain vocal and active on the high levels of illegal cigarettes in this country.
- Work alongside with regulatory stakeholders to establish sensible and solid framework for our PRRPs.

Malaysia cannot continue to allow the illegal operators to thrive in this market. We need a sustainable legal industry to grow and improve shareholder returns.

- u) **Question:** **Dividend payout ratio in coming 5 years company has set in view of the declining EPS?**

Respond: For dividend payout, in the past 10 years, the Company had been paying between 90% to 98% of dividends (excluding special dividends) and we are committed to do that and retain small percentage for future investment. Our dividend payout is in line with our commitment to reimburse maximum value to shareholders. We do not foresee any change to this in the foreseeable future.

- v) **Question:** **The share price of the Company has gone down to decade year low and dividend has gone down substantively. What are the steps the Board of Directors take to ensure that the share price will not drop further and pay more dividends to the shareholders?**

Respond: The Company's share performance reflects the investment community's lack of confidence in the Government's ability to tackle the illegal cigarette problem. The current share price is not a fair reflection of the strength and quality of the Company. The current share performance is a reflection of the size of the illegal black market and this is our number priority to address to ensure share price growth and shareholder returns.

We will continue to focus on protecting our business and driving commercial growth. We must secure the sustainability of the Company in order to unlock new categories like Potentially Reduced Risk Products (PRRPs) in Malaysia and reverse the trend of declining revenues and profit. Moving forward, we will:

- Continue optimising on investments that will drive commercial growth within what's left of the legal tobacco segment.
- Ensure that key brands like DUNHILL and ROTHMANS continue to do well.
- Remain vocal and active on the high levels of illegal cigarettes in this country.
- Work alongside with regulatory stakeholders to establish sensible and solid framework for our PRRPs.

Malaysia cannot continue to allow the illegal operators to thrive in this market. We need a sustainable legal industry to grow and improve shareholder returns.

w) Question: **Further to the above, I suggest that the Company should provide e-vouchers to the shareholders who attended this remote AGM.**

Respond: As mentioned in our Notice of Adjourned AGM dated 15th May 2020, we will not be providing any breakfast voucher or door gift in accordance to the direction issued by the Ministry of Health. This includes e-vouchers as well. The provision of gifts at annual general meetings has always been a gesture of goodwill and not compulsory. The Company would like to focus on maximizing value to you through the continuity of consistent dividend payout.

x) Question: **Have BAT sister companies operating in other parts of the world seen success stories where the illicit market share has been substantially reversed? If yes, what are those markets? What are the experiences gained there?**

Respond: Across the world, different countries have deployed a variety of strategies with varying degrees of success in order to reduce high levels of illicit cigarettes.

In South Africa, focus was given to ensure active enforcement efforts in order to reduce the levels of black-market tobacco. Australia and the UK introduced multi-agency taskforces to ensure coordinated Law Enforcement Agency responses to illegal tobacco. While in countries like Indonesia, Pakistan and Papua New Guinea – the governments have adopted structural reviews of the existing tobacco frameworks and introduced multi-tier excise structures as a measure to combat the cigarette black market.

With such high levels of black-market cigarettes in Malaysia, policy makers need to consider a combined approach of both excise reform and increased enforcement efforts. It is also critical that these strategies are given the utmost priority and commitment by the Government.

y) Question: **How's the outlook of illicit smoking market as this market reduces our share and profit? What are the actions government is taking?**

Respond: The Company and its shareholders have suffered through consecutive years of declining revenue and profit since the surprise excise hike in 2015 that led to the boom in illegal cigarettes. We are heartened by the Prime Minister's commitment towards spending wisely and plugging leakages. Black market tobacco is a major leak, one that is valued at over RM5 billion in lost revenue every year. Law enforcement agencies are taking the right action – but they need to be coordinated through a dedicated multi-agency enforcement taskforce and supported by strong policy impacting areas such as transshipment and point of entry into Malaysia.

z) Question: **Are there any free gift for us as shareholders?**

Respond: As mentioned in our Notice of Adjourned AGM dated 15th May 2020, we will not be providing any gift in accordance to the direction issued by the Ministry of Health.

i) **Question: Future prospects of BAT?**

Respond: The Company will continue to focus on protecting our business and driving commercial growth. We must unlock new categories like Potentially Reduced Risk Products (PRRPs) in order to secure the sustainability of the Company to help us reverse the trend of declining revenues and profit. Moving forward, we will:

- Continue optimising on investments that will drive commercial growth within what's left of the legal tobacco segment.
- Ensure that key brands like DUNHILL and ROTHMANS continue grow.
- Remain vocal and active on the high levels of illegal cigarettes in this country.
- Work alongside with regulatory stakeholders to establish sensible and solid framework for our PRRPs.

Malaysia cannot continue to allow the illegal operators to thrive in this market. We need a sustainable legal industry to grow and improve shareholder returns.

ii) **Question: Any shares buy-back plan by the Company as the share price has been declining day by day?**

Respond: The Group is not considering shares buy-back at the moment.

iii) **Question: Will Year 2020 performance be better or worse compared to 2019?**

Respond: It is too soon to comment on 2020 fully year performance. Rest assured that the Company will continue to focus on protecting our business and driving commercial growth. We must unlock new categories like Potentially Reduced Risk Products (PRRPs) in order to secure the sustainability of the Company to help us reverse the trend of declining revenues and profit. Moving forward, we will:

- Continue optimising on investments that will drive commercial growth within what's left of the legal tobacco segment.
- Ensure that key brands like DUNHILL and ROTHMANS continue grow.
- Remain vocal and active on the high levels of illegal cigarettes in this country.
- Work alongside with regulatory stakeholders to establish sensible and solid framework for our PRRPs.

Malaysia cannot continue to allow the illegal operators to thrive in this market. We need a sustainable legal industry to grow and improve shareholder returns.

iv) **Question: How can the share price drop down from RM65 to now RM10, and the Director still not doing something to turn the Company around? There are so much business opportunity around. The director must get to the ground to help the downline to resolve the problem then only can save the Company.**

Respond: The Company's share performance reflects the investment community's lack of confidence in the Government's ability to tackle the illegal cigarette problem. The current share price is not a fair reflection of the strength and quality of the Company. The current share performance is a reflection of the size of the illegal black market and this is our number priority to address to ensure share price growth and shareholder returns.

We will continue to focus on protecting our business and driving commercial growth. We must secure the sustainability of the Company in order to unlock new categories like Potentially Reduced Risk Products (PRRPs) in Malaysia and reverse the trend of declining revenues and profit. Moving forward, we will:

- Continue optimising on investments that will drive commercial growth within what's left of the legal tobacco segment.
- Ensure that key brands like DUNHILL and ROTHMANS continue do well.
- Remain vocal and active on the high levels of illegal cigarettes in this country.
- Work alongside with regulatory stakeholders to establish sensible and solid framework for our PRRPs.

- v) Question: **The money save from virtual meeting can convert to dividends.**
Respond: Any cost efficiencies that are translated to retained earnings will certainly form part of future dividend payout. Our dividend payout is in line with our commitment to reimburse maximum value to shareholders. We do not foresee to change this in the foreseeable future.
- vi) Question: **What is the cost incurred by our Company of holding this virtual AGM?**
Respond: The cost incurred for this virtual AGM is part of our operating expenses. The cost incurred this year is 60% lower compared to last year's physical AGM.