

19

2012

ANNUAL REPORT



BRITISH AMERICAN
TOBACCO
MALAYSIA
CELEBRATING 100 YEARS

CELEBRATING 100 YEARS

In 2012, British American Tobacco Malaysia placed its foot solidly into a historical territory rarely reached by most organisations. It celebrated its 100 years of continuous operations in Malaysia.

From 1912 to 2012 the Company has grown together with the nation into one that is involved in the full spectrum of the tobacco industry, with an unrivalled portfolio of highly successful international brands, and is ranked amongst the top 25 public listed entities in the country.

Throughout these years, British American Tobacco Malaysia has strived to create value for all its stakeholders, and most importantly its shareholders. This was achieved through exemplary leadership that has led to a century of growth supported by the efficient productivity of a winning organisation that has conducted the business in a responsible manner.



1912

Establishment of British American Tobacco Co. (Straits) Limited to distribute British American Tobacco cigarettes in Malaya, Singapore and Borneo. British American Tobacco Co. (Straits) Limited establish its first office at 9 MacArthur Street in Kuala Lumpur.



1961

Official opening of the Malaysian Tobacco Company Berhad (MTC) manufacturing facility in Sungai Besi, Kuala Lumpur officiated by the first Prime Minister of Malaysia Tunku Abdul Rahman.

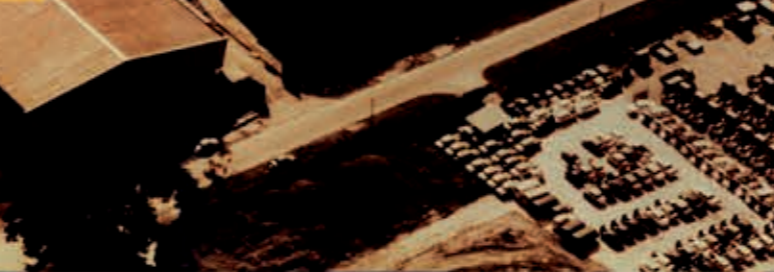


1999

Merger of Malaysian Tobacco Company Berhad (MTC) and Rothmans of Pall Mall (Malaysia) Berhad on 3rd November 1999 to form British American Tobacco Malaysia.



Milestones 1912-2012



2012

Centennial celebration graced by H.R.H The Sultan of Selangor.

1926
British American Tobacco's first manufacturing facility in Malaya was established in 1926. The Company took over a building which was previously used as a depot by Fraser & Neave to set up its first manufacturing facility in the country.



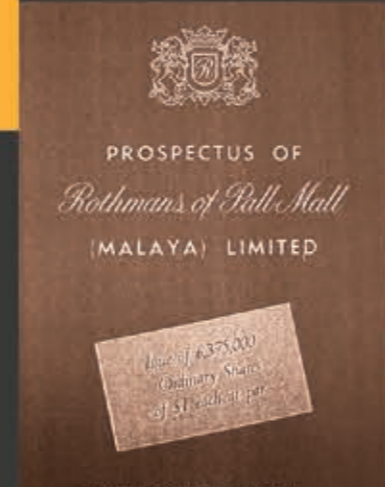
The first Chairman of British American Tobacco in the United Kingdom, James 'Buck' Duke.

1961
British American Tobacco was listed on the Malaysian Stock Exchange on 27th October 1961, with 6,375,000 of ordinary shares issued.



1962

Official opening of Rothmans manufacturing facility in Petaling Jaya, Selangor officiated by the first Prime Minister of Malaysia Tunku Abdul Rahman.



1957

Malaya declares independence on 31st August!



2012

British American Tobacco Malaysia employees celebrate the Company's 100 year presence in the country, cementing its leadership in the Malaysian tobacco industry.





BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD CAN TRACE ITS HERITAGE AS FAR BACK AS 1912 WITH THE ESTABLISHMENT OF BRITISH AMERICAN TOBACCO CO. (STRAITS) LIMITED. FROM ITS HUMBLE BEGINNING, BRITISH AMERICAN TOBACCO MALAYSIA HAS COME A LONG WAY TO BECOME A COMPANY WHICH IS INVOLVED IN THE FULL SPECTRUM OF THE TOBACCO INDUSTRY, FROM LEAF BUYING AND PROCESSING TO MANUFACTURING, MARKETING AND DISTRIBUTION.

Today, British American Tobacco Malaysia manufactures and markets an unrivalled portfolio of highly successful international brands, designed to meet diverse consumer preferences.

In 2012, British American Tobacco Malaysia celebrated its 100 years in Malaysia. More importantly, what is significant throughout these 100 years is the effort that British American Tobacco Malaysia has demonstrated to being a corporate citizen that adds value to the communities in which it operates.

52nd

ANNUAL GENERAL MEETING (AGM) OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD will be held at

Kristal Ballroom,
Hilton Petaling Jaya,
No. 2, Jalan Barat,
46200 Petaling Jaya,
Selangor Darul Ehsan

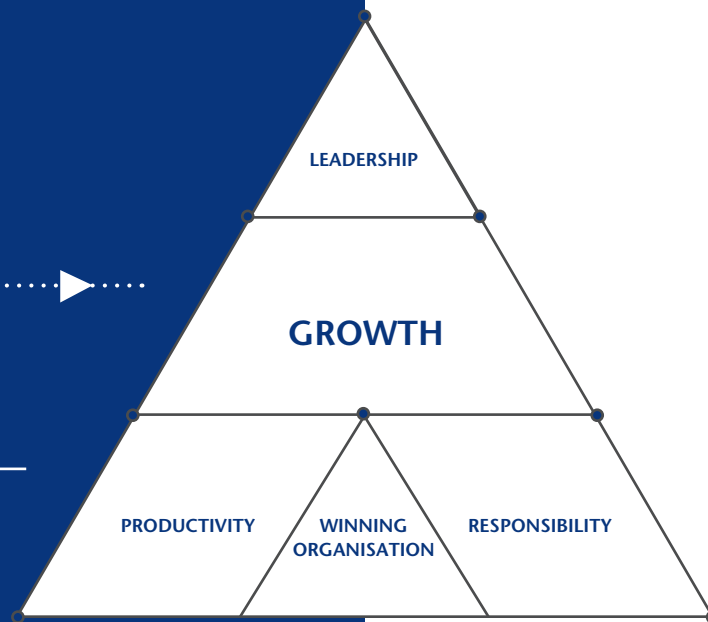
on Wednesday, 17 April 2013 at 11.00 a.m.

AGM Helpdesk:

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strong foundation

for tomorrow's business growth.



OUR VISION

We share British American Tobacco p.l.c.'s vision to achieve leadership of the global tobacco industry in order to create long-term shareholder value. We believe that delivering growth is key to achieving this vision to lead in the tobacco industry. However, leadership is not an end in itself. A company that leads its industry and is seen to have a sustainable business will also be valued more highly.

We define leadership in both a quantitative and qualitative sense. Quantitatively, we seek volume leadership among our competitors and in the longer term, value leadership. However, quantitative measures do not in themselves address all the things we must

do as a company. We take a long-term view, focusing on the quality of our business and how we work. As a result, qualitatively, we seek to be recognised as an industry leader and to be the partner of first choice for our valued stakeholders.

We will do this by continuing to demonstrate that we are a responsible tobacco company with a sustainable business and outstanding people. Our strategy is designed to deliver our vision and as a result, build shareholder value. It is based on growth, funded by productivity and delivered by a winning organisation that acts responsibly at all times.

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GROWTH PRODUCTIVITY		

Results at a glance

Group financial year ended 31 December 2012

revenue	profit before tax
4,365	1,054
(RM million)	(RM million)

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Attracting, developing and nurturing talent to fuel our growth agenda	RESPONSIBILITY	
Driving sustainable growth responsibly		
	WINNING ORGANISATION	
	REPORTS AND FINANCIAL STATEMENTS	

net profit
798
 (RM million)

shareholders' fund
485
 (RM million)

net returns on
 shareholders' fund
165
 (%)

net earnings
 per share
279
 (Sen)

net dividend
 per share
272
 (Sen)



Dear Shareholders,

Sustainability may be all the rage these days, but truth be known it has been around for a while, just that it is now better articulated. In the fast moving world of business, it is a critical capability to be able to adapt and evolve to meet the changing and increasing demands of both consumers and stakeholders. As Charles Darwin once said, *“It is not the strongest of the species that survives nor the most intelligent that survives. It is the one that is the most adaptable to change.”*

In the world, Japan has one of the highest numbers of companies over a hundred years old. I believe part of the reason behind this is a deep rooted value set, focused on the consumer and consideration for the environment in which they operate. It is no coincidence that these are the very same sustainable business practices at the heart of our organisation.

Chairman's letter

Datuk Mohamad Salim bin Fateh Din
Chairman

We fully recognise that whilst aggressively competing in the marketplace, there is a need to balance the associated social, environmental and economic considerations, thus building sustainable value for our employees, shareholders and our other stakeholders.

In 2012, celebrating its 100 years anniversary, British American Tobacco Malaysia joins an elite group of centenarian companies in Malaysia. With 100 years of continuous operations in the country, British American Tobacco Malaysia has grown into the nation's leading tobacco company and its brand DUNHILL is the number one choice for consumers. It is a testament of the strength of our business that we have transitioned the 100 year mark, and have done so with pride and a remarkable set of 2012 results.

Personally, it was a great honour for me to be able to share our centennial celebrations with our employees, business partners and stakeholders, all of whom have supported the Company as we grew from strength to strength through the last century.

On behalf of the Board of Directors, I am indeed pleased to present the Annual Report and Financial Statement of British American Tobacco Malaysia for the financial year ended 31 December 2012.

Performance review

The Group recorded Profit after tax of RM798 million, an increase of 10.9 percent on 2011 and the best performance since 2008. Key drivers of this performance was the increase in both domestic and export contract manufacturing volume and margins, combined with lower operating expenses.

The domestic volume growth (+0.24 percent), albeit modest, was the first domestic volume growth in 10 years. Source of this growth is a 2012 market share gain of 1.6 percentage points, largely attributed to the fantastic performance of DUNHILL which achieved a record market share of 47.3 percent. Essentially, almost one in every two Malaysian smokers now chooses DUNHILL. The overall market has remained relatively constant due to the increased enforcement on illicit cigarettes trade by Government agencies, together with a stable excise environment, supporting the fight against illegal cigarettes.

Substantial growth in export contract manufacturing volume (+17 percent cigarettes, +66 percent semi-finished goods) was also experienced in 2012. In addition to the volume growth, the earnings from the export contract manufacturing business were further accelerated by an improvement in margins following a change from toll to contract costing model. Linked to this however, the Group did have to acquire approximately RM119 million of incremental leaf and material inventory.

Operating expenses were 17.5 percent lower than the prior year, mainly due to non-recurring charges taken in 2011 (RM46 million), and lower corporate incentives in 2012 (RM42 million). An impairment charge of RM19 million was booked in 2012 in respect of our Forest Development prepayment. In recent years, the landscape with respect to carbon credits has evolved – leading to the reassessment of the recoverability of the carrying value of the asset. Whilst the Group has fully impaired the asset, it still considers the investment an important pillar of our responsibility commitment to reduce the environmental impact of our operations.

Dividends

The Board of Directors has recommended a fourth interim dividend of 77 sen per share and no final dividend, making a total net dividend payout for the financial year to be 272 sen per share. By paying quarterly interim dividends and no final dividend, we are in fact advancing returns to shareholders. No special dividend was declared in 2012.

On the surface, our 2012 total net dividend appears to be a decrease of 1.4 percent over the 2011 total dividend of 276 sen per share. However, by way of clarification, the payment of the 30 sen per share special dividend in 2011 was part of our commitment to return excess cash to shareholders. On a like for like basis, excluding the special dividend, our 2012 dividend is a 10.6 percent growth over 2011 and a consistently high payout of earnings.

HIGHLIGHTS

+10.9 percent
increase in profit after tax compared to preceding financial year.

+0.24 percent
increase in domestic volume growth compared to preceding financial year a first in 10 years.

Prospects for 2013

The landscape of our controversial industry will continue to evolve and will no doubt be equally challenging in 2013. Illegal cigarettes trade continues to be a major problem for the nation and the legal industry. While much has been done to clamp down on the illegal cigarettes trade, more still needs to be done. These unlawful businesses operate without adherence to the country's regulations, leaching valuable income from the Government and stimulating criminality, while at the same time the legal cigarette industry continues to be faced with further regulatory changes in 2013.

Despite these challenges, with the combination of the performance momentum we carried forward from 2012, the strength of our brand portfolio, our operating capability and our great people, we are well placed to meet the challenges ahead in 2013. We remain committed to deliver another year of profit and value growth.

Leadership Changes

High performance leadership is at the heart of every successful organisation and is essential to its success. For a variety of reasons, some unavoidable, leadership changes are also inevitable within every organisation. The 2012 leadership changes are outlined below.

Dato' Chan Choon Ngai, who continued in his role as Operations Director post his 2010 retirement date, has decided to pass on the leadership mantle and enjoy his well-deserved retirement. So as not to lose Dato' Chan's great wealth of experience, he will continue to remain as a member of the Group's Board of Directors in a Non-Independent Non-Executive capacity. The executive Operations Director role on the Board will not be replaced.

I am also pleased to welcome Mr. Joel Solomon as our new Operations Director. Joel is a home-grown Malaysian talent who started with the Group as a management trainee back in 1999. Most recently he has returned from Singapore where he was seconded to as the Regional Supply Planning Manager for British American Tobacco p.l.c.

Mr. Allen Lim, Global Enterprise Resource Planning Market Lead, has also decided to pursue his retirement at the end of 2012. Allen successfully led the implementation of the Enterprise Resource Planning project. His role on the Top Team will not be replaced.

In March 2012, Ms. Cheryl Wong, Human Resources Director, decided to focus her career on other pursuits. I am pleased to welcome Mr. Murali Thanabalan as the Human Resources Director of the Company.

In November 2012, Mr. Hendrik Stoel, Marketing Director, has taken on a new role within the British American Tobacco Group. I am pleased to welcome Mr. Marcelo Guimaraes as the Marketing Director of the Company.

Both Murali and Marcelo bring with them significant experience and knowledge from their tenures in various British American Tobacco markets around the world. I am certain that the Group will benefit from their expertise.

I would also like to welcome Mr. Azlan Ibrahim, the Head of Business Development Services, into British American Tobacco Malaysia's Management Top Team.

On behalf of the Group, I would like to thank Dato' Chan, Allen, Hendrik, and Cheryl for their contributions and to wish them the very best for the future.

Appreciation

The continued strength and success of the Group as we go forth into the next 100 years would not be possible without the commitment and dedication of its people. On behalf of the Board of Directors, I wish to thank our management team and staff for their dedication and invaluable contribution. I am confident that with their passion and tenacity we will continue to deliver superior returns to our shareholders.

Finally, I would like to convey my sincere thanks and appreciation to all our shareholders, customers, distributors, investors, business partners and stakeholders, for their confidence and their continued support to the Company. I wish also to thank our Board of Directors for their guidance and support, and look forward to another successful year in 2013.



Datuk Mohamad Salim bin Fateh Din
Chairman



This year's British American Tobacco Malaysia Annual Report, in line with the new guidelines from Bursa Malaysia, features a new reporting format, the Management Discussion and Analysis (MD&A). The aim of the MD&A is providing shareholders with a better understanding of the business, operations and financial position of the Company.

Within the next few pages of this MD&A, our shareholders will be provided with an overview of the business, operations, and a financial review of 2012 and our expectations for the business in 2013.

Management discussion and analysis

Datuk William Toh Ah Wah
Managing Director

2012 PERFORMANCE OVERVIEW

The year 2012 was an accomplished centennial milestone for British American Tobacco Malaysia. In the year which we celebrated 100 years of continuous operations in Malaysia we marked the occasion with a strong business performance, growing 1.6 percentage point share of market, achieving new records for our flagship brand Dunhill and delivered 9.8 percent growth in profit from operations.

This impressive performance is a factor of growth in both our contract manufacturing and domestic margins and volume, together with the absence of non-recurring items experienced in 2011, resulting in lower operating expenses.

Celebrations aside, 2012 was not without its challenges. Illegal cigarettes continued to be a rampant force threatening the sustainability of the legal industry while robbing the Government of much needed tax revenue. Heightened enforcement and the decision to not increase excise for the second year running have collectively contributed to a 1.6 percentage point decline in illegal cigarettes incidence and stability for the legal sector. Another business challenge is the rampant sale of some local brands below total taxes and the minimum price set by the Government. This again deprives the Government of tax revenue apart from flouting the minimum price laws governing the sale of tobacco products.

BUSINESS & OPERATIONS

Products and Services

British American Tobacco Malaysia is the largest tobacco company in the country in terms of market share and volume. Our business is focused on the production and sales of cigarettes, and our portfolio of leading brands include DUNHILL, PALL MALL, BENSON & HEDGES, PETER STUYVESANT and KENT amongst others.

We employ approximately 1,000 employees who are involved in the full spectrum of the tobacco industry, from tobacco leaf cultivation, buying and processing, to the manufacturing, marketing, and distribution of our products.

In addition to sales to the Malaysian domestic and duty free markets, British American Tobacco Malaysia undertakes export contract manufacturing for British American Tobacco p.l.c companies, predominantly in the Asia Pacific region.

The export contract manufacturing is both for cigarettes and 'semi-finished goods', i.e. processed tobacco ready for inclusion in cigarettes and filter rods. Approximately 47 percent of our primary manufacturing (leaf processing) and 30 percent of our secondary manufacturing (cigarette making) is used for contract manufacturing.

Historically, the Group has distributed and sold cigarettes in Brunei. In late 2010, the Brunei Government implemented a 380 percent increase in excise, and as a result, legitimate sales in the market plummeted dramatically, being replaced by smuggled illicit products sold at a much lower price. During the year, the commercial viability of Brunei operations was assessed and a decision was taken to cease selling in the Brunei market.

Our operations in Malaysia From seed to smoke



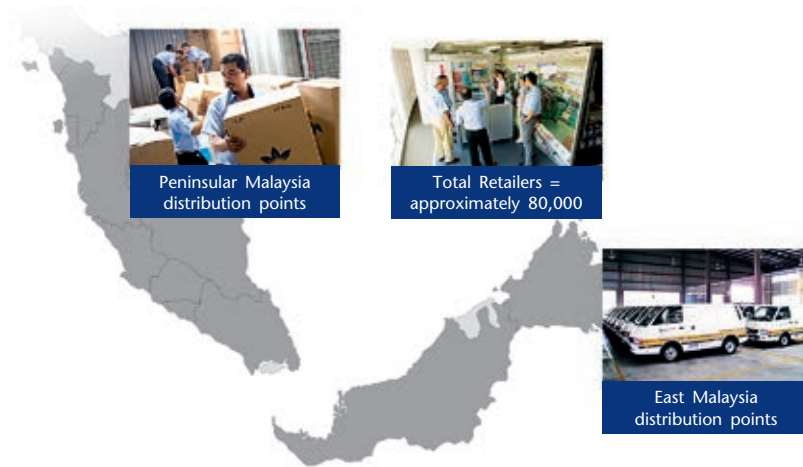
Operating facilities

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

The Group has 10 regional sales offices across Malaysia and a leaf station in Kota Bharu. In addition, part of our Petaling Jaya site is rented out and houses the Asia Pacific Regional Product Centre of British American Tobacco p.l.c, which provides research and development services to the Group and other British American Tobacco entities in the Asia Pacific area.

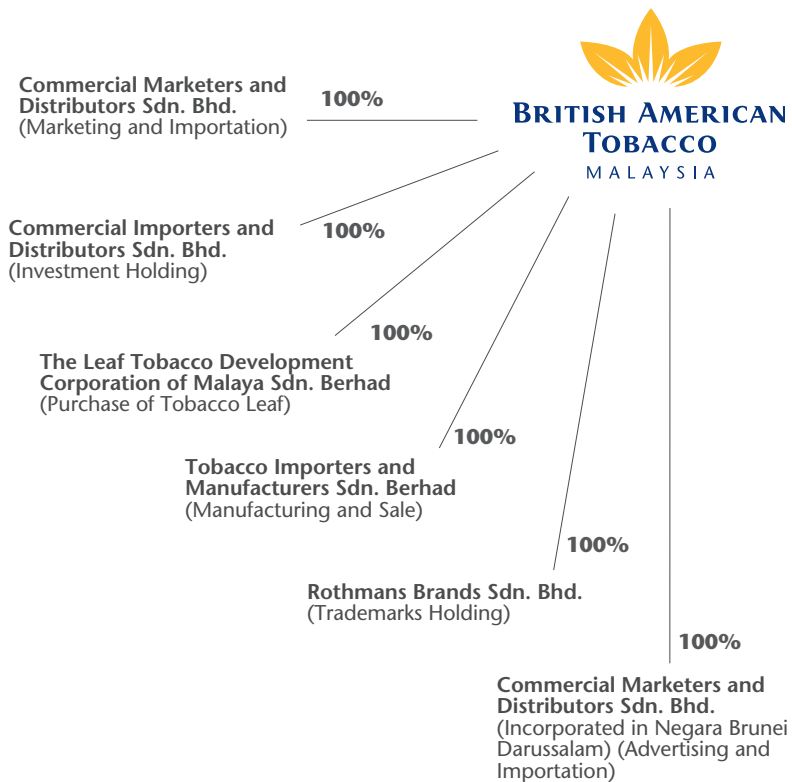
Distribution

British American Tobacco Malaysia Cigarette Distribution Nationwide and Retailers



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

In the third quarter of 2011, British American Tobacco Malaysia moved solely to third party distributors for Peninsular Malaysia, completing this migration in 2012. Similarly the Company is in the process of consolidating distribution through a third party in East Malaysia, and this is expected to be completed by the middle of 2013.



Corporate Structure

British American Tobacco Malaysia has two principle operating companies namely, Tobacco Importers and Manufacturers Sdn. Berhad (for manufacturing and sales) and Commercial Marketers and Distributors Sdn. Bhd. (for marketing and importation). Other wholly owned operating companies include The Leaf Tobacco Development Corporation of Malaya Sdn. Berhad for purchasing of leaf and Rothmans Brands Sdn. Bhd. as trademarks holding company and Commercial Marketers and Distributors Sdn. Bhd. (incorporated in Negara Brunei Darussalam) for advertising and importation in Brunei. There were no changes to the Group's corporate structure during 2012.

OBJECTIVES & STRATEGIES

We share British American Tobacco p.l.c.'s vision to achieve leadership of the global tobacco industry, not just in volume and value, but also in the quality of our business.

Growth

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

Productivity

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

Winning Organisation

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

Responsibility

Our companies and people are required to act responsibly at all times and we seek to reduce the harm caused by our products and our environmental footprint.

Today, British American Tobacco Malaysia is the clear market leader of the legal Malaysian tobacco industry with approximately 63 percent market share, and ranks amongst the top 25 companies on Bursa Malaysia Securities Berhad in terms of market capitalisation. We aim to maintain our leadership in the industry through increasing our share of the tobacco business and better satisfying consumer demands than our competitors. In meeting these goals, we ensure that we market responsibly, and in a manner sensitive to our environment. For us, leadership goes beyond just market share; it has to be about qualitative leadership in our eyes, and in the eyes of our stakeholders.



REVIEW OF FINANCIAL RESULTS

PROFIT FROM OPERATIONS

RM1,080 million **+9.8%**
(2011: 984 million)

REVENUE

RM4,365 million **+5.8%**
(2011: 4,127 million)

NET PROFIT

RM798 million **+10.9%**
(2011: 720 million)

OPERATING PROFIT MARGIN

24.7% **+0.9pp**
(2011: 23.8%)

EBITDA

RM1,132 million **+8.4%**
(2011: 1,044 million)

RETURN ON EQUITY

165% **-2.0pp**
(2011: 167%)

EARNINGS PER SHARE

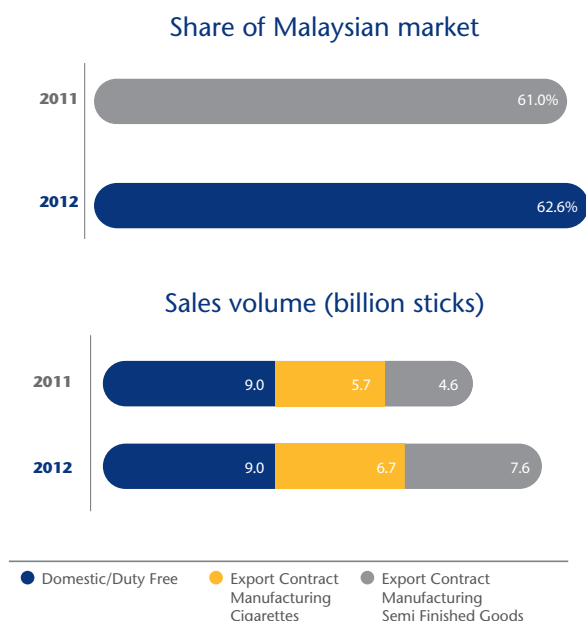
RM279.4 sen **+27.4** sen
(2011: 252.0 sen)

MARKET CAPITALISATION

RM17.7 billion **+24.2%**
(2011: 14.3 billion)

Non-Financial Performance Indicators

Despite generally soft global economic conditions, British American Tobacco Malaysia has emerged achieving modest domestic volume growth (+0.24 percent) for the first time in 10 years.



Within the Malaysian domestic market, the Group registered a market share growth of 1.6 percentage points in 2012 to achieve a full year market share of 62.6 percent.

The primary driver of the share growth was DUNHILL which delivered a record market share of 47.3 percent, an increase of 2.5 percentage points from 2011. In April 2012, DUNHILL re-launched its Switch capsule product offering with an improved pack design and product proposition. The new Switch contributed 0.3 percentage points to the overall DUNHILL family growth.

Despite a shrinking value for money segment, we have seen relative stability in our Value for Money portfolio. PALL MALL launched PALL MALL Mint, a spearmint capsule product in February 2012, and relaunched its core range in July with a new international pack design. Whilst across the full year PALL MALL lost 0.5 percentage points, its share of market was stable post re-launch in July. Peter Stuyvesant was similarly stable, experiencing only a 0.1 percent point decline across 2012.

In 2012 the Group did experience a significant 17 percent growth in contract manufacturing of cigarettes and a 66 percent growth in contract manufacturing of semi-finished goods.

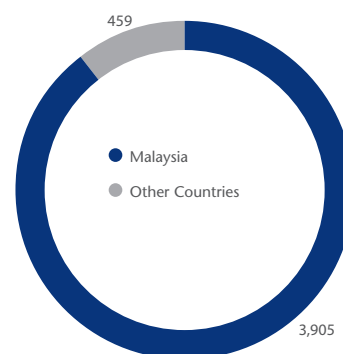
Revenue

Revenue increased by 5.8 percent, driven mainly by the significant increase in export contract manufacturing volume, and the change from a toll manufacturing to contract manufacturing costing model. This also led to an improvement in margins for this business.

Whilst not as significant, the domestic volume, mix and margin improvement similarly contributed to the overall revenue growth given the relatively stable economic environment, increased enforcement of illicit cigarettes trade and a second consecutive year without an excise increase being announced in the National Budget.

This was however partially offset by the reclassification of distribution costs above gross revenue (RM18 million), following the restructuring of the Group's route-to-market distribution strategy from in-house to exclusive third party distribution model in the third quarter 2011.

Gross Revenue (RM millions)



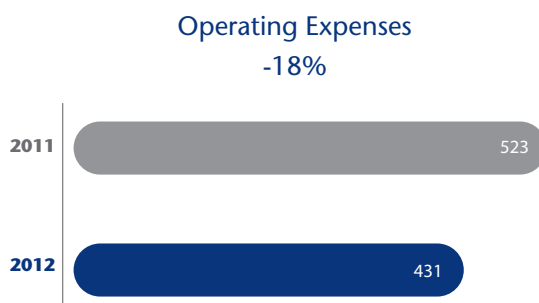
Cost of sales

The increase in cost of sales was in line with the higher export contract manufacturing volume and the change to full contract manufacturing costing model effective June 2012. This includes higher excise due to higher domestic volume and the impact of the October 2012 transfer price uplift imposed by the Royal Malaysian Customs.

Operating expenses

The significant reduction in 2012 operating expenses is accounted for by four major movements: lower corporate incentives (RM42 million); absence of 2011 non-recurring charges (merchandising assets write down, redundancy costs and accounts related matters: RM46 million); movement of distribution costs above gross revenue (RM18 million); and offset by the impairment of our Forest Expenditure prepayment (RM19 million) in the current year.

The Group's decision to fully impair the Forest Development asset stemmed from reassessment of recoverability of the carrying value of the asset. Whilst the Group has fully impaired the asset, it still considers the investment an important pillar of our responsibility commitment to remain carbon neutral.



Profit from operations

Profit from Operations increased 9.8 percent to RM1.08 billion, namely from increased revenues from export contract manufacturing and lower operating expenses. Similarly, this led to a 0.9 percent increase in Operating Profit margin to 24.7 percent.

Taxation

The Group's effective tax rate in 2012 was only 24.3 percent, marginally lower than 2011 (24.7 percent) due to the increased interest deductibility.

Dividends

The Group continued its strong commitment to pay dividends at a level above 90 percent of earnings. Aiming to accelerate dividend payments to shareholders, the Group again declared and paid four quarterly interim dividends and no final dividend. Total payout for 2012 was 272 sen per share, a 97.4 percent payout of earnings per share. In 2011, the total payout was 246 sen per share, a 97.6 percent payout (excluding the third quarter 2011's special dividend of 30 sen per share).

Debt structure

The Group successfully redeemed its RM400 million Medium Term Notes due in September 2012 through a combination of cash on hand and short term borrowings. The Group had chosen to utilise revolving credits to support its short term working capital requirements. This more flexible debt structure allowed the Group to borrow at optimum levels thereby minimising cash holding costs, together with improving interest deductibility. At the end of 2012, the Group had RM250 million of revolving credits with tenure of a month maturing on different dates.

In 2012, the Group's rating for the existing commercial papers (CP) and Medium Term Notes (MTN) was reaffirmed as P1 and AAA by Rating Agency Malaysia.

Working capital

The Group changed its toll manufacturing operation to full contract manufacturing model during the year whereby the Group now owns the raw materials for production to export markets. With this change, the Group required additional working capital for inventory which approximately amounted to RM120 million, circa 12 percent of cash flow from operations.

Liquidity

The closing cash and cash equivalent amounted to RM78 million, a decrease of RM228 million from 2011. The Group had a net cash outflow of RM228 million in 2012, RM178 million higher than 2011. Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) increased by RM88 million offset by higher inventory of RM119 million (predominantly a result of the move from toll to contract manufacturing) and higher other working capitals, interest payment and tax payment of RM47 million. In addition, the Group reduced its borrowing by RM150 million. This was offset by the absence of special dividend paid in 2011 (net lower dividend by RM34 million) and lower capital expenditure of RM16 million. As a result of this, cash conversion was 16 percent lower than 2011.

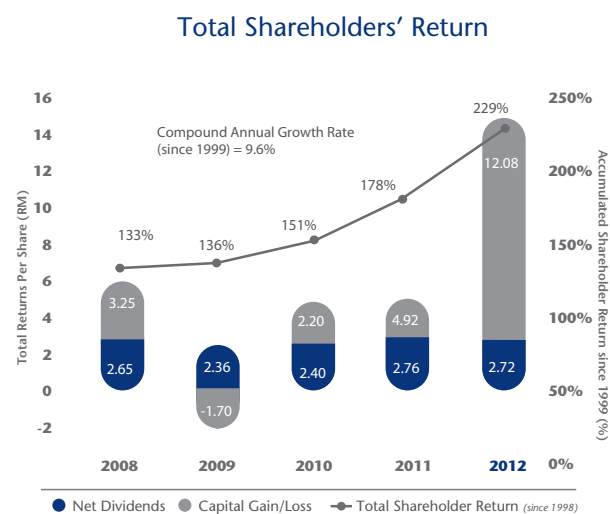
	12 months 2012 RM million	12 months 2011 RM million	Favourable/ (Adverse) %
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	1,132	1,044	8.4
Profit from Operations	1,080	984	9.8
Cash from Operations	981	1,049	(6.5)
Cash Conversion	91%	107%	(16.0)
Decrease in cash and cash equivalents	(228)	(50)	(178)

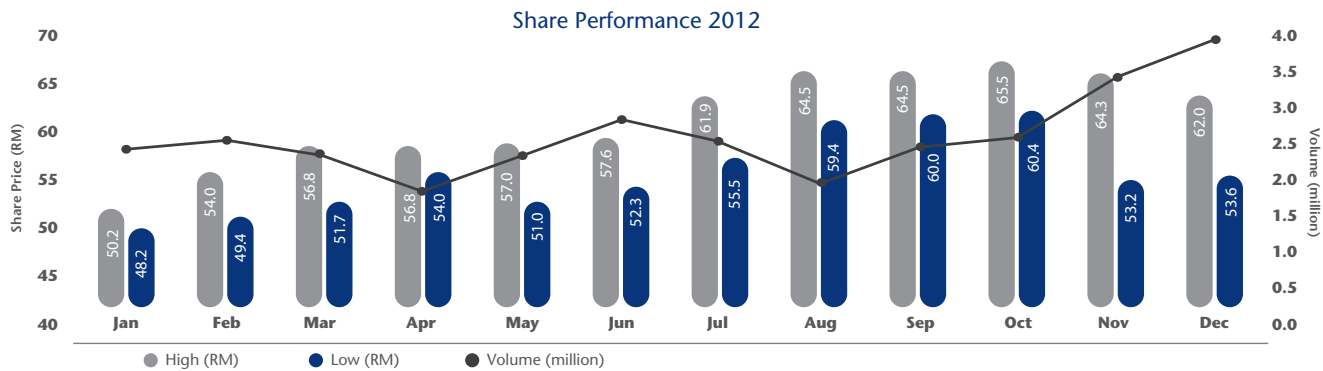
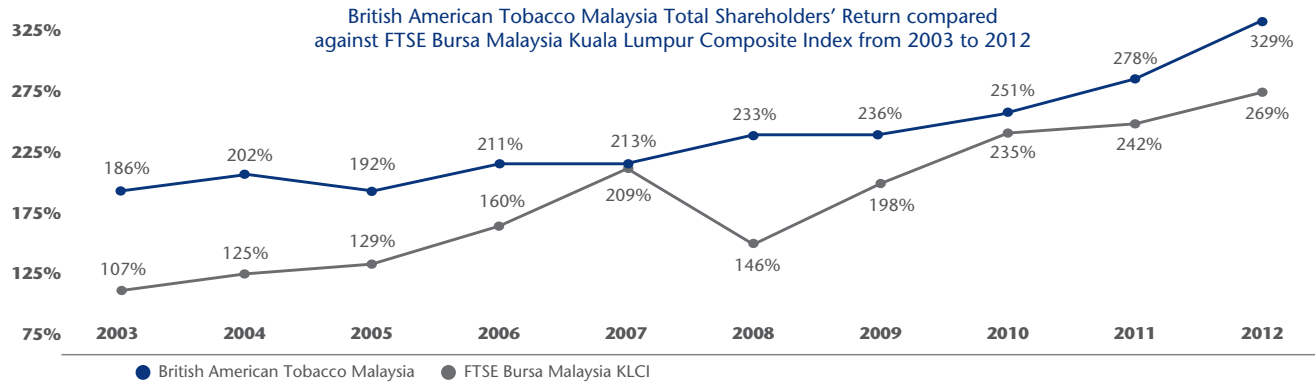
Shareholders Return

In 2012, the Group's share price achieved another record level, recording the highest share price of RM65.50 per share in October 2012.

With the combination of the Group's excellence business performance, market leadership and management capabilities, British American Tobacco Malaysia's shareholders once again made an exceptional gain of RM14.80 per share, representing a total annual return of 29.6 percent which comprised of total dividends paid during the year as well as a strong growth in share price of 24.2 percent. Measured since merger in 1999, this represents an impressive 9.6 percent return per annum on a compound basis.

British American Tobacco Malaysia has consistently outperformed the FTSE Bursa Malaysia Kuala Lumpur Composite Index for the past 13 years with 2012 market capitalisation exceeding RM17 billion as at end of year 2012, the highest ever since merger. The Group will continue its firm commitment in ensuring long term sustainable shareholders value is delivered.





REVIEW OF OPERATING ACTIVITIES

Enterprise Resource Planning Solution Implementation

In September 2012, the Group successfully piloted the implementation of British American Tobacco p.l.c.'s Enterprise Resource Planning solution. In assessing the viability of this solution, it was agreed that the cost to British American Tobacco Malaysia would not differ significantly from a stand alone upgrade of British American Tobacco Malaysia's current system.

Regulatory

In 2012, the Ministry of Health proposed several amendments to the current tobacco regulations under the Control of Tobacco Product Regulations 2004, which included changes to the Pictorial Health Warnings, making possession of illegal packs of cigarettes an offence, reducing the maximum allowable level of tar and nicotine and introducing a maximum allowable level of carbon dioxide. These proposed amendments have yet to be implemented at the end of 2012.

The Ministry of Health also designated new non-smoking areas in Johor and Pulau Pinang for which smoking is prohibited in all buildings, premises, public places or land within the specified non-smoking areas, which came into effect in 2012.

British American Tobacco Malaysia is fully compliant with all existing legislations enacted by the Government governing the manufacturing, marketing and sale of our products.

Litigation

In 2012, there were two significant litigation cases which were closed successfully. Firstly, the Group confirmed the recovery of RM1.3 million which was a demanded shortfall of excise duty paid during an excise increase in 2007 at the Appeals Court and secondly, a High Court decision that British American Tobacco Employees' Union (BATUE) could only represent employees of British American Tobacco Malaysia Berhad and not its subsidiaries was upheld at the Federal Court.

Treasury

The Group's foreign currency exposure has increased with higher export contract manufacturing volume and the shift from toll to full contract manufacturing. The currency exposure is minimised by partially hedging the net exposure for the next 12 months and by increasing the hedging ratio as the time for settlement gets nearer. The permitted range on the hedge ratio within 12 months of transaction date is 50 percent to 95 percent.

This strategy is to avoid any ineffective hedges when the cash flow forecast changes before settlement date.

Risks

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

Responsibility

In 2012, we continued to be guided by our Sustainability Framework in creating value within the Community, Workplace, Environment and Marketplace.

Our initiatives to support poverty alleviation included building 20 homes for the hardcore poor in Kedah in collaboration with the Kedah Regional Development Authority. The British American Tobacco Malaysia Foundation also contributed approximately RM3.16 million in support of a food aid programme for the underprivileged, by a non-profit organisation, the MyKasih Foundation.

Within our workplace, we focused on promoting better awareness on safe work practices through campaign, training and enhancing the safety of our office premises. We also continued to improve our environmental footprint in our operations by upgrading to more environment-friendly machinery and amenities that reduced energy and water consumption, and waste production.

2013 OUTLOOK

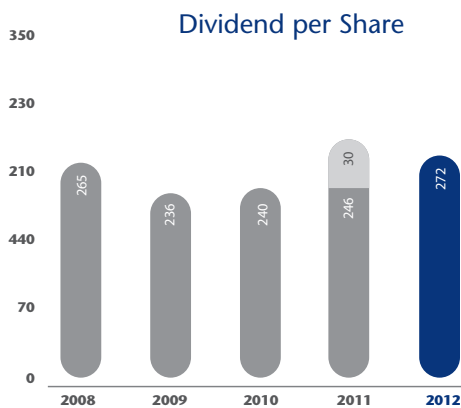
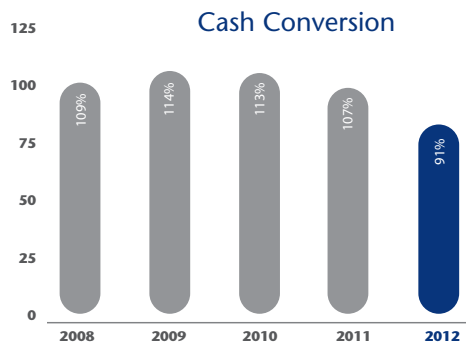
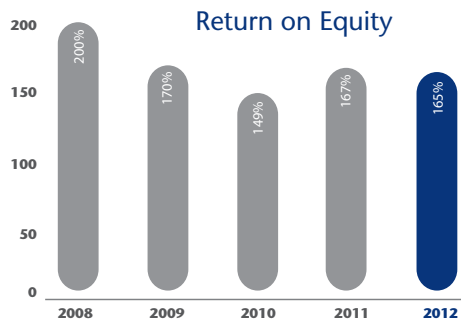
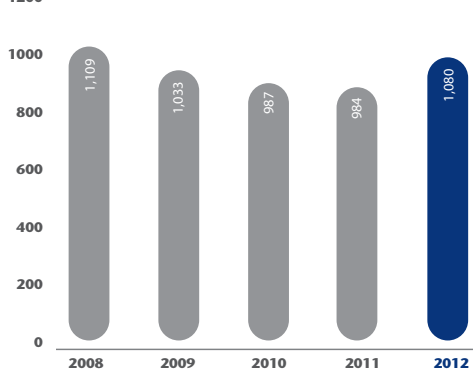
As we usher in another century of operations, British American Tobacco Malaysia will continue to ensure that our business is run responsibly and more importantly, sustainably. It is our firm belief that profitability must work hand-in-hand with long term sustainability and corporate responsibility.

The Group is relatively optimistic on the outlook for 2013 given the strength of our underlying portfolio and our recent market share performance. Nevertheless, the ever present high levels of illicit cigarettes trade warrants caution and will remain as the main concern of the Group. Further, growth in contract manufacturing volume is contingent firstly on the underlying growth from source markets, leading to increased demand, and secondly on the production and format capacity to meet this demand. Key to the sustainability of this business is quality and cost competitiveness.

With the Group's strategy and unwavering management focus on our strategic pillars of Growth, Productivity, Responsibility, and Winning Organisation, the Group is confident and committed to continually deliver success via accelerated sustainable growth and market leadership to maximise long term shareholders value.

FIVE YEAR PERFORMANCE HISTORY

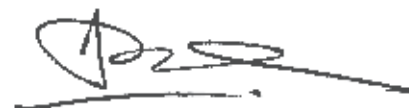
Profit from Operations (RM million)



Challenges faced by the Group for the past years

2008/2009 – Significant excise increase of 20 percent by RM30 per mille in September 2008 resulted in another large tax-led price increase that further dampened the legal industry. In October 2009, excise increased by another RM10 per mille. Coupled with the global financial crisis which resulted in high inflation, high unemployment and eroding purchasing power in Malaysia, illicit cigarettes incidence increased sharply by 11.8 percent to 37.5 percent, leading to a decline in total industry volumes by 11.2 percent in 2009.

2010/2011 – The Government banned cigarettes with pack size of less than 20 sticks in June 2010 and raised excise by RM30 per mille in October 2010, which further fuelled downtrading pressure. This was particularly challenging given that the Group’s portfolio is disproportionately skewed towards the premium segment. The Group lost RM85 million of profits in 2011 as a result of the full year impact of this ban.



Datuk William Toh Ah Wah
Managing Director



Corporate profile

OUR PORTFOLIO

includes well-established international names
such as **DUNHILL**, **KENT** and **PALL MALL**



Today, British American Tobacco Malaysia is the clear market leader of the Malaysian cigarette industry, with approximately 63 percent market share, and ranks amongst the top 25 companies on Bursa Malaysia Securities Berhad in terms of market capitalisation. British American Tobacco Malaysia manufactures and markets high quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes well-established international names such as **DUNHILL**, **KENT** and **PALL MALL**.

In 2012, British American Tobacco Malaysia celebrated its 100 years in Malaysia. The wealth of expertise, coupled with leading edge technology and efficient systems and processes employed in all aspects of our business activities, position us well to meet the challenges of the future. We employ about 1,000 employees who are involved in the full spectrum of the tobacco industry, from leaf buying and processing to manufacturing, marketing and distribution. Our comprehensive distribution network spans the length and breadth of the country, ensuring that our brands are available everywhere in Malaysia.

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

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD annual report 2012

British American Tobacco Malaysia in the news

Lower expenses boost BAT second quarter profit

By **Kameral Ashar**

PETALING JAYA: British American Tobacco (M) Bhd (BAT) net profit grew 20% to RM221.6 million for the second quarter of 2012 (QOY12) ended June 30 as its expenses dropped by a quarter, which helped widen the group's profit margin.

Revenue came in marginally higher at RM1.06 billion against RM1.05 billion in the previous corresponding period.

The cigarette sales has declined 4.6 million per share, representing 0.7% of the average per share of 77.3 million. This brought the total dividend per share to RM1.35 for this year.

BAT said the higher pace of growth in its profitability as opposed to its high first year due to lower distribution cost after the change in distribution model in 2011 and the absence of non-recurring depreciation following the change in accounting treatment in QOY11.

"Revenue in H112 (the first half of 2012) grew by 5.7% compared with the corresponding period in 2011.

While the price hike is not steep, we will see an increase in price across our regular 17V and 8&7. We are keeping our focus on the 17V and 8&7, which are our core brands, to give a clearer picture from the management," said the tobacco company's earnings according to analysts.

"The hike effective yesterday, saw BAT's 20-stick premium and VFM cigarette prices increasing to RM10.20 from RM10 and RM9.50 from RM9.

According to BAT, the Royal Malaysian Customs has mandated an uplift in the factory pricing of the company's 20-stick premium and VFM cigarette prices amounting to RM0.20 from RM10 and RM9.50 from RM9.

"The hike effective yesterday, saw BAT's 20-stick premium and VFM cigarette prices increasing to RM10.20 from RM10 and RM9.50 from RM9.

According to BAT, the Royal Malaysian Customs has mandated an uplift in the factory pricing of the company's 20-stick premium and VFM cigarette prices amounting to RM0.20 from RM10 and RM9.50 from RM9.

BAT's market leadership re-confirmed

BAT's market leadership re-confirmed as it posted a 2.2 percentage point increase in market share, a record high for the brand as at June 2012. BAT's market share grew by 1.2% during the first six months of the year against the previous corresponding period.

On the market of cigarettes, BAT said the latest results posted a 2.6% drop in volume compared with same period last year.

"The government's decision to increase cigarette excise in the 2012 budget, together with the continuous anti-smoking efforts by its law enforcement agencies, are clearly having an impact on the market," said BAT.

BAT's share price has trended upwards in 2012. The dividend yield reached its second high of RM0.57 on Wednesday. Year-to-date, it has gained nearly 14.7%. The investor closed at RM54.72 yesterday.

British American Tobacco (M) Bhd

BAT declares 65 sen dividend

KLALA LUMPUR: Winning a bigger market share and an increase in contract manufacturing volume helped boost British American Tobacco Malaysia Bhd (BAT) earnings for the third quarter (3Q) ended Sept 30.

The tobacco manufacturer announced yesterday that its third quarter's net profit increased 5.3% to RM163.67 million from RM176.27 million in the previous corresponding period. Revenue came in 5.43% higher at RM1.16 billion compared with RM1.1 billion a year ago.

BAT also declared an interim dividend per share of 65 sen on Oct 22 after it was followed by the Royal Malaysian Customs last Thursday of a "mandated uplift in the ex-factory pricing" of the company's cigarettes.

The tobacco stock closed at RM56.14 yesterday.

In an announcement to Bursa, current efforts in curbing the sale of illicit products and brands selling below government mandated prices," said the group.

According to the Ilegal Cigarettes Study from June to August 2012 commissioned by the Confederation of Malaysian Tobacco Manufacturers, the latest illicit incidents stands at 34.5%, a 1.2% drop from 2011.

"Based on the strong performance of Dunhill, together with the recent launch of the new Pall Mall global pack design, and despite the higher indirect taxes, the group is optimistic on its outlook for the balance of 2012," said BAT. -- by Ho Ching-ling



Marginal impact on BAT seen

By **CHONG HANGLINAM**

PETALING JAYA: The 20-stick increase in the price of British American Tobacco (M) Bhd (BAT) cigarettes will have a marginal impact on the tobacco company's earnings, according to analysts.

"The hike effective yesterday, saw BAT's 20-stick premium and VFM cigarette prices increasing to RM10.20 from RM10 and RM9.50 from RM9.

According to BAT, the Royal Malaysian Customs has mandated an uplift in the factory pricing of the company's 20-stick premium and VFM cigarette prices amounting to RM0.20 from RM10 and RM9.50 from RM9.

"The hike effective yesterday, saw BAT's 20-stick premium and VFM cigarette prices increasing to RM10.20 from RM10 and RM9.50 from RM9.

According to BAT, the Royal Malaysian Customs has mandated an uplift in the factory pricing of the company's 20-stick premium and VFM cigarette prices amounting to RM0.20 from RM10 and RM9.50 from RM9.

Harga rokok BAT naik 20 sen

PETALING JAYA 21 OKT - British American Tobacco Malaysia Bhd (BAT) akan menaikkan semua harga rokok baharuannya sebanyak 20 sen berkuatkuasa 22 Oktober 2012, menurut syarikat itu dalam satu kenyataan hari ini.

Jelas BAT Malaysia, chairmannya ialah Shamsuddin bin Juhatan Kamran Ghaffar Malaysia pada Khamis 18 Oktober 2012.

Shamsuddin berkata, kenaikan baharuannya adalah 20 peratus hingga 50 peratus bermula Aam 19 Oktober 2012.

"Dengan ini juga, harga rokok akan dinaikkan secara bertahap," kata Pengarah Urusan BAT Malaysia, William Tan dalam kenyataan itu.

Antara rokok yang terdampak adalah Dunhill dengan harga baharu RM10.20, Kent (RM9.50), Peter Dreyfus (RM9.50), Pall Mall range (RM9.70), Pall Mall plain (RM9.50), Sirocco & the Alps (RM9.50), Lucky Strike Plain (RM9.60) dan Redman International (RM9.60).

登營營收增，營運成本減

英美煙草第三季賺1.86億

(吉隆坡23日訊) 受益于“禁烟”與營收增，英美煙草第三季淨利潤增長20%至1.86億。該公司表示，其淨利潤增長主要來自於銷量的增加，而非價格的調整。此外，該公司還通過減少營運成本，進一步提高了利潤率。

英美煙草第三季淨利潤為1.86億，較去年同期增長20%。該公司表示，其淨利潤增長主要來自於銷量的增加，而非價格的調整。此外，該公司還通過減少營運成本，進一步提高了利潤率。

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Turning 100 in style

Company celebrates centenary with glamorous black-tie affair

ARMAN

British American Tobacco (Malaysia) Bhd celebrated its centenary with a glamorous black-tie dinner at Shangri-La Hotel Kuala Lumpur on Thursday.

The dinner was graced by the Sultan of Selangor, Sultan Sharafuddin bin Shah, and was attended by about 300 people, comprising invited guests and BAT Malaysia employees.

Also present were BAT Malaysia chairman, Datuk Mohamed Sultan Fadzil bin Che and BAT Malaysia managing director William Tan.

Guests were treated to a cocktail reception while being serenaded by the classical musical ensemble of the orchestra.

While enjoying the champagne, guests were also entertained by performances from The Duetto Showcase from Australia and Shila Amal, the 22-year-old who emerged as the Asian Star 2012 champion. Asian Star was Asia's first reality singing contest held in Singapore.

In his speech, Tan thanked Sultan Sharafuddin for giving the event.

"This is a significant milestone for BAT Malaysia. In the 100th anniversary, we called the Malaysian Tobacco Company, set up its factory in Jalan Sungai Besi. It was listed on the Kuala Lumpur Stock Exchange in 1981.

"Over a hundred years in MacArthur Street,



BAT share price drop likely a knee-jerk reaction to cigarette price hike

KLALA LUMPUR: The drop in the share price of British American Tobacco (M) Bhd (BAT) is likely a knee-jerk reaction to the cigarette price hike, according to analysts.

"The share price drop is likely a knee-jerk reaction to the cigarette price hike, according to analysts. The share price of BAT fell from RM54.72 to RM52.50 on Wednesday, following the announcement of the price hike.

"The share price drop is likely a knee-jerk reaction to the cigarette price hike, according to analysts. The share price of BAT fell from RM54.72 to RM52.50 on Wednesday, following the announcement of the price hike.

BAT Q2 net profit up 20% to RM221m

PETALING JAYA: British American Tobacco (Malaysia) Bhd (BAT) saw its net profit rise 20% to RM221.6 million in the second quarter ended June 30, 2012 from RM184.14 million a year ago. Revenue increased 2% to RM1.07 billion.

BAT declared a second interim dividend of 65 sen a share, amounting to RM0.65 million. For the six-month period, the net profit came to RM454.4 million, 15% higher than the RM395.6 million a year ago, mainly due to lower operating expenses.

Revenue grew by 4% to RM2.1 billion from RM2.0 billion, thanks to higher domestic volume and higher contract manufacturing revenue.

In a filing with Bursa Malaysia yesterday, the company said it has achieved a 1.3 percentage point market share growth as at June 2012 compared with a 2.2 percentage point growth for the same period of 2011.

It currently captures a 63.3% share of the local market, with Dunhill being the key contributor.

"The brand achieved its highest-ever market share of 47.6% in June.

BAT gains from premium segment

KLALA LUMPUR: British American Tobacco (M) Bhd (BAT) has gained market share in the premium segment of the cigarette market, according to analysts.

"BAT has gained market share in the premium segment of the cigarette market, according to analysts. The company's premium brands, such as Dunhill and Pall Mall, have seen a significant increase in sales.

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theSunDaily

BAT Malaysia Q2 net profit up 2% to RM184.7m

KLALA LUMPUR: British American Tobacco (M) Bhd (BAT) saw its net profit rise 2% to RM184.7 million in the second quarter ended June 30, 2012 from RM184.14 million a year ago. Revenue increased 2% to RM1.07 billion.

BAT declared a second interim dividend of 65 sen a share, amounting to RM0.65 million. For the six-month period, the net profit came to RM454.4 million, 15% higher than the RM395.6 million a year ago, mainly due to lower operating expenses.

Revenue grew by 4% to RM2.1 billion from RM2.0 billion, thanks to higher domestic volume and higher contract manufacturing revenue.

In a filing with Bursa Malaysia yesterday, the company said it has achieved a 1.3 percentage point market share growth as at June 2012 compared with a 2.2 percentage point growth for the same period of 2011.

It currently captures a 63.3% share of the local market, with Dunhill being the key contributor.

"The brand achieved its highest-ever market share of 47.6% in June.

Them among the roses: Mark Meneses feeds himself with Rose Grace Ulett and Carol Lee.



Awards and achievements



British American Tobacco Malaysia has always placed great emphasis on managing our operations responsibly to achieve results. In 2012, the Company received international and local recognition, a testament to our high corporate governance standards, shareholder value and strong dividend payment.

Our recognition includes:

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

1 Industry Excellence Award in the Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2012

Recognition for the eleventh consecutive year for the Company's excellence in annual reporting, demonstrating high standards of corporate governance, transparency and accountability.

2 Silver Award in the Best Designed Annual Report Category for National Annual Corporate Report Awards (NACRA) 2012

Recognition for the Company's excellence in presentation and readability of the annual report to various audiences.

3 High Recognition for 2012 FinanceAsia Awards Poll

Recognition for the twelfth consecutive year for the Company's landmark achievements in overall management, corporate governance, corporate social responsibility, investor relations practices and commitment to strong dividend payment.

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

Recognition for the third consecutive year for the Company in achieving the highest return on equity in consumer products as evaluated by The Edge.

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

Recognition for the Company in achieving the highest return on equity among companies with more than RM10 billion market capitalisation as evaluated by The Edge.

6. Gold Award for Investor Relations for The Asset Corporate Awards 2012

Recognition for the Company's commitment to good investor relations.

2012 Corporate events highlights

JANUARY

- Installed an additional DUNHILL resealable Reloc machine. Commercial production on this machine also began in January 2012.



APRIL

- Relaunched DUNHILL Switch.
- Held fifty-first Annual General Meeting.



MARCH

- Published the British American Tobacco Malaysia Annual Report 2011.

MAY

- Held British American Tobacco Malaysia Family Day in Putrajaya Wetlands.
- New Exclusive Distributors (EDx) model successfully completed in Peninsular Malaysia.



FEBRUARY

- Kick off meeting at Sunway Resorts Hotel and the launch of the 100 Years Celebration.
- Conducted financial analyst briefing on Fourth Quarter 2011 financial results.
- Presented 15 new homes through British American Tobacco Malaysia Foundation in collaboration with KESEDAR, in Gua Musang.
- Launched PALL MALL Mint.



JUNE

- Obtained recertification for ISO 9001: 2008, ISO 14001: 2004 and OHSAS 18001: 2007.

JULY

- Recognised by The Edge for achieving the highest return on equity in the consumer product category and highest return on equity among companies with more than RM10 billion market capitalisation.
- Launched the new pack designs for PALL MALL.



OCTOBER

- Conducted financial analyst briefing on third quarter 2012 financial results.



DECEMBER

- Awarded scholarships to scholars pursuing higher education.
- British American Tobacco Malaysia Centennial Dinner graced by HRH Sultan of Selangor.
- British American Tobacco Malaysia Year End Bash which was celebrated together with IT Kuala Lumpur and BASS AsPac.



AUGUST

- Operations began major upgrading of its Dry Ice Expanded Tobacco (DIET) plant.

NOVEMBER

- Received Industry Excellence Award in the Consumer Products Category and Silver Award in the Best Designed Annual Report Category for National Annual Corporate Report Awards 2012.
- Received recognition for 2012 FinanceAsia awards poll in categories such as most committed to a strong dividend policy, best corporate governance and best managed company.



SEPTEMBER

- Successful landing of the Global Enterprise Resource Planning Solution.
- Awarded the Higher Education Starter Kit to tobacco farming community.



Corporate information

BOARD OF DIRECTORS

Datuk Mohamad Salim bin Fateh Din

DPMS, DSAP, DSPN, JP, PJN
Independent Non-Executive Director
Chairman

Datuk William Toh Ah Wah

PMW, AMP, PJK
Non-Independent Executive Director

Andreas Michael Thompson

Non-Independent Executive Director

Datuk Oh Chong Peng

PJN, JSM
Independent Non-Executive Director

Dato' Chan Choon Ngai

DSNS
Non-Independent Non-Executive Director

James Richard Suttie

Non-Independent Non-Executive Director

Dato' Ahmad Johari bin Tun Abdul Razak

DPCM, DSIS, DSAP
Independent Non-Executive Director

Datuk Zainun Aishah binti Ahmad

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

Christine Lee Oi Kuan

Non-Independent Executive Director

Secretary

Chan Mei Mae (LS0009460)
Tel: +60 (3)7491 7326
Fax: +60 (3)7491 3772
E-mail: Claire_Chan_Mei_Mae@bat.com

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Selangor Darul Ehsan
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Fax: +60 (3)7955 8416
E-mail: bat_malaysia@bat.com

Company Website

www.batmalaysia.com

Share Registrar

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

Auditors

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

Principal Bankers

Citibank Berhad
(Company No. 297089-M)
HSBC Bank Malaysia Berhad
(Company No. 127776-A)
Malayan Banking Berhad
(Company No. 3813-K)
The Royal Bank of Scotland Berhad
(Company No. 301932-A)

Stock Exchange Listing

Main Market of Bursa Malaysia
Securities Berhad
(Company No. 635998-W)
Listed Since: 27 October 1961
Stock Code: 4162
Stock Name: BAT

Corporate structure



BRITISH AMERICAN
TOBACCO
MALAYSIA

Note:

For the full list of the Company's subsidiaries, please refer to Note 13 to the Reports and Financial Statements on page 164 of this Annual Report.

100% Commercial Marketers and Distributors Sdn. Bhd.
(Marketing and Importation)

100% Commercial Importers and Distributors Sdn. Bhd.
(Investment Holding)

100% The Leaf Tobacco Development Corporation of Malaya Sdn. Berhad
(Purchase of Tobacco Leaf)

100% Tobacco Importers and Manufacturers Sdn. Berhad
(Manufacturing and Sale)

100% Rothmans Brands Sdn. Bhd.
(Trademarks Holding)

100% Commercial Marketers and Distributors Sdn. Bhd.
(Incorporated in Negara Brunei Darussalam)
(Advertising and Importation)



100 years of LEADERSHIP



Unwavering vision to be the best in the tobacco business.

Profile of Directors



DATUK MOHAMAD SALIM BIN FATEH DIN

DPMS, DSAP, DSPN, JP, PJK
(Independent Non-Executive Director)
Chairman
Malaysian, Age 56 years

Datuk Mohamad Salim bin Fateh Din was appointed Chairman of British American Tobacco (Malaysia) Berhad on 11 April 2012. He was also appointed Chairman of the Remuneration and Nomination Committees.



DATUK WILLIAM TOH AH WAH

PMW, AMP, PJK
(Non-Independent Executive Director)
Managing Director
Malaysian, Age 56 years

Datuk William Toh Ah Wah was appointed a Director of British American Tobacco (Malaysia) Berhad on 5 March 2009 and as Managing Director of the Company on 1 October 2009.

Datuk William Toh holds a Bachelor of Commerce from the Concordia University, Montreal, Canada. He joined Rothmans of Pall Mall (Malaysia) Berhad in 1981 as a management trainee, now British American Tobacco (Malaysia) Berhad and held various marketing roles including Area Manager



DATUK OH CHONG PENG

PJK, JSM
(Independent Non-Executive Director)
Malaysian, Age 68 years

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

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

Datuk Oh joined Coopers & Lybrand (now known as PricewaterhouseCoopers) in London in 1969 and in Malaysia in 1971. He was a partner of Coopers &

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

Datuk Mohamad Salim is currently Managing Director of Gapurna Sdn. Bhd. and sits on the boards of its group of

companies; and is the Non-Executive Chairman of GCH Retail (Malaysia) Sdn. Bhd.; a commission member of the Malaysian Communications and Multimedia Commission, and the Chairman of the Malaysia-Pakistan Business Council. He is also a long-serving member of the Board of Trustees at the Yayasan Pendidikan Cheras.

Since his appointment to the Board of Directors, Datuk Mohamad Salim has attended three Board Meetings in the financial year ended 31 December 2012.

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

and Marketing Manager. He was seconded to China in 1991 and during his tenure overseas has held various positions including General Manager for Shandong Rothmans Tobacco Company Limited, China (1991-1994), Sales & Marketing Director China/Hong Kong for Rothmans (Far East) Limited (1994-1996), General Manager Taiwan of Rothmans (Far East) Taiwan Limited (1996-1997), General Manager China/Hong Kong of Rothmans (Far East) Limited (1997-1998) and Managing Director Greater China of Rothmans (Far East) Limited (1998-1999).

He joined British American Tobacco (Malaysia) Berhad in 1999 and thereafter held various positions including Business Development Director China for British American Tobacco Asia Pacific North (1999-2003), Managing Director of British American Tobacco New Zealand Limited (2003-2005), Managing Director of Pakistan Tobacco Company Limited

(2005-2008), the Area Director of British American Tobacco South Asia Area (2007-2008), the Area Director of the Indonesia Cluster (covering the markets of Indonesia, Thailand and Philippines) (2008-2009) and the Regional Project Manager of British American Tobacco Asia Pacific Region Limited (2008-2009).

Datuk William Toh is a member of Remuneration Committee and the Executive Compensation Committee of the Company. Datuk William Toh attended all four Board Meetings in the financial year ended 31 December 2012.

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

Lybrand, Malaysia from 1974 and retired as a Senior Partner of Coopers & Lybrand in 1997.

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

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

His past appointments include being a Government appointed Committee Member of the Kuala Lumpur Stock Exchange (1990-1996), a Council member (1981-2002), a past President (1994-1996) of the Malaysian Institute of Certified Public Accountants (MICPA) and a board member of Malaysian

Accounting Standards Board (MASB) (2003-2009). He was Chairman of Land & General Berhad (1999-2007) and Nanyang Press Holdings Berhad (2001-2005) and was a board member of Rashid Hussain Berhad Group of Companies (1998-2003) and Star Publications (M) Bhd (1987-2009).

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

Datuk Oh attended all of the four Board Meetings which were held in the financial year ended 31 December 2012.

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

**ANDREAS MICHAEL THOMPSON**

(Non-Independent Executive Director)

Finance Director

British, Age 44 years

Andreas Michael Thompson was appointed a Director of British American Tobacco (Malaysia) Berhad on 1 March 2011. He is a member of the Chartered Institute of Management Accountants and holds a Bachelor of Accounting (Hons) from the University of Central Lancashire, Preston, United Kingdom. He joined British American Tobacco p.l.c as Finance

**DATO' CHAN CHOON NGAI**

DSNS

(Non-Independent Non-Executive Director)

Malaysian, Age 58 years

Dato' Chan Choon Ngai was appointed Production Director of the then Rothmans of Pall Mall (Malaysia) Berhad, now British American Tobacco (Malaysia) Berhad in October 1995. He holds a Bachelor of Science in Mechanical Engineering degree from the University of Birmingham, United Kingdom. He joined Rothmans of Pall Mall (Malaysia) Berhad in 1979, as Production management trainee and held various significant positions in the production division including Production Executive Make and Pack

**DATO' AHMAD JOHARI BIN****TUN ABDUL RAZAK**

DPCM, DSIS, DSAP

(Independent Non-Executive Director)

Malaysian, Age 58 years

Dato' Ahmad Johari Razak bin Tun Abdul Razak was appointed a Director of British American Tobacco (Malaysia) Berhad on 5 March 2009. Dato' Ahmad Johari holds a Bachelor of Laws degree from the University of Kent, United Kingdom. He was called to the Bar of England and Wales at Lincoln's Inn in 1976 and was admitted as an Advocate and Solicitor of the High Court of Malaya in 1977. He practiced law with a large law

graduate trainee in 1993 whereupon graduation he undertook a number of Finance roles within the Asia Pacific region. Over the last ten years he has held various positions including Director of Marketing Finance of Brown & Williamson Tobacco Corporation Inc (2001-2004), Finance & IT Director of A/T British American Tobacco Prilucky Tobacco Company (2004-2007), Area Finance Director of the Middle East & Caucasus (2007-2008).

Prior to his appointment with British American Tobacco (Malaysia) Berhad as Finance Director, Andreas Thompson led the Finance integration of BAT's ST acquisition, thereafter becoming the Head of Finance for the Northern Europe Cluster (2008-2011) based in Denmark.

Andreas Thompson has attended all of the four Board Meetings in the financial year ended 31 December 2012.

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

(1980-1982), Personal Assistant to Rothmans International World Production Director, Rothmans International United Kingdom (1982-1984), Acting Factory Manager Rothmans of Pall Mall (Malaysia) Berhad (1984-1986), Factory Manager Rothmans of Pall Mall (Malaysia) Berhad (1986-1994) and Production Director (Designate) of Rothmans of Pall Mall (Malaysia) Berhad (1994-1995). He was a director of Tien Wah Press Holdings Berhad from May 1997 to June 2003.

In July 2000, Dato' Chan was appointed as the Operations Director of British American Tobacco (Malaysia) Berhad. Effective 15 November 2010, Dato' Chan's portfolio has been expanded to include the Business Development Services function in addition to his current role as the Operations Director of the Company. Dato' Chan retired on 31 December 2010 after attaining the age of 55. He was subsequently

appointed as the Operations Director of British American Tobacco (Malaysia) Berhad effective 1 February 2011. He was re-designated as Non-Independent Non-Executive Director of British American Tobacco (Malaysia) Berhad on 1 January 2013 following the expiry of his contract of service as Operations Director of the Company on 31 December 2012.

Dato' Chan attended all of the four Board Meetings which were held in the financial year ended 31 December 2012.

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

firm from 1979 and was a partner of the firm from 1981 to 1994. He re-joined the firm as a partner on 1 August 2007.

Dato' Ahmad Johari is currently the Chairman of Ancom Berhad, Courts Mammoth Sdn Bhd and Daiman Development Berhad and a director of Hong Leong Industries Berhad, Daiman Golf Berhad and Deutsche Bank (Malaysia) Berhad. He is also a member of other board committees in Hong Leong Industries Berhad, Ancom Berhad, Daiman Development Berhad and Deutsche Bank (Malaysia) Berhad. In the academic field, he is presently an Adjunct Professor at University of Technology Mara Law Faculty.

Dato' Ahmad Johari is a member of the Nomination Committee of the Company and he attended all of the four Board Meetings in the financial year ended 31 December 2012.

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

**JAMES RICHARD SUTTIE**

(Non-Independent Non-Executive Director)
British, Age 66 years

James Richard Suttie was appointed a Director of British American Tobacco (Malaysia) Berhad in May 2002. He is a member of the Institute of Chartered Accountants of Scotland. He joined Rothmans International p.l.c as a Commercial Accountant/Manager in 1972 and became the Finance Director of Carreras of Jamaica Ltd. in 1982, Rothmans International Europe in 1984 and Rothmans of Pall Mall (Malaysia)

**DATUK ZAINUN AISHAH BINTI AHMAD**

KMN, PMP, DPMP, JSM, PJN
(Independent Non-Executive Director)
Malaysian, Age 67 years

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

Datuk Zainun graduated with a Bachelor of Economics degree from University of Malaya. She began her career with Malaysian Industrial

**CHRISTINE LEE OI KUAN**

(Non-Independent Executive Director)
Corporate and Legal Affairs Director
Malaysian, Age 54 years

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

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

Berhad in 1992. In 1997, he was appointed the Regional Finance Controller for Rothmans International in Asia. In 1999, he was appointed the Regional Finance Controller, Africa and in 2002 as Regional Finance Controller, Asia Pacific, of British American Tobacco p.l.c until his retirement from British American Tobacco p.l.c on 31 December 2006.

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

James Suttie attended all of the four Board Meetings which were held in the financial year ended 31 December 2012.

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

Development Authority (MIDA), the Malaysian government's principal agency for the promotion and coordination of industrial development in the country where she worked for 35 years. In her years of service, Datuk Zainun held various key positions in MIDA as well as in some of the country's strategic councils, notably her pivotal role as the National Project Director in the formulation of the first Malaysian Industrial Master Plan. She was the Director-General of MIDA for nine years and Deputy Director-General for 11 years.

She was previously a Director of Tenaga Nasional Berhad and Malayan Banking Berhad. Currently, she is a Director of Degem Berhad, Microlink Solutions Berhad, Scomi Engineering Berhad,

Shell Refinery Company (Federation of Malaya) Berhad, Berjaya Media Berhad and Berjaya Food Berhad. Datuk Zainun also sits as Chairman of Pernek Corporation Berhad, a public company.

Datuk Zainun is a member of the Audit Committee of the Company. Since her appointment to the Board of Directors on 1 March 2012, Datuk Zainun has attended three Board Meetings in the financial year ended 31 December 2012.

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

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

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

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

Since her appointment to the Board of Directors on 1 March 2012, Christine Lee has attended three Board Meetings in the financial year ended 31 December 2012.

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

Profile of Top Team members



from left: Datuk William Toh Ah Wah, Marcelo Guimaraes, Murali Thanabalan

Datuk William Toh Ah Wah

PMW, AMP, PJK
Managing Director
Malaysian, Age 56 years

For details of Datuk William Toh's profile, please refer to page 24 of this Annual Report.

Marcelo Alvarenga Guimaraes

Marketing Director
Brazilian, Age 41 years

Marcelo Alvarenga Guimaraes was appointed Marketing Director of British American Tobacco (Malaysia) Berhad on 1 January 2013. He joined British American Tobacco entity in Brazil, Souza Cruz as a management trainee in 1995 and has held various positions in Marketing, before leaving in 1999 to pursue his MBA at Manchester Business School, United Kingdom.

He subsequently was seconded to British American Tobacco Caribbean and Central America (British American Tobacco entity in Costa Rica) and Nobleza Piccardo (British American Tobacco entity in Argentina, also overlooking Paraguay and Venezuela). He returned to Souza Cruz in 2007, becoming Head of Brands in 2008.

In 2010, Marcelo moved to British American Tobacco p.l.c as Marketing Sustainability and Innovation Strategy Manager, in the Marketing Futures Team in Central Marketing. In 2012, he joined the Strategy and Planning Team, playing a key role in the Global Resource Allocation and the Re-articulation of the Global Strategy.

Marcelo holds a Bachelor of Science in Economics from Pontificia Universidade Catolica of Rio De Janeiro, Brazil, Master of Business Administration from Manchester Business School, United Kingdom and Master of Business Knowledge Management from Coppe/Universidade Federal Do Rio De Janeiro, Brazil.

Murali Thanabalan

Human Resources Director
Malaysian, Age 51 years

Murali Thanabalan joined the Company in July 1997 as Compensation and Benefits Manager.

Post the merger of Rothmans of Pall Mall (Malaysia) Berhad and Malaysian Tobacco Company Berhad in 1999, Murali was appointed Rewards Manager of British American Tobacco Malaysia with the key focus of integrating the rewards platform. He then ventured out to pursue other interests in 2000 before rejoining the Company the following year. Thereafter he was seconded to British American Tobacco Nigeria as Rewards Manager in 2002, where he then became Rewards Manager for West and Central Africa before succeeding as Human Resources Director for British American Tobacco Nigeria.

Murali then moved to Kenya as Area Head of Human Resources of Sub Saharan Africa before returning in the same capacity to South Asia Area in 2010. On 1 March 2012, Murali assumed the role of Human Resources Director of British American Tobacco Malaysia.

Murali holds a degree in Economics and Statistics from the National University of Singapore.



from left: Andreas Michael Thompson, Christine Lee Oi Kuan, Joel Solomon, Azlan Ibrahim

Andreas Michael Thompson

Finance Director
British, Age 44 years

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

Christine Lee Oi Kuan

Corporate and Legal Affairs Director
Malaysian, Age 54 years

For details of Christine Lee's profile, please refer page 28 of this Annual Report.

Joel Solomon a/l Enock Solomon

Operations Director
Malaysian, Age 38 years

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

In 2007, Joel was moved to the role of Supply Planning Manager for British American Tobacco (Malaysia) Berhad covering a wider scope of end-to-end planning as well as defining the supply footprint for Malaysia. He was thereafter moved to a project role in January 2009, to shape the Company's supply chain and seconded to Singapore in May 2009 to assume the role of Regional Production Planning Manager which involved the setting up of the

regional planning hub as well as the process, governance and organisation of the hub itself. He was promoted to Regional Supply Planning Manager in 2011 to head both production planning and distribution planning where his role involved reshaping of the supply models, introduced new supply models as well as paved way for the regional footprint redesign.

He holds an Engineering Degree from the University of Malaya.

Azlan bin Ibrahim

Head of Business Development Services
Malaysian, Age 53 years

Azlan bin Ibrahim joined the British American Tobacco (Malaysia) Berhad in June 1987 as a Marketing management trainee, after completing his education from the University of Southern Illinois, USA. He underwent a nine months training period where he was then sent to Pahang to be the Acting Area Sales Manager from 1988 to 1989. He was then confirmed as the Area Sales Manager in 1989. Thereafter, Azlan was transferred to Kota Bharu to look after the Kelantan and Terengganu markets. In 1993, he was made the Regional Sales Manager for the Northern Region.

Azlan was promoted to the role of Sales Manager in 1994 and during the pre-merger period, he was assigned to the role of National Sales Manager for Rothmans. Post-merger, he became the Regional Trade and Distribution Manager until 2001.

In 2002, after 15 years in Marketing, Azlan was made the Business Development Manager. In 2003, he became the Head of Business Development and in 2011, he was given the responsibility to also be in-charge of Security and changed his position to Head of Business Development Services.



GOVERNANCE

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
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Standards of Business Conduct

Our Group's employees are governed by the Standards of Business Conduct ("Standards") which form an integral part of our Group's corporate governance. Together with the Statement of Business Principles, it continues to underpin our commitment to high standards of corporate responsibility.

The Standards require all employees to operate in accordance with high standards of business integrity and comply with laws and regulations. Employees must exercise honesty, objectivity and diligence in doing their work and must ensure that the Standards are never compromised for the sake of results.

The Standards are designed to:

- (a) help employees who are faced with making difficult judgements in the course of doing their work and ensure that all decisions and judgements made by employees are lawful and comply with high ethical standards;
- (b) set a tone and culture for the organisation which will enable it to be regarded as a good corporate citizen; and
- (c) give reassurance to the Group's stakeholders, with whom the Group comes into business contact.

The areas covered by the Standards are:

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

The Standards were updated, revised and subsequently approved by the Board of Directors on 23 October 2012, to be in line with the amendments made to British American Tobacco p.l.c's Standards and to provide further clarity and guidance to employees.

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

No.	Section	Key Changes
1.	Whistleblowing	Express references of criminal offences are given in the indicative list of wrongdoing. The examples given are fraud, money laundering, bribery and corruption.
2.	Bribery and Corruption	Prohibitions and penalties under the Malaysian Anti-Corruption Commission Act 2009 are set out.
3.	Gifts and Entertainment	Modest amount is defined to be gifts valued at RM1,000 or less within the private sector.
4.	Competition and Anti-Trust laws	Revised to ensure that the Standards remains in line with the provisions of the Competition Act 2010 and the Group's Competition Compliance Guidelines.
5.	Trade in the Group's Products	New paragraph included to this section to ensure that the Group and its employees co-operate with all relevant authorities in any investigation conducted in relation to illicit trade.

The revised Standards were duly communicated to all employees of the Group through an announcement on the Group's intranet and email notification. The revised Standards have also been uploaded to the Group's intranet and website respectively. Additionally, the Legal Department will be conducting awareness training to all employees on the revised Standards in March 2013.

Compliance with the Standards is monitored regularly by the Board of Directors and Audit Committee of the Company. The Legal Department/Company Secretary of the Group is charged with the responsibility of reporting to the Board of Directors on an annual basis, the compliance of these Standards by the Group and its employees.

Statement on Corporate Governance

The Company and its Board of Directors (Board) is committed to continuously strive for the highest standards of corporate governance to ensure that its business and affairs are in strict adherence to the doctrine and principles of good corporate governance such as integrity, transparency, accountability and responsible business conduct to safeguard the interests of its shareholders and stakeholders.

The Board believes in ensuring the highest standards of corporate governance as it will serve to strengthen the Company's sustainability, organisational effectiveness and drive a high-performance culture within the organisation.

British American Tobacco Malaysia's corporate governance is set out in the British American Tobacco Malaysia's Code of Corporate Governance (BATM Code), which has been developed and enhanced based on the principles and best practices outlined in the following:

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

Such principles and best practices are applied throughout the Group.

The conduct of all employees of the Group including the Board are governed by the Standards of Business Conduct. Each and every employee, including the Directors, are expected to live up to the Standards of Business Conduct and are required to confirm their commitment and compliance by executing a declaration of compliance annually.

Examples of provisions in the Standards of Business Conduct include, avoiding situations where there are conflicts of interest, interest in competing businesses, prohibition on use of inside information, corporate opportunities, insider dealing and bribery and corruption.

As part of the Company's on-going effort to enhance the application of the highest standards of governance across the Group in line with best global practices, the Standards of Business Conduct are constantly reviewed by the Board from time to time. The Standards of Business Conduct were updated, revised and subsequently approved by the Board of Directors on 23 October 2012, to be in line with the amendments made to British American Tobacco p.l.c's Standards and to provide further clarity and guidance to employees. A summary of the key changes made to the revised Standards of Business Conduct can be found in the Standards of Business Conduct statement, please refer to page 33 of this Annual Report.

In addition to the Standards of Business Conduct, the Company is also guided by the Company's Statement of Business Principles. The Business Principles covers key matters that underpin Corporate Responsibility (CR) for a multinational business and more particularly, the unique characteristics of a tobacco business. The three Business Principles are Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct, each of which is supported by a core belief which explains and supports the Business Principles.

Both the Standards of Business Conduct as well as the Business Principles are made available to our employees and Directors on the Company's intranet (Interact website) and the Company's corporate website at www.batmalaysia.com.

Apart from the Company's Standards of Business Conduct and Business Principles, the Company also has in place the Statement of Delegated Authorities, which supports good corporate governance and prudent control of risks and investment management. In the Company's Statement of Delegated Authorities, the Board has specifically reserved matters such as establishment of new businesses or factories, annual strategic plan, approval of major capital expenditure, acquisition and disposal of businesses or equity, borrowings and any corporate restructuring, for its decision.

The Company's Articles of Association was amended in 2012 to incorporate the amendments to the Listing Requirements. Some of the key amendments included allowing an exempt authorised nominee to appoint multiple proxies for each omnibus account, removal of proxies qualification and giving the proxies the same rights as members to speak at the general meeting.

The amendments to the Articles of Association were approved by the shareholders at the 2012 Annual General Meeting on 10 April 2012.

Other internal policies, guidelines and code

Additionally, the Company also has in place the following internal policies, guidelines and code to ensure good corporate governance:

1. Policy on Indirect Procurement – which outlines the processes for obtaining the best overall value and quality for each amount spent and to ensure timely delivery of goods and services to meet the Group's business requirements
2. Code of Practice on Sexual Harassment (BATM Sexual Harassment Code) – to ensure that all employees are treated with respect and dignity regardless of gender and to outline that any form of sexual harassment which disrupts or interferes with the work performance and dignity of another will not be tolerated
3. Procedures on Company Vehicle Accident and Theft Reporting
4. Guidelines on Managing Cases Involving Employees and Law Enforcement Authorities
5. Guidelines on Replacement Leave
6. Procedures on Company Motor Vehicle Use and Upkeep
7. Policy on Medical Board Out (MBO)
8. Guidelines on Employee Engagement – to govern employees' engagement and consultation on matters which are of interest to employees such as the employment status and key employment terms
9. Employment Principles
10. Policy on Environment, Health and Safety
11. International Marketing Principles – a framework to govern all aspects of tobacco marketing
12. Guidelines on Dawn Raid – sets out the procedures to be adhered to when there is a raid by relevant authorities so that the necessary co-operation can be provided
13. Procedures on Credit for trade debtors and intercompany balances

The abovementioned policies, guidelines, code, procedures and practices are made available to all our employees and Directors on the Company's intranet.

The Group is dedicated and committed in managing its business responsibly amidst a challenging environment for the tobacco industry and the awards and achievements that the Company has received are testimony of such dedication and commitment. For details of these awards and achievements, please refer to page 19 of this Annual Report.

The Company had fully complied with the abovementioned corporate governance principles and best practices. This Statement on Corporate Governance (Statement) together with the Statement on Risk Management and Internal Control sets out the manner in which the Company had applied the Company's corporate governance principles and best practices.

Board of Directors

Board of Directors' composition

The Board of Directors' composition complies with the requirements mandated by the Listing Requirements and as prescribed by the principles and best practices of the Malaysian Code and the CG Guide. The Board comprises a mixture of Executive and Non-Executive Directors from diverse professional backgrounds with a wealth of experience, skills and expertise.

The Board's composition was recently rejuvenated with the appointment of a new Chairman, Datuk Mohamad Salim bin Fateh Din on 11 April 2012, following the retirement of the previous Chairman, Tan Sri Abu Talib bin Othman. In addition to this, two female directors, Datuk Zainun Aishah binti Ahmad and Ms. Christine Lee Oi Kuan were appointed to the Board. Datuk Zainun Aishah binti Ahmad is an Independent Non-Executive Director whilst Ms. Christine Lee Oi Kuan sits on the Board as a Non-Independent Executive Director. Datuk Zainun was also appointed the Chairman of the Executive Compensation Committee (ECC), a sub-committee reporting in to the Remuneration Committee and a member of the Audit Committee.

Subsequently on 1 January 2013, Dato' Chan Choon Ngai (previously the Operations Director of the Company and also Non-Independent Executive Director of the Board) was re-designated to the role of Non-Independent Non-Executive Director of the Company following the expiry of his contract of service as Operations Director of the Company on 31 December 2012.

As at the date of this Statement, the Board consists of nine members, six of which are Non-Executive Directors (including the Chairman) and the remaining three are Executive Directors. Four out of the six Non-Executive Directors are Independent Non-Executive Directors. Please refer to pages 24 to 29 for details of the Directors on the Board, their profiles and their respective memberships.

The current size and composition of the Board reflects the interest of shareholders as the current structure of the Board ensures that no single individual or group dominates the decision making process. Further, the Non-Executive Directors act as caretakers of the minority shareholders and their views carry significant weight in the Board's decision making process.

The composition of the members of the Board reflects a good mix of experience, backgrounds, skills, gender and qualifications and the members are all professionals of high calibre and integrity, possessing in-depth knowledge and experience of the tobacco business which are vital to the sustainability of the business.

The roles of Chairman and Managing Director are also separately held, and the division of their responsibilities is clearly established, with each having distinct and clearly defined authority and responsibilities. The duties and responsibilities of the Chairman and the Managing Director are clearly outlined in the BATM Code.

The Chairman's role is to provide leadership to the Board, facilitate the meeting process, setting the agenda for all Board of Directors meetings and ensure that the Board and its Committees function effectively. Once the objectives and strategies have been reviewed and adopted by the Board of Directors as a whole, the Managing Director's responsibility is to ensure the delivery of such objectives and strategies within the authority limits delegated by the Board of Directors.

The Managing Director is responsible for the stewardship of the Group's direction and the day-to-day management of the Company. It is the duty of the Managing Director, working together with the other senior management of the Group, to manage the business of the Group in the manner consistent with all relevant code, policies, standards, guidelines, procedures and practices of the Group and in accordance with any specific plans, instructions and directions of the Board.

Principle responsibilities of the Board

The Board of Directors is primarily entrusted with the responsibility of setting the goals and the direction of the Company. The Board of Directors also directs the Company's risk assessment and ensures implementation of appropriate systems to manage these risks, reviewing and adopting strategic plans for the Group, succession planning, including appointing, training, fixing the compensation and where appropriate, replacing senior management and financial and operational management. The Board provides the leadership necessary to enable the Group's business objectives to be met within the framework of internal controls as described in this Statement. Other key duties for the Board includes declaring dividends, approving financial statements and accounting policies of the Group, reviewing the adequacy and integrity of the Group's internal control systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Further, pursuant to the Company's Statement of Delegated Authorities, the Board of Directors is also tasked to decide on the following business transactions and activities:

- Acquisition, disposal or closure of a business.
- Establishment of new businesses.
- Annual strategic plan.
- Capital investment and disposal of tangible assets from existing business to third party.
- Purchase or sale of trademarks.
- Proposal of borrowings.
- Guarantee and Letters of Comfort.
- Proposal for borrowings or the grant of extended credit facilities by an operating subsidiary from another group company.
- Increase or reduction by an operating subsidiary of authorised or issued capital.
- Unbudgeted redemption or early repayment of loans.
- Any corporate restructuring not covered by any of the above paragraphs.
- The change of name of any group company and the establishment of any new company.

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

The Board has a collective responsibility for the management of the Company. The Executive Directors are responsible for the day-to-day management of financial and operational matters in accordance with the strategic direction established by the Board. The Non-Executive Directors do not participate in the day-to-day management of the Company and do not engage in any business dealing or other relationship with the Company to ensure that they are capable of exercising judgment objectively and act in the best interest of the Company, its shareholders and minority shareholders. The Board also acknowledges the importance of Independent Directors who are tasked with providing unbiased and independent views, advice and judgment, which take into account the interests of the Group and all its stakeholders including shareholders and employees.

Top Team

In discharging the abovementioned responsibilities and duties, the Board of Directors are duly assisted by the senior management of the Company, namely the Top Team. The Top Team consists of senior employees holding the following positions:

- (i) Managing Director
- (ii) Finance Director
- (iii) Marketing Director
- (iv) Operations Director
- (v) Corporate and Legal Affairs Director
- (vi) Human Resources Director
- (vii) Head of Business Development Services

For details of each Top Team member, please refer to pages 30 to 31 of this Annual Report.

The responsibilities and authorities of the Top Team are clearly defined in the Company's Corporate Authority Limit, which is read with the Company's Statement of Delegated Authorities.

The Top Team is charged with the responsibility of implementing the policies and decisions of the Board, overseeing the operations as well as developing, coordinating and implementing business and corporate strategies.

The relevant member of the Top Team will also be invited to attend Board meetings and provide the Board with any such relevant information or updates, as and when is required by the Board.

Company Secretary

The Company Secretary provides support to the Chairman of the Company to ensure the effective functioning of the Board. The Company Secretary also organises and attends all Board meetings and Board Committees meetings, ensuring that an accurate and proper record of deliberation of issues discussed, decisions and conclusions are taken.

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

Board and Board Committee meetings

The composition of the Board Committees as at 31 December 2012 and the attendance of the Directors at the Board and Board Committees meetings held in 2012 are as follows:

Directors	Board	Audit Committee (AC)	Remuneration Committee (RC)	Nomination Committee (NC)	CSR Committee (CSR)	Executive Compensation Committee (ECC)
Datuk Mohamad Salim bin Fateh Din¹ <i>Independent Non-Executive Director (Chairman)</i>	3/4	N/A – Not an Audit Committee member	1/3 ²	0/1 ³	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Tan Sri Abu Talib bin Othman⁴ <i>Independent Non-Executive Director</i>	1/4	1/4	1/3	1/3	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Datuk Oh Chong Peng <i>Independent Non-Executive Director</i>	4/4	4/4	3/3	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Dato' Ahmad Johari bin Tun Abdul Razak⁵ <i>Independent Non-Executive Director</i>	4/4	1/4	N/A – Not a Remuneration Committee member	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Datuk Zainun Aishah binti Ahmad⁶ <i>Independent Non-Executive Director</i>	3/4	3/4	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
James Richard Suttie <i>Non-Independent Non-Executive Director</i>	4/4	4/4	3/3	1/1	N/A – Not a CSR Committee member	N/A – Not an Executive Compensation Committee member
Datuk William Toh Ah Wah <i>Non-Independent Executive Director (Managing Director)</i>	4/4	N/A – Not an Audit Committee member	3/3	N/A – Not a Nomination Committee member	2/2	1/1
Andreas Michael Thompson <i>Non-Independent Executive Director (Finance Director)</i>	4/4	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	1/2	0/1

Directors	Board	Audit Committee (AC)	Remuneration Committee (RC)	Nomination Committee (NC)	CSR Committee (CSR)	Executive Compensation Committee (ECC)
Dato' Chan Choon Ngai ⁷ <i>Non-Independent Non-Executive Director</i>	4/4	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	1/2	N/A – Not an Executive Compensation Committee member
Christine Lee Oi Kuan ⁸ <i>Non-Independent Executive Director (Corporate and Legal Affairs Director)</i>	3/4	N/A – Not an Audit Committee member	N/A – Not a Remuneration Committee member	N/A – Not a Nomination Committee member	2/2	N/A – Not an Executive Compensation Committee member

¹ Datuk Mohamad Salim bin Fateh Din was appointed Independent Non-Executive Director and Chairman effective 11 April 2012.

² The meetings were held prior to the appointment of Datuk Mohamad Salim bin Fateh Din on 11 April 2012.

³ The meeting was held prior to the appointment of Datuk Mohamad Salim bin Fateh Din on 11 April 2012.

⁴ Tan Sri Abu Talib bin Othman retired as Independent Non-Executive Director and Chairman of the Company with effect from 29 February 2012.

⁵ Dato' Ahmad Johari bin Tun Abdul Razak ceased to be a member of the Audit Committee effective 24 April 2012.

⁶ Datuk Zainun Aishah binti Ahmad was appointed Independent Non-Executive Director effective 1 March 2012.

⁷ Dato' Chan Choon Ngai was re-designated to Non-Independent Non-Executive Director effective 1 January 2013 following the expiry of his contract of service as Operations Director of the Company on 31 December 2012.

⁸ Christine Lee Oi Kuan was appointed Non-Independent Executive Director effective 1 March 2012.

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

The Board has a regular schedule of matters which are in the agenda and reviewed during the course of the year. These are the Managing Director's Quarterly Reports, the Quarterly Unaudited Consolidated Results and recommendations made in the minutes of the Audit Committee, Remuneration Committee and Nomination Committee.

In 2012, amongst the key issues presented for consideration by the Board were:

- Managing Director's Quarterly Reports.
- Quarterly Unaudited Consolidated Results.
- Recurrent Related Parties Transactions' Quarterly Reports.
- Directors' Performance Evaluation 2011.
- All announcements released to Bursa Malaysia Securities Berhad.
- Company's Corporate Social Responsibilities activities.
- Company's Enterprise Risk Management Programme.
- Company's Annual Report (which includes the Statement on Corporate Governance, Statement on Risk Management and Internal Control, Audit Committee Report and Statement on Corporate Social Responsibility).
- Company's Audited Financial Statements.
- Revision of Company policies and standards such as the Standards of Business Conduct and Credit Policy and Procedures for Trade Debtors and Intercompany Balances.

Where any decisions are required expeditiously or urgently from the Board between the scheduled meetings, special Board meetings are convened by the Company Secretary with sufficient notice, after consultation with the Chairman. The agenda for Board meetings are set by the Chairman in consultation with the Managing Director and the Company Secretary.

Additionally, management employees or external advisors are invited to attend Board and Board Committees meetings to advise the Board and Board Committees members and furnish the members with information and clarification as and when required on items in the agenda tabled to the Board and Board Committees to enable them to arrive at a decision.

Decisions of the Board are made unanimously or by consensus and these decisions and conclusions are recorded in the minutes of the Board and Board Committees respectively. Where the Board or Board Committee is considering a matter in which a Director has an interest, the relevant Director abstains from deliberating and voting on the subject matter. Minutes of all Board and Board Committees meetings are also circulated to all Directors for their review as well as confirmation. The Directors may request for clarification or raise comments on the minutes prior to confirmation of the minutes.

Where appropriate, decisions may be taken by way of Directors' Circular Resolution between scheduled and special meetings. In 2012, eleven resolutions were approved by the Directors via Circular Resolutions which covered matters such as the disposal of properties and finance matters such as the change of bank signatories.

Board Committees and Sub-Committees

There are three main Board Committees; namely the Audit Committee, Nomination Committee and Remuneration Committee, to which the Board has delegated certain of its responsibilities. Both the Audit Committee and Remuneration Committee have sub-committees reporting in to them. The Corporate Social Responsibility Committee and Risk Management Team report in to the Audit Committee whereas the Executive Compensation Committee reports in to the Remuneration Committee. The sub-committees members are made up of Top Team and senior managers of the Company.

Each Board Committee strictly adheres to a set of terms of reference approved by the Board and set out in the BATM Code. Their roles/functions, operating procedures and authorities are clearly defined in the said terms of reference which are reviewed by the Board from time to time.

Each Board Committee has to submit to the Board, reports of their respective deliberations and recommendations and all deliberations and decisions taken have to be minuted and approved by the Board Committee and confirmed by the Chairman of the Board Committee at the next Board meeting. The Board retains full responsibility for the direction and control of the Group. The roles and responsibilities of the Board Committees are described in detail below.

Board Committee

1. Audit Committee

As at the date of this Statement, the Audit Committee comprises of three Directors. All members of the Audit Committee are Non-Executive Directors, where two of the three members are Independent Non-Executive Directors. All members of the Audit Committee are financially literate as defined by the Malaysian Code.

The Chairman of the Audit Committee, Datuk Oh Chong Peng, fulfills the financial expertise requisite of the Listing Requirements. Datuk Oh Chong Peng is a qualified Chartered Accountant and is a Fellow of the Institute of Chartered Accountants, England and Wales.

(a) Authority

The Audit Committee assists the Board in its review of the effectiveness of the internal control, risk management and governance process of the Company which includes reviewing the Company's financial statements and reporting processes. The Audit Committee also assists the Board in its review of the effectiveness of the internal control, risk management and governance process of the Company which includes reviewing the Company's financial statements and reporting processes.

Additionally, the Audit Committee had met with senior management and the internal and external auditor to review the effectiveness of internal controls and business risk management, and receive reports from the Group's Regional Audit Committee.

The Committee had also reviewed compliance with the Standards of Business Conduct and the procedures in place within the Group for the management of its business policies.

The Audit Committee is also responsible for approving audit, recurring audit related and non-audit services undertaken by the external auditor and in carrying out their duties, the Audit Committee ensures that the independence and objectivity of the external auditor is not compromised.

The Audit Committee had reviewed and discussed the Audited Financial Statements as at 31 December 2012 audited by Messrs. PricewaterhouseCoopers Malaysia and recommended to the Board on 25 February 2013, that the Audited Financial Statements as at 31 December 2012 be included in the Company's Annual Report 2012.

The Board of Directors had on 26 February 2013 approved the aforesaid Audited Financial Statements for inclusion in the Company's Annual Report 2012 and filed with the Bursa Malaysia Securities Berhad and Securities Commission.

(b) Meetings

The meetings of the Audit Committee are attended by the Managing Director, Finance Director, a representative from British American Tobacco p.l.c Group Internal Audit and representatives of the external auditor. The Audit Committee had met four times during 2012.

No member of the Audit Committee, save and except the Chairman of the Audit Committee, received any payments in 2012 from the Group other than the fees which had been received as a Non-Executive Director of the Company and allowances for attendance at meetings. The

Chairman of the Audit Committee receives an annual fixed fee for his chairmanship of the Audit Committee.

For details on the functions, composition, membership and summary of activities of the Audit Committee in 2012, please refer to pages 59 to 63 of this Annual Report.

2. Nomination Committee

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

The authority and terms of reference of the Nomination Committee are as follows:

(a) Authority

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

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

(b) Meetings

- The Nomination Committee shall meet at least once a year or upon the request of any of its members.
- A majority of the members in attendance must be Independent Non-Executive Directors in order to form a quorum for the meeting.

- The Company Secretary shall record, prepare and circulate the minutes of the meetings of the Nomination Committee and ensure that the minutes are properly kept and produced for inspection if required.
- The Nomination Committee shall report to the Board and its minutes will be tabled and noted by the Board.

The Nomination Committee met once during the financial year ended 31 December 2012.

3. Remuneration Committee

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

The remuneration packages of Executive Directors and Top Team are put forth to the Remuneration Committee for deliberation and decisions. In addition, the Managing Director (who is one of the four Directors in the Remuneration Committee), in consultation with the Chairman of the Company, shall recommend to the Board, the fees payable to Non-Executive Directors as set forth in the BATM Code.

A Director whose remuneration package is being considered will abstain from deliberating and voting on the recommendation of the relevant Director's remuneration package. It is the responsibility of the entire Board to approve the remuneration of these Directors with the Executive Directors concerned abstaining from deliberations and voting on their own remuneration. The Managing Director, who is a member of the Remuneration Committee, makes presentations to the Remuneration Committee on the remuneration, compensation payments, annual bonus and salary increments of Executive Directors and members of the Top Team. The remuneration packages are designed to attract, motivate and retain talented and dedicated Executive Directors and members of the Top Team.

For other employees of the Group, their remuneration packages are overseen by the Executive Compensation Committee. The Chairman of the Executive Compensation Committee is Datuk William Toh Ah Wah, Non-Independent Executive Director of the Company.

The Executive Compensation Committee ensures that remuneration packages are such as to enable the Company to recruit and retain talented and dedicated employees of the necessary calibre and comparable to those employees in other benchmarked companies.

(a) Authority

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

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

(b) Meetings and minutes

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

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

- The Company Secretary shall record, prepare and circulate the minutes of the meetings of the Remuneration Committee and ensure that the minutes are properly kept and produced for inspection if required.
- The Remuneration Committee shall report to the Board and the minutes of the Remuneration Committee Meeting will be tabled and noted by the Board.

In 2012, the Remuneration Committee met three times. Amongst the items deliberated by the Remuneration Committee in 2012 were the annual bonus and salary increment for the Executive Directors and Top Team and remuneration package of the new Marketing Director and the new Operations Director.

Sub-Committees

Sub-Committee	Composition of Members	Role and Responsibilities	Operating Procedures
Executive Compensation Committee (ECC)	<ul style="list-style-type: none"> (a) Non-Executive Director of the Company (Chairman of ECC). (b) British American Tobacco p.l.c's Asia Pacific Regional Director or British American Tobacco p.l.c's Asia Pacific Regional Head of Human Resources. (c) British American Tobacco p.l.c's Asia Pacific Regional Head of Rewards. (d) Managing Director of the Company. (e) Finance Director of the Company. <p>The Human Resources Director of the Company acts as the Secretary of the ECC.</p>	<p>The ECC is authorised to perform, with respect to all employees (except members of the Top Team) of the Group, the following functions:</p> <ul style="list-style-type: none"> • to review and approve all elements of remuneration, compensation payments, bonuses, rewards and benefits which include inter alia the elements set out below, save and except salaries of employees in the Group which are reviewed and approved by the relevant Head of Functions with the Human Resources Director: <ul style="list-style-type: none"> (i) to ensure that the Group remuneration systems offer the opportunity of excellent reward for excellent performance. (ii) to examine reward packages as a whole, seeking overall competitiveness rather than item-by-item comparability based on the market and affordability. (iii) to review the individual components of the total reward package to determine, via employees and market trends, the benefit value of each element and adjust the package to achieve the greatest perceived value for cost. 	<ul style="list-style-type: none"> • To meet at least twice a year or more frequently, if necessary. • The quorum for the ECC shall be at least three members, including the Chairman, British American Tobacco p.l.c's Asia Pacific Regional Director or British American Tobacco p.l.c's Asia Pacific Regional Head of Human Resources and the Managing Director, being present. • The Secretary shall record and circulate the minutes of the meeting. • ECC minutes will be tabled and noted by the Remuneration Committee and Board. <p>In 2012, the ECC met once to review and deliberate on matters such as budgets for increment, increment guidelines, bonus payments and benefits.</p>

Sub-Committee	Composition of Members	Role and Responsibilities	Operating Procedures
		<ul style="list-style-type: none"> <li data-bbox="690 474 1113 725">(iv) to establish an appropriate comparator market in terms of the types of organisations which would be direct competitors for the calibre of employees required and against which the Group in practice has to recruit within the business environment. <li data-bbox="690 746 1113 1091">(v) to ensure that arrangements are made for regular surveys of remuneration and benefits, with a sufficient sample of comparator companies to obtain a reliable measure of the market. This may be through participation in surveys of other companies or the commissioning of a survey through suitable local consultants. <li data-bbox="690 1112 1113 1304">(vi) to ensure that the remuneration package is at all times fully in compliance with local taxation and legal requirements, whilst at the same time maximising legitimate commercial advantage. <li data-bbox="654 1325 1113 1385">• to review and approve the mandate for collective agreement. <li data-bbox="654 1406 1113 1495">• to review, approve and amend as the case may be, the design and terms of the executive shares scheme. <li data-bbox="654 1517 1113 1576">• to review and approve voluntary separation scheme. <li data-bbox="654 1598 1113 1657">• to note job upgrades of Grades 36 to 38. 	

Sub-Committee	Composition of Members	Role and Responsibilities	Operating Procedures
Corporate Social Responsibility (CSR) Committee	Company's Top Team with the Corporate Affairs Manager as the Secretary of the CSR Committee.	<ul style="list-style-type: none"> • Identification and management of key social and environmental issues. • Identification and engagement with key stakeholders. • Monitoring the efficiency and effectiveness of corporate social responsibility management systems and controls. • Ensuring the reliability of social and environmental performance management information. • Monitoring alignment with the Company's Statement of Business Principles. 	<ul style="list-style-type: none"> • To meet at least twice annually. • British American Tobacco p.l.c Group Internal Audit are invited to attend the CSR Committee meeting and be heard on any corporate responsibility matter which affects the Company. <p>In 2012, the CSR Committee met twice to deliberate on among others, the review of the Company's current sustainability framework and strategy and the Company's sustainability activities.</p> <p>For details of the corporate responsibility activities, please refer to pages 81 to 92 of this Annual Report.</p>

Sub-Committee	Composition of Members	Role and Responsibilities	Operating Procedures
Risk Management Team (RMT)	(a) Finance Director (Chairman of RMT). (b) Senior managers from all functions of the Company.	<ul style="list-style-type: none"> • Protect the Group's corporate assets and its ability to meet or exceed its strategic business objectives consistently. • Minimise the total cost of risk. • Comply with the Malaysian Code and the guidelines on risk management set by the Company's ultimate holding company, British American Tobacco p.l.c. • Review and update the Top Team and Audit Committee on the Group's Enterprise Risk Management programme. • Review and recommend to the Top Team and Audit Committee the key risks for the Group. • Review and update the Top Team and Audit Committee on the ongoing status of the key risk response measures. • Review and update the Top Team and Audit Committee on the status of the Business Continuity Plans. 	<ul style="list-style-type: none"> • To meet at least twice annually. • British American Tobacco p.l.c Group Internal Audit participates in the RMT meetings as an advisor on the effectiveness of the risk management process. British American Tobacco p.l.c Group Internal Audit also reviews the effectiveness of the internal controls and risk mitigation plans in place for key business risks identified and provides a facilitation role on above market risks – regional and global risks that have been identified by related parties. • The Board through the Audit Committee reviews the effectiveness of the Group's Enterprise Risk Management Programme bi-annually. <p>The RMT met twice during the financial year ended 31 December 2012 to deliberate on the above matters.</p> <p>For details of the Group's Enterprise Risk Management activities in 2012, please refer to pages 67 to 68 of the Annual Report.</p>

Appointment process

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

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

Committee also takes into consideration the following factors:

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

However, Article 95(2) of the Company's Articles states that at any point of time, the total number of Directors shall not be less than two and not more than 15.

Directors may hold up to 10 directorships in listed companies and up to 15 for non-listed companies (both non-listed and private companies).

The changes at the 2012 Annual General Meeting are as follows:

Name	Designation	Nature of changes at the 2012 Annual General Meeting
Datuk Oh Chong Peng	Independent Non-Executive Director	Re-elected
Dato' Ahmad Johari	Independent Non-Executive Director	Re-elected
Datuk Zainun Aishah binti Ahmad	Independent Non-Executive Director	Re-elected
Ms. Christine Lee Oi Kuan	Non-Independent Executive Director (Corporate and Legal Affairs Director)	Re-elected

Re-election or re-appointment process

The Company does not have term limits for both Executive Directors and Independent Directors but the Board of Directors does review its evaluation process annually and in terms of the tenure for Independent Directors, the Board of Directors believes that valuable contribution can be obtained from Directors who have, over a period of time, developed valuable insight of the Company and its business. Their continued contribution provides benefit to the Board and the Company as a whole. The Company is confident and firmly believes that individuals chosen and appointed to the Board as Directors are all individuals of high calibre and integrity and can be tasked to discharge

their duties and responsibilities independently and effectively notwithstanding their tenure on the Board.

Notwithstanding the above, Directors of the Company are regularly re-appointed at regular intervals in accordance with the Company's Articles and good corporate governance practice.

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

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

Retiring Directors can offer themselves for re-election. Three directors namely Datuk William Toh Ah Wah, Mr. James Richard Suttie and Mr. Andreas Michael Thompson are due to retire pursuant to Articles 97(1) and (2) at this Annual General Meeting and will be recommended for re-election by the Board pursuant to the Articles.

Article 103 of the Articles provides that a Director appointed by the Board from time to time shall hold office only until next Annual General Meeting and shall then be eligible for re-election.

Datuk Mohamad Salim bin Fateh Din who was appointed Independent Non-Executive Director and Chairman of the Company on 11 April 2012 is due to retire pursuant to Article 103 and be subjected to re-election at this Annual General Meeting.

The Company would like to continue to retain Datuk Oh Chong Peng (who has served as an Independent Director of the Company for more than nine years), on its Board of Directors as an Independent Non-Executive Director and to hold office until the conclusion of the next Annual General Meeting. The Nomination Committee and the Board are confident and firmly believe that Datuk Oh can be tasked to discharge his duties and responsibilities independently, and objectively notwithstanding his tenure on the Board.

As part of good corporate governance, Datuk Oh Chong Peng has offered himself for re-election at the Annual General Meeting on 17 April 2013.

The Nomination Committee is satisfied that the above directors have met the requirements set out above and has recommended to the Board of Directors their re-election at the Annual General Meeting on 17 April 2013.

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

Director's remuneration

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

For the Executive Directors of the Group, corporate and individual performance are rewarded through the use of an integrated pay benefits and bonus structure and reflects the competitive nature of the Group's operations in order to contribute to the Winning Organisation strategy of the Group. Executive Directors who are full time employees of the Company, receive no additional compensation for services as a Director of the Board. On an annual basis, the Remuneration Committee considers market competitiveness, business results and individual performance in evaluating the Executive Directors' remuneration.

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

The Remuneration Committee recommends to the Board the remuneration package of an Executive Director and it is the responsibility of the Board as a whole to approve the remuneration package of an Executive Director.

The remuneration package for Directors comprises the following elements:

- **Basic salary**

The basic salaries for the Executive Directors are recommended by the Remuneration Committee to the Board for approval.

- **Benefits-in-kind**

Customary benefits such as provision of rented accommodation for expatriate Executive Directors, motor vehicle, club membership and personal expenses are made available to the Executive Directors in accordance with the policies of the Group.

- **Emoluments**

Emoluments such as bonuses, retirement benefits, provision for leave, fixed allowances, statutory contributions and incentives in the form of shares/option in shares of British American Tobacco p.l.c pursuant to the British American Tobacco p.l.c's shares scheme.

Director	Fees (RM)	Salaries (RM)	Other emoluments* (RM)	Benefits-in-kind** (RM)	Total (RM)
Datuk Mohammad Salim bin Fateh Din <i>Independent Non-Executive Director (Chairman)</i>	249,167***	NIL	122,191	NIL	371,358
Tan Sri Abu Talib bin Othman⁹ <i>Independent Non-Executive Director</i>	68,303	NIL	NIL	3,471	71,774
Datuk Oh Chong Peng <i>Independent Non-Executive Director</i>	90,000	NIL	28,000	NIL	118,000
Dato' Ahmad Johari bin Tun Abdul Razak <i>Independent Non-Executive Director</i>	90,000	NIL	2,000	NIL	92,000
Datuk Zainun Aishah binti Ahmad <i>Independent Non-Executive Director</i>	80,000	NIL	3,000	NIL	83,000
James Richard Suttie <i>Non-Independent Non-Executive Director</i>	90,000	NIL	8,000	NIL	98,000
Datuk William Toh Ah Wah <i>Non-Independent Executive Director (Managing Director)</i>	NIL	1,943,355	2,442,244	33,758	4,419,357
Andreas Michael Thompson <i>Non-Independent Executive Director (Finance Director)</i>	NIL	724,835	1,040,665	424,496	2,189,996
Dato' Chan Choon Ngai <i>Non-Independent Executive Director (Operations Director)</i>	NIL	973,143	847,657	70,825	1,891,625
Christine Lee Oi Kuan <i>Non-Independent Executive Director (Corporate and Legal Affairs Director)</i>	NIL	770,451	1,031,884	425,059	2,227,394

⁹ Tan Sri Abu Talib bin Othman retired as Independent Non-Executive Director and Chairman of the Company with effect from 29 February 2012.

* Other emoluments include bonus, retirement benefits, provision for leave, fixed allowances, statutory contributions and incentives in the form of shares/option in shares of British American Tobacco p.l.c pursuant to the British American Tobacco p.l.c's shares scheme.

** Benefits-in-kind include provision of rented accommodation for expatriate Executive Directors, motor vehicle, club membership and personal expenses.

*** Fees for being Chairman of the Board and Chairman of relevant Board Committees.

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

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

Board performance evaluation

The Board conducts an annual evaluation of its activities and evaluates the overall Board's performance against criteria that the Board determines are important to its success. These include the Board's composition, independence, communication, effectiveness and responsibilities.

The Company Secretary circulates to the Directors an evaluation survey questionnaire to ascertain their views on the performance of the Board and Board Committees which thereafter are compiled into a report for the Chairman. The report is presented to the Nomination Committee and then to the Board for evaluation and consideration. The Board's performance evaluation process in 2012 reported that the Board and Board Committees had continued to operate effectively in discharging their duties and responsibilities. Overall, the Directors were of the opinion that they have fulfilled their responsibilities as members of the Board and Board Committees and were satisfied with the Group's direction, strategy, planning and budgeting process and their level of contribution to these matters.

All Directors confirmed that they have sufficient access to the Chairman. The Directors agreed that the Managing Director and senior management were responsive to questions and issues raised by the Board and that the Managing Director and senior management communicated with the Board in an open, candid and timely manner. The Board also agreed that the Company has sufficient risk management procedures in place and the Board's goals, objectives, expectations and concerns were effectively communicated to the Managing Director and senior management to be acted upon.

Directors' training

In order to ensure that the Directors are well equipped in discharging their responsibilities, all newly appointed Directors will undergo an induction programme upon joining the Board which consists of briefings on all areas of the Group's business.

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

The Directors will continue to undergo other relevant training programmes and seminars to ensure that they remain well equipped with the relevant knowledge as well as emergent strategic directions and ideas in discharging their duties to the Group.

Pursuant to paragraph 15.08(2) and Appendix 9C (Part A, Paragraph 28) of the Listing Requirements, the Directors have during the financial year ended 31 December 2012 attended training programmes in areas of leadership, corporate governance, finance, regulatory developments, corporate social responsibility, information security and business intelligence.

Particulars of training programmes attended by the Directors as at 31 December 2012 are as follows:

Directors	Training Programme
Datuk Mohamad Salim bin Fateh Din	1. Mandatory Accreditation Programme for Directors of Public Listed Companies ¹⁰
	2. Business Sustainability – Governance, Responsibility, Profits ¹¹
	3. Directors CEP Training 2012 ¹²
Datuk Oh Chong Peng	Internal Capital Adequacy Assessment Process (ICAAP) Implementation Challenges for the Bank Management in Malaysia ¹³
Dato' Ahmad Johari bin Tun Abdul Razak	Directors CEP Training 2012 ¹⁴
James Richard Suttie	Directors CEP Training 2012 ¹⁵
Datuk William Toh Ah Wah	1. Advocacy Sessions on Disclosure for Chief Executive Officers ¹⁶
	2. Directors CEP Training 2012 ¹⁷
Andreas Michael Thompson	1. Advocacy Sessions on Disclosure for Chief Executive Officers ¹⁸
	2. Directors CEP Training 2012 ¹⁹
Dato' Chan Choon Ngai	Directors CEP Training 2012 ²⁰
Datuk Zainun Aishah binti Ahmad	1. Briefing on New Corporate Governance Blueprint and Regulatory Updates ²¹
	2. Nurturing Engagement for Board Effectiveness ²²
	3. Corporate Governance Blueprint and Malaysian Code of Corporate Governance 2012 ²³
	4. Case Studies for Boardroom Excellence: Fraud Detection and Prevention ²⁴
	5. Directors CEP Training 2012 ²⁵
Christine Lee Oi Kuan	1. Mandatory Accreditation Programme for Directors of Public Listed Companies ²⁶
	2. Directors CEP Training 2012 ²⁷
	3. Achieving and Increasing Boardroom Effectiveness and Performance ²⁸
	4. Corporate Directors Training Programme (Fundamental) ²⁹

¹⁰ 2-days Mandatory Accreditation Programme conducted by Bursa Malaysia Securities Berhad on overall rules and regulations governing public listed companies.

¹¹ A Malaysian Forum on Business Sustainability, bringing together the thoughts of the leaders to explore different perspectives and approaches to building stakeholder values.

¹² One day in-house workshop on Corporate Commercial Law Updates, Corporate Fraud in Malaysia and Control Health Check, Corporate Governance & Whistleblowing Security: Kidnapping and Extortion.

¹³ Seminar conducted by the Institute of Bankers Malaysia on Banking Insights.

¹⁴ Please refer to footnote no.12 above.

¹⁵ Please refer to footnote no.12 above.

¹⁶ Seminar conducted by Bursa Malaysia Securities Berhad on guidance for corporate disclosure in the announcements, annual reports and financial reports.

¹⁷ Please refer to footnote no.12 above.

¹⁸ Please refer to footnote no.16 above.

¹⁹ Please refer to footnote no.12 above.

²⁰ Please refer to footnote no.12 above.

²¹ In-house workshop on the new Corporate Governance 2012 and changes to the regulatory requirements.

²² Half-day interactive seminar to discover principles and practices in engaging the Board and management for greater effectiveness.

²³ Seminar conducted by Bursa Malaysia Securities Berhad on the Corporate Governance Blueprint and the Malaysian Code of Corporate Governance.

²⁴ Half-day seminar conducted by Bursa Malaysia Securities Berhad on Establishing an Effective Internal Control Systems, Ethical Standards to Prevent Management Abuses, Fraud Monitoring for Market Ranking, Case Studies on Listed Companies with Accounting & Auditing Irregularities.

²⁵ Please refer to footnote no.12 above.

²⁶ Please refer to footnote no.10 above.

²⁷ Please refer to footnote no.12 above.

²⁸ Seminar conducted by MAICSA on unlocking the roles of directors, update of the current issues concerning the directors, incorporate strong risk management strategy in organisations etc.

²⁹ Workshop conducted by Companies Commission of Malaysia on developing a good understanding on the concept, features and significance of a company and outlining the roles and responsibilities of key human capital etc.

Supply of information and access to independent advice

In carrying out their duties, the Board has direct and unrestricted access to the management of the Company as well as individual access to the advice and services of the Company Secretary. The Board and Board Committees receive up-to-date information for review ahead of each meeting, and the Company Secretary, under the direction of the Chairman, ensures the flow of information to the Board and Board Committees. The Company Secretary is also responsible for advising the Board, through the Chairman on all governance matters. Prior to Board and Board Committees meetings, a formal and structured agenda together with a set of Board and Board Committees papers containing information relevant to the matters to be deliberated at the meeting is forwarded to all Directors at least five days before the relevant Board and Board Committees meetings. This is to enable Directors to review, consider, and if necessary, obtain further information or research on the matters to be deliberated in order to be well prepared at the meetings.

The meeting papers are presented in a manner which include among others, comprehensive management reports, minutes of meetings, proposals project and supporting documents. Presentations to the Board and Board Committees are prepared and delivered in a manner that ensures a clear and adequate presentation of the subject matter. In addition, reading materials on the subject matter are prepared and circulated prior to each meeting to assist all Directors in having an understanding of the subject matter.

The Board also encourages the attendance of senior management as well as officers of the Company at Board and Board Committees meetings to increase the Board's understanding of the Company's operations and to give the Directors access to senior management. The Directors are regularly updated on new statutory and regulatory requirements relating to the duties and responsibilities of Directors and their impact and implication to the Company and the Directors in carrying out their fiduciary duties and responsibilities.

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

Save for the Executive Compensation Committee and Corporate Social Responsibility Committee Meetings, the Company Secretary attends all meetings of the Board and its Committees. Save for where the meetings are held only for the Audit Committee and the external auditor, the Managing Director attends all meetings of the Audit Committee and Remuneration Committee, the Human Resources Director attends all meetings of the Executive Compensation Committee, Nomination Committee and Remuneration Committee and save for where the meetings are held only for the Audit Committee and the external auditor, the Finance Director attends all meetings of the Audit Committee.

Relationship with Stakeholders

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

Shareholders

The Group believes that the management of a successful and productive relationship with its shareholders must be underpinned by the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and ensure that the rights of all investors, including minority shareholders are protected. The Group's primary contact with shareholders is through the Chairman, Managing Director, Finance Director and Company Secretary. All shareholders' queries will be received by the Company Secretary and the Company Secretary will provide feedback and responses to shareholders' queries and where any information may be regarded as undisclosed material information about the Group such information will not be made available to a shareholder unless already in the public domain through disclosure.

Annual General Meeting (AGM)

The Company's AGM remains the principal forum for dialogue and communication between the shareholders and the Board. At the AGM, shareholders participate in the deliberations of the resolutions being proposed or on the Group's operations in general. Shareholders are encouraged at each AGM to ask questions about the resolutions being proposed and the operations of the Group and communicate their expectations and concerns. Questions posed are, where

possible, answered in detail either at the AGM itself or thereafter where the shareholders will be contacted and provided with the answers. At every AGM, a helpdesk will also be set up as a contact point for the shareholders.

The 2012 AGM was held on 10 April 2012 at the Hilton Hotel in Petaling Jaya, Selangor. All resolutions were approved and all Directors (save for the Chairman who was appointed on 11 April 2012) and the Company Secretary attended the meeting. The Board, senior management and the Company's external legal counsels and auditors, Messrs. PricewaterhouseCoopers were present to answer questions raised and provide clarification as required by the shareholders. A press conference was held immediately after the AGM where the Managing Director, Finance Director and Operations Director advised the media on the resolutions approved by the shareholders and clarified issues and answered questions posed by the media to the Group.

The 2013 AGM will be held on 17 April 2013 at the Hilton Hotel in Petaling Jaya, Selangor. The Notice of AGM and the Form of Proxy are enclosed with the Abridged Annual Report 2012. The results of all resolutions proposed will be available on the Company's and the Bursa Malaysia Securities Berhad's website on 17 April 2013.

Annual Report

The Company believes that the Annual Report embodies the characteristics laid down by Bursa Malaysia Securities Berhad of transparency and accountability that are required in shareholders' communication policy of a public listed company. The contents of the Annual Report are continuously enhanced to take into account developments, amongst others, in corporate governance.

The Board also aims to provide and present a clear and comprehensive assessment of disclosures in the Annual Report to shareholders. In disclosing information in the Annual Report, the Board is guided by the principles set out in the Listing Requirements and the BATM Code.

The Statement on Corporate Governance, Statement on Risk Management and Internal Control, Corporate Social Responsibility Committee's Report, Standards of Business Conduct and Audit Committee Report form part of the Annual Report 2012. These statements and reports were tabled at the Audit Committee meeting for its comments and recommendation to the Board of Directors for review and deliberation before being incorporated into the Annual Report.

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

Release of Annual Report

	Date of Issue/Release	Bursa Securities Deadline	Number of days after end of year
Annual Report 2012	21 March 2013	30 June 2013	80
Annual Report 2011	16 March 2012	30 June 2012	76

Release of Quarterly Financial Results

2012 Quarterly Results	Date of Issue/Release	Bursa Securities Deadline	Number of days after end of quarter
First Quarter	23 April 2012	31 May 2012	23
Second Quarter	19 July 2012	31 August 2012	19
Third Quarter	23 October 2012	30 November 2013	23
Fourth Quarter	26 February 2013	28 February 2013	57

Investor Relations

(i) Quarterly briefings and other forms of communication

The Company holds separate quarterly briefings for fund managers, institutional investors and investment analysts as well as the media after each quarter's announcement of financial results to Bursa Malaysia Securities Berhad. The quarterly briefings are intended not only to promote the dissemination of the financial results of the Group to as wide an audience of investors, shareholders and media as possible but also to keep the investing public and other stakeholders updated on the progress and development of the business of the Group. This is further testimony to the Company's continued commitment to transparency.

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

In 2012, the Company held four quarterly briefings, 29 direct one-on-one meetings, two road-shows and hosted seven teleconferences with fund managers, institutional investors and investment analysts.

(ii) Company website

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

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

(iii) Senior personnel

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

Tel: +60 (3)7956 6899/7491 7100

Fax: +60 (3)7491 3772

E-mail: ocpeng@bat.com

Postal Address:

Virginia Park, Jalan Universiti

46200 Petaling Jaya

Selangor Darul Ehsan, Malaysia

Primary contact for investor relation matters:

Finance Director

Contact Details

Telephone number: +60 (3)7491 7328

E-mail: fdoffice_malaysia@bat.com

Postal Address:

Virginia Park, Jalan Universiti

46200 Petaling Jaya

Selangor Darul Ehsan, Malaysia

Employees

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

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

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

These principles embodies the Group's culture, the personality of the organisation and also serves as a guidance to the Group's employees on behaviour.

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

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

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

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

- (i) properly declared by the employee concerned at the appropriate time;
- (ii) reviewed at the appropriate management level and deemed acceptable; and
- (iii) not otherwise inconsistent with the requirements of the Standards of Business Conduct. In 2012, there had been 17 declarations of conflict of interest made by employees of the Group. Details of the Group's Value Systems are available at the Company's website at www.batmalaysia.com.

Consumers

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

Suppliers and Service Providers

The Standards of Business Conduct which binds the Group's employees, are similarly binding on the Group's suppliers and service providers (where applicable) in ensuring high standards of business ethics amongst all suppliers and service providers of the Group, including the suppliers' or service providers' related companies. The applicable provisions in the Standards are incorporated in the contract with the relevant suppliers or service providers. It is made clear in all agreements with suppliers and service providers that breaches of any provisions in the Standards of Business Conduct of which the relevant supplier or service provider have been made aware of, may lead to immediate termination of the contract with the said supplier or service provider.

Accountability and Audit

Financial reporting

In presenting the annual audited financial statements and quarterly announcement of results to shareholders, the Board aims to present a balanced and understandable assessment of the Group's position and prospects. The Audit Committee assists the Board to oversee the Group's financial reporting processes and the quality of its financial reporting by reviewing the information to be disclosed, to ensure completeness, accuracy and adequacy prior to release to Bursa Securities and Securities Commission.

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

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

The Directors are satisfied that in preparing the financial statements of Company's position and prospects in the Directors' Report at pages 121 to 126 and the Financial Statements from pages 130 to 197 of this Annual Report.

Internal control

It is important to emphasise that the ultimate responsibility for ensuring a sound internal control system and reviewing the effectiveness of the system lies with the Board. The Board sets policies and procedures for internal control and ensures that such internal control system is properly carried out by the management of the Company. The Company has established processes to oversee and manage risks.

For details of these processes, please refer to pages 64 to 70 of this Annual Report.

The Group has in place an Information Technology Policy that outlines the processes that should be followed to create policies, best practices, standards and the use of supporting information technologies. The Group is mindful that there is a risk of legal action if technology systems or information are misused in a manner which breaches legislation. The Group therefore ensures that all software used by the Group are licensed.

In accordance with the Guidance for Directors of Public Listed Companies, reviews by the Board were carried out at least annually, covering all material controls including financial, operational and compliance controls and risk management systems. The Board derives reasonable assurances from reports submitted by the relevant committee on risk management and internal control.

For details of the Internal Audit function, please refer to page 63 of this Annual Report.

Whistleblowing policy

One of the key provisions in the Standards of Business Conduct is whistleblowing. The Group acknowledges that misconduct in any company such as violation of laws, rules, regulations, production fault, fraud, health and safety violations or corruption are usually known first by the people who work in or with the Group.

An early warning system such as a whistleblowing procedure can help the Group detect wrongdoings and alert the Group to take corrective action before a problem becomes a crisis. A whistleblowing system strengthens, supports good management and at the same time demonstrates accountability, provides good risk management and sound corporate governance practices. It is the Board's belief that having a whistleblowing procedure in place will increase investors' confidence in the Group and is in line with the Group's sound corporate governance practices.

The Company's internal whistleblowing procedure was established in 2004 pursuant to the Standards and is reviewed by the Company for enhancements from time to time. The whistleblowing procedure enables employees to make their concerns known without fear of retaliation and with the knowledge that their complaints will be acted upon and their identity is kept confidential. These concerns may be raised anonymously.

To further enhance the whistleblowing procedure framework, the Company had put in place the Procedures on Incident Reporting and Investigation (Incident Procedures). The Incident Procedures is made available to all employees via the Company's intranet.

The Incident Procedures formally set out the process and procedures for reporting, investigation and evaluation of any suspicion of wrongdoing or misconduct committed by any employee of the Group and non-employee who is a business partner/service provider of the Group in a prompt and effective manner. The evaluation of any incidences reported is conducted by a formal evaluation committee comprising a majority of the Company's Top Team (EVT).

The EVT is tasked to effectively drive and evaluate the investigation of any reported incident and decide on appropriate action to be taken arising from the investigation and is guided in its review of all investigation of incidents reported by a set of standard operating procedures (EVT SOP). The EVT SOP amongst others sets out clearly the roles and responsibilities of the EVT, the Head of Investigation, the Head of Legal and the timelines for the review to be completed to ensure that speedy action is taken after an incident has been reported.

All incidents reported were investigated by an investigation team comprising of senior managers working closely with the EVT to ensure that all cases which have been reported or discovered are investigated upon promptly. The reports of investigation are then sent to the EVT for review and evaluation and if the case warrants it, police reports will be made, domestic inquiries will be conducted and appropriate disciplinary action including freezing of increments, issuance of warnings and termination will be taken. If any control weaknesses are identified by the investigation team such weaknesses will be rectified to prevent future occurrences. The outcome of the investigations and the actions taken by the Company will be reported to the Audit Committee of the Company and further submitted to the Regional Audit Committee for the British American Tobacco p.l.c's Main Board Audit Committee. The Company maintains a register of all whistleblowing/breach of Standards incidences.

With the presence of the whistleblowing procedure, Incident Procedures and stringent control measures, the Company detected eighteen incidents involving areas such as theft. The gross losses suffered by the Company arising from these incidents reported in 2012 were approximately RM547,700.00. Seven employees were dismissed from the Company's employment as a result of their misconduct.

Related party transactions

An internal compliance framework exists to ensure that the Group meets its obligations under the Listing Requirements including obligations relating to related party transactions. The Board, through its Audit Committee, reviews all related party transactions involved. A Director who has an interest in a transaction must abstain from deliberation and voting on the relevant resolution, in respect of such transaction at the Board and at any general meeting convened to consider the matter.

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

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

- A list of related parties of the Group will be circulated to the Directors and management of the Group to notify that all related party transactions are required to be undertaken on an arm's length basis and on normal commercial terms and not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.
- All related party transactions will be reported to the Audit Committee of the Company. Any member of the Audit Committee of the Company may as he deems fit, request for additional information pertaining to the transaction including from independent sources or advisers.
- All recurrent related party transactions which are entered into pursuant to the shareholders' mandate for recurrent related party transactions will be recorded by the Company in a register or records maintained by the Company.
- All recurrent related party transactions entered into pursuant to the shareholders' mandate shall be reviewed by the British American Tobacco p.l.c Group Internal Audit to ensure that the relevant approvals have been obtained and the review procedures in respect of such transactions are adhered to.
- The Management updates the Board on a quarterly basis on all recurrent related party transactions and in the event there are any discrepancies or queries, the Audit Committee shall direct the British American Tobacco p.l.c Group Internal Audit to carry out investigation pertaining to the discrepancies or queries.

The Recurrent Related Party Transactions entered into by the Group with its related parties in 2012 were for the purchase and sale of cigarettes and tobacco products, purchase of leaf, cigarette packaging and wrapping materials and tobacco products, procurement of information technology services, payment of royalties, payment of fees for technical and advisory support services, provision of technical and advisory support services and purchase and sale of equipment.

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

Relationship with External Auditor

The Board via the Audit Committee maintains a formal and transparent professional relationship with the Group's auditors, both internal and external. The role of the Audit Committee in relation to the auditors is described in the Audit Committee Report set out on pages 59 to 63 of this Annual Report.

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

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

The Audit Committee also meets with the external auditor to review the reasonableness of significant judgment, accounting principles and the operating effectiveness of internal controls and business risk management.

The Audit Committee met with the external auditor four times in 2012 without the presence of the Executive Directors or management.

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

Compliance with the BATM Code

The Board has deliberated, reviewed and approved the Statement on Corporate Governance. The Board is satisfied that the Statement on Corporate Governance provides the information necessary to enable shareholders to evaluate how the Malaysian Code has been applied and that the Company had fulfilled its obligation under the BATM Code, Malaysian Code, the Listing Requirements and all applicable laws and regulations throughout the financial year ended 31 December 2012.

This Statement is made in accordance with the circular resolution of Board dated 26 February 2013.

Audit Committee Report

The Audit Committee Report provides an insight on the Audit Committee's functions for the Group in 2012.

Membership and Attendance

The Audit Committee comprised the following members and details of attendance of each member at the Audit Committee meetings during 2012 are as follows:

Composition of Audit Committee	Number of Audit Committee Meetings		%
	Held	Attended	
Datuk Oh Chong Peng <i>Chairman</i> <i>(Independent Non-Executive Director)</i>	4	4/4	100
Tan Sri Abu Talib bin Othman <i>(Independent Non-Executive Director)</i>	4	1/4*	25
James Richard Suttie <i>(Non-Independent Non-Executive Director)</i>	4	4/4	100
Dato' Ahmad Johari bin Tun Abdul Razak <i>(Independent Non-Executive Director)</i>	4	1/4**	25
Datuk Zainun Aishah binti Ahmad <i>(Independent Non-Executive Director)</i>	4	3/4***	75

* Tan Sri Abu Talib bin Othman retired as Independent Non-Executive Director and Chairman of the Company with effect from 29 February 2012.

** Dato' Ahmad Johari bin Tun Abdul Razak ceased to be a member of the Audit Committee effective 24 April 2012.

*** Datuk Zainun Aishah binti Ahmad was appointed Independent Non-Executive Director effective 1 March 2012.



From left:

Datuk Oh Chong Peng
Chairman

James Richard Suttie
Member

Datuk Zainun Aishah binti Ahmad
Member

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

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

Composition and Terms of Reference

(a) Members

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

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

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

No alternate director shall be appointed as a member of the Audit Committee. The terms of office and

performance of the members are reviewed once every three years to determine whether the members have carried out their duties in accordance with their terms of reference.

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

(b) Chairman

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

(c) Quorum

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

(d) Meetings and minutes

The Audit Committee shall meet at least four times annually. However, at least once a year, the Audit Committee shall meet with the external auditor without the Executive Directors and management being present. This year, the Audit Committee met twice with the external auditor without the Executive Directors and management being present.

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

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

(e) Authority

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

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

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

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

Responsibilities and Duties

The responsibilities and duties of the Audit Committee are:

(a) Financial Reporting

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

(b) Related Party Transactions

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

(c) Audit Reports

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

(d) Internal Control

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

(e) Internal Audit

- To be satisfied that the strategies, plans, manning and organisation for internal auditing are communicated down through the Group. Specifically:
 - to review the internal audit plans and to be satisfied as to their consistency with the Enterprise Risk Management Framework used and adequacy of coverage;

- to be satisfied that Internal Audit has the competency and qualifications to enable Internal Audit to complete its mandates and approved audit plans;
- to review status reports from Internal Audit and ensure that appropriate actions have been taken to implement the audit recommendations;
- to recommend any broader reviews deemed necessary as a consequence of the issues or concerns identified;
- to ensure Internal Audit has full, free and unrestricted access to all activities, records, property and personnel necessary to perform its duties; and
- to request and review any special audit which it deems necessary.

(f) External Audit

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

(g) Other Matters

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

Summary of Activities During The Year

In 2012, the Audit Committee carried out its responsibilities and duties in accordance with the terms of reference of the Audit Committee and carried out the following activities:

Financial Reporting

- a. Reviewed the quarterly and annual financial statements of the Company and the Group with the Finance Director and Managing Director, focusing particularly on significant changes to accounting policies and practices, adjustments arising from the audits, compliance with accounting standards and other legal requirements before recommending them to the Board of Directors for approval.

Internal Control (Risk Management)

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

Internal Audit

- a. Reviewed internal audit plans as to their consistency with the Enterprise Risk Management Framework used and adequacy of coverage.
- b. Reviewed status reports from internal audit to ensure that appropriate actions had been taken to implement the audit recommendations.

External Audit

- a. Reviewed with the external auditor the Company's Statement on Risk Management and Internal Control before recommending the same for inclusion in the Company's 2012 Annual Report.
- b. Reviewed with the external auditor the Group's quarterly and annual financial statements with the Finance Director and Managing Director, focusing on findings arising from audits particularly comments and responses in management letters as well as assistance given by the employees of the Group before recommending them to the Board of Directors for approval.

- c. Reviewed the external auditor's audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and co-ordination of the external auditor.
- d. Reviewed the external auditor's findings arising from audits, particularly comments and responses in management letters as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.

Internal Audit

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

The Head of Internal Audit is a Certified Public Accountant in Singapore.

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

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

Internal Audit provides independent assessment on the effectiveness and efficiency of internal controls utilising a global audit methodology and tool to support the Company's corporate governance framework and an

efficient and effective global risk management framework to provide assurance over the Group's strategy delivery and change management initiatives. The annual audit planning cycle takes direct input from both the risk register, described in page 64, and the Audit Committee. In turn, the Audit Committee formally approves the internal audit plan during the first Audit Committee meeting each year and reviews the plan on a quarterly basis. Any subsequent changes to the internal audit plan are approved by the Audit Committee. The scope of Internal Audit covers the audits of all units and operations, including subsidiaries within the Group.

Furthermore, the Audit Committee can request immediate assistance from British American Tobacco p.l.c Group Internal Audit for any matter it considers appropriate. Internal audit fees for 2012 were RM474,000.

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

Other main activities performed by Internal Audit are as follows:

- review of the approval procedures in respect of recurrent related party transactions.
- review the revisions to the credit policy and procedures for trade debtors and intercompany balances.
- undertake special reviews requested by the Audit Committee and/or management.

During the year 2012, the Finance Director notified the Audit Committee and the Board on a leaf stock control issue resulting in immaterial variance of actual stocks quantity against SAP system record, and was detected during the migration to the new OneSAP system. The discrepancy arose due to under-recording of leaf issuance to production rather than misappropriation, and this was confirmed through an investigation performed by management. Various measures were put in place to enhance the controls surrounding the leaf stock movement to avoid recurrence of this issue, which includes, change of personnel, enhancement of cycle count procedures, re-education and re-training of the new procedures post implementation of OneSAP system, implementation of performance measures against the new procedures and enhancement in the Leaf Store operating structure.

This Audit Committee Report is made in accordance with the resolution of the Board of Directors on 26 February 2013.

Statement on Risk Management and Internal Control

RESPONSIBILITY

The Board of Directors recognises the importance of sound risk management practices and internal controls to safeguard shareholders' investments and the Group's assets. The Board affirms its overall responsibility for the Group's system of risk management and internal control which includes the establishment of an appropriate control environment and framework, as well as reviewing its adequacy and integrity. The Board is responsible for determining the nature and extent of the strategic risk that the Group is willing to take to achieve its objectives, whilst in parallel maintaining sound risk management and systems of internal control. By virtue of the controversial nature of the industry in which we operate, the Board does not consider its strategic risk appetite to be high, and it seeks to minimise risks at an operational level.

The Board tasks Management to identify and assess the risks faced by the Group, and thereafter design, implement and monitor appropriate internal controls to mitigate and control those risks. There are inherent limitations to any system of internal control and the system is designed to manage and minimise impact rather than completely eliminate risks that may impact the achievement of the Group's business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter alia, financial, operational and compliance controls and risk management procedures.

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

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

ENTERPRISE RISK MANAGEMENT PROCESS

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

Group's Enterprise Risk Management Objectives

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

Management operates a Risk Management Team comprised of senior managers from all functions of the Group and led by the Finance Director. It meets formally at least twice a year to: (a) review and update the risk register; and (b) assess status of risk mitigation action plans.

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

Risk Management Team Responsibilities

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

Five Phase Enterprise Risk Management Process

1) Risk Identification

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

2) Risk Evaluation

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

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

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

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

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



LIKELIHOOD

		Low	Medium	High
I M P A C T	High	3	6	9
	Medium	2	4	6
	Low	1	2	3

Key Focus Area

Risk Heat Map

3) Risk Mitigation

In completing the Risk Register, Risk Owners are identified who are responsible for identifying action plans to manage and mitigate the risks, together with a timeline for completion of the actions. The Risk Owners are typically a senior manager and part of a functional leadership team.

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

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

4) Risk Monitoring

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

5) Risk Review

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

BUSINESS CONTINUITY AND CRISIS MANAGEMENT

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

The Group has 14 Business Continuity Plans in place for the Group to manage the various potential disruptions which could impact the Group for example, Manufacturing contingency sourcing plan and IT Disaster Recovery Plan.

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

In addition the Group has a structured approach to Crisis Management to ensure that in the event of a crisis, the situation is managed effectively within minimal time.

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



KEY RISKS TO THE GROUP

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

1. Growth of illicit cigarettes trade; and
2. Excise-driven price shocks.

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

2012 RISK MANAGEMENT ACTIVITIES

Review Of The Group's Risks

The Risk Management Team met formally twice during the year, in March and August 2012, to review and assess the Group's risks, and to monitor progress of key activities for the year, including the progress of the business continuity plans.

In August 2012, the Risk Management Team together with senior managers updated the risk register and risk mitigation action plans. The outcome of the meeting, among others, were the identification, evaluation and risk mitigation plans for four new risks.

The Top Team and the Audit Committee were briefed by the Enterprise Risk Manager on the Group's Enterprise Risk Management programme in April and October 2012. The briefing included updates on the key risks of the Group and the risk mitigation plans, and the status of business continuity plans testing.

Promotion Of Risk Awareness

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

The Risk Management Team continued its risk awareness induction programme for new joiners in 2012. The induction programme is aimed at educating management staff on the Group's approach to risk management and internal controls, and provides a forum to enhance the participant's knowledge on risk management and their role in managing the Group's risks.

Crisis Management Activation

In May 2012, the Crisis Management Team was activated due to logistic strike at Port Klang resulting in minimal movement of goods between the factory and Port Klang. Alternative logistic arrangement via air freight was implemented for export products destined for Australia, Hong Kong and Japan, incurring additional costs which were borne by the end markets. Arrangements were also made for the movement of stocks out of Johor and Penang ports. However, these arrangements were cancelled, as the strike was discontinued on the third day. The insurance company did not cover such incidental costs, except for physical damage resulting from the strike.

As a result of the incident, the Company's existing Exclusive Distributor Disaster Recovery plan has been augmented to include 'strike' as a potential trigger and actions to be adhered to in the event of a strike.

There were no other events which required the activation of the Crisis Management and Crisis Response Team in 2012.

Significant Risk Mitigation Activities

In the third quarter of 2012, a new SAP platform was successfully implemented, achieving synchronisation and streamlining of processes to achieve greater efficiency and effectiveness. As part of the SAP project management, business continuity plans were put in place and tested to ensure that no disruption to the business should the migration of the system be not successful.

In the fourth quarter of 2012, a review on our network architecture with particular focus on our ability to continue operations in the event of loss of important network linkage was completed. The existing disaster recovery plan was reviewed and subsequently, improvement activities to mitigate the risk of loss of link to critical business systems were initiated. Two decision were taken, firstly to implement a secondary link into the Singapore Data Centre which hosts our selling system, and secondly, to realign connectivity for our warehouse management system providing direct access into the secondary site to enable failover capability. These activities are expected to be completed by end of the first quarter of 2013.

Business Continuity Plan (BCP) Simulation and Testing

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

The review and testing indicated that the existing plans were still relevant to the current business environment except for the IT disaster recovery plan for SAP. The IT disaster recovery plan was subsequently amended to take into account the new SAP instance and associated architecture.

SYSTEM OF INTERNAL CONTROL

Control Self Assessment (CSA) Process

Central to the Group's system of internal control is its Control Self Assessment process and the backbone of this process is a key control checklist known as the Control Navigator. The Control Navigator sets out various key controls and process requirements across all functions in the Group.

The Group's CSA process requires controls and processes to be self-assessed for effectiveness on an annual basis. Where control gaps/weaknesses are identified, corrective actions and timelines are identified and agreed. The findings from the CSA and year on year trend analysis is reported to the Audit Committee annually.

Notably in 2012, the Control Navigator was refreshed and updated.

Financial Reporting Controls

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

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

Internal Audit

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

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

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

External Audit

In the course of conducting the annual statutory audit of the Group's consolidated financial statements, the external auditor reviews and where applicable based on judgment, will highlight any significant audit, accounting and internal control matters which require attention to the Board and Audit Committee. A report on the above is made officially to the Audit Committee and the management once a year post substantial completion of the year-end audit. Additionally, the external auditor attends the quarterly Audit Committee meetings, and where applicable will provide views on any related matters for the attention of the Audit Committee. At least once a year, the Audit Committee shall meet the external auditor without the Executive Directors and management being present. This year, the Audit Committee met twice with the external auditor without the Executive Directors and management being present.

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

Other Key Elements Of The System Of Internal Control

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

a) Policies, Procedures and Limits of Authority

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

b) Immediately Reportable Incidents

- The Group adheres to a British American Tobacco p.l.c control procedure termed 'Immediately Reportable Incidents'. This process seeks to capture breakdowns in basic controls and expedite the reporting and immediate action thereof. Seven areas of basic control issues are considered: (1) Reconciliation of Accounts Issue; (2) Reporting Issue; (3) Stock Control Issue; (4) Procurement Issue; (5) Segregation of Duties, Access, Password and Related Issues; (6) Effective Market Focus Demand Issue; and (7) Trade Debtor Management.

c) Strategic Business Plan, Budget and Performance Review

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

d) Insurance and Physical Safeguard

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

e) Written Declarations

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

CONTROL MATTERS

All control actions stemming from the non-conformance of standard reconciliation procedures raised by the Finance Director in 2011 have been implemented.

During the year 2012, the Finance Director notified the Audit Committee and the Board on a leaf stock control issue resulting in immaterial variance of actual stocks quantity against SAP record. The discrepancy arose due to under-recording of leaf issuance to production rather than misappropriation, and this was confirmed through an investigation performed by management. Various measures were put in place to enhance the controls surrounding the leaf stock movement to avoid recurrence of this issue.

BOARD ASSESSMENT

The Board is of the view that the Company's overall risk management and internal control system is operating adequately and effectively, in all material aspects, and have received the same assurance from both the Managing Director and Finance Director of the Company. The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Company has been in place throughout 2012 up to the date of approval of this statement. The Board is also of the view that the Company's system of internal control is robust and is able to detect any material losses, contingencies or uncertainties that would require disclosure in the Group's 2012 Annual Report.

This Statement is made in accordance with the resolution of the Board of Directors on 26th February 2013.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

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



100 years of GROWTH



Unabated intensity in the drive for growth through superior brands and effective distribution.

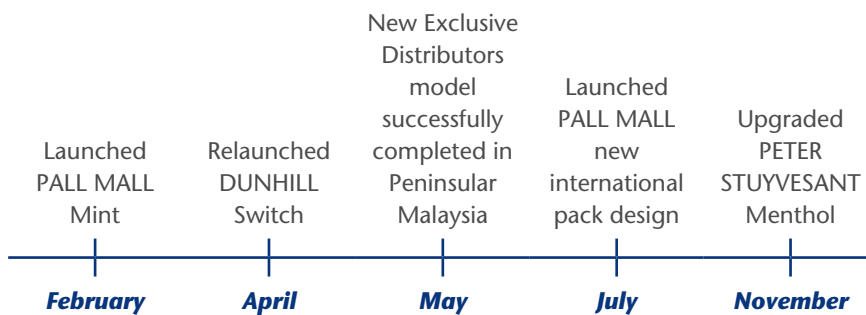


Driving towards sustainable growth

THE FOUNDATION OF SUSTAINABLE GROWTH IS DERIVED FROM OUR PASSION TO ENHANCE OUR GLOBAL DRIVE BRANDS PORTFOLIO AND DELIVER VALUE THROUGH AN EFFECTIVE TRADE MARKETING AND DISTRIBUTION MODEL.

BUILDING ON THE OUTSTANDING GROWTH ACHIEVEMENTS OF 2010 AND 2011, THE VISION FOR BRITISH AMERICAN TOBACCO MALAYSIA IN 2012 WAS TO CONTINUE DRIVING OUR GROWTH MOMENTUM FORWARD THROUGH STRATEGIC BRAND INITIATIVES AND A ROBUST DISTRIBUTION NETWORK TO DELIVER RESULTS IN A CHANGING BUSINESS ENVIRONMENT. IN 2012, BRITISH AMERICAN TOBACCO MALAYSIA COMPLETED THE NEXT PHASE OF CHARTING OUR ROUTE-TO-MARKET FOOTPRINT IN MALAYSIA TO MOBILISE A MORE EFFICIENT DISTRIBUTION.

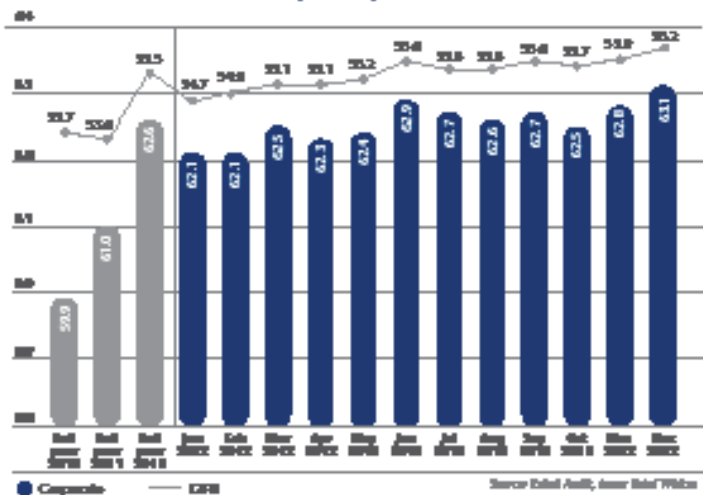
KEY HIGHLIGHTS OF 2012



62.6%
full year corporate market share for 2012

Source: Retail Audit, base: Total Whites

British American Tobacco Malaysia Corporate and GDB share of market (%)



GLOBAL DRIVE BRANDS

Our Global Drive Brands (GDBs) remain the cornerstone of our business, forming the foundation of our brand portfolio offering to consumers. Building on British American Tobacco Malaysia's continued growth achievements in 2011, our GDB portfolio was further strengthened in 2012 through brand propositions aimed at accelerating growth in key segments and solidifying our market position.

In our Premium portfolio, DUNHILL relaunched its Switch capsule filter offering in April 2012 with an improved pack and product proposition. Strong month-on-month growth has contributed towards DUNHILL's strong share performance. Overall, DUNHILL continued its growth trajectory, increasing share of market by 2.5 percentage points to 47.3 percent in 2012.

Did you know?

100 YEARS OF GROWTH:

Everyday, more than 600 sales vans travel all over Malaysia to ensure that our products are available at approximately 80,000 outlets for our customers.

In our Value For Money (VFM) portfolio, PALL MALL launched PALL MALL Mint, a spearmint capsule product that provides adult smokers with the choice to boost the menthol intensity level of their cigarette by crushing the embedded capsule. PALL MALL also relaunched its core range in July with the aim of stabilising brand performance, building brand equity and providing a platform for accelerated growth. Together with PALL MALL, PETER STUYVESANT continued to play an important complementary role in driving towards leadership in the VFM segment.

Overall, focused GDB activities that were carried out in 2012 resulted in another year of excellent achievements, delivering record corporate market share growth for British American Tobacco Malaysia for the third consecutive year.

DUNHILL

A gain of 2.5 percentage points from 2011's full year results boosted DUNHILL's corporate market share to 47.3 percent in 2012. DUNHILL has further strengthened its market leadership position with growth across all premium flavour segments, due to a stable pricing environment and brand activities.

The DUNHILL Red variant led DUNHILL's exceptional results, growing 1.6 percentage points to 41.0 percent share of market in 2012. DUNHILL Red continues to be the benchmark premium cigarette offering in the market, built on a foundation of high quality standards.

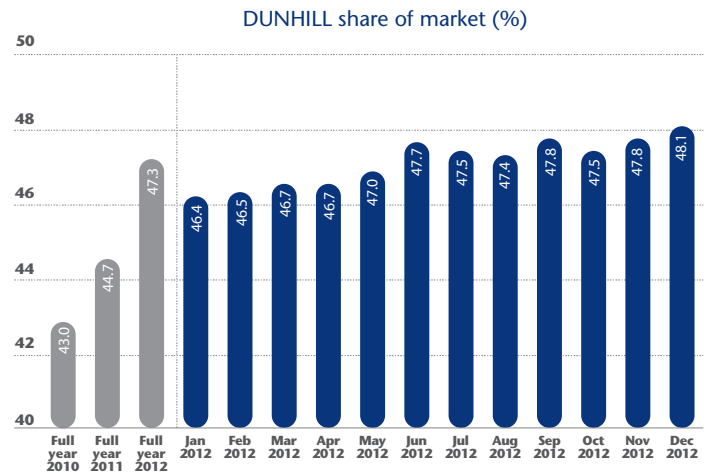
A key initiative across the DUNHILL core range was to continue reinforcing DUNHILL's superior product quality and standards via its resealable Reloc seal with two new designs introduced across the DUNHILL core range in April and September 2012.



DUNHILL Red is the benchmark premium cigarette offer in the Malaysian market and continues to drive corporate market share growth for British American Tobacco Malaysia.



DUNHILL continued to reinforce its superior product and high quality standards across its core range through its resealable Reloc seal.



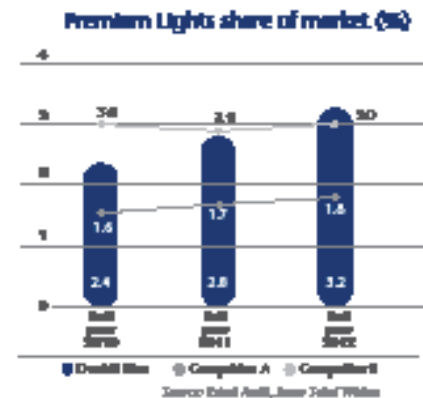
Source: Retail Audit, base: Total Whites

Winning in Premium Lights and Menthol

The Premium segment has been growing over the past five years, driven primarily through continued growth in Premium Lights and Menthol. In 2012, DUNHILL continued to accelerate growth in the Premium Lights and Menthol segments through activities focused on core variants DUNHILL Blue and Menthol. DUNHILL Blue has sustained its position as the number one Premium Lights offer in the market through accelerated growth in 2012.



DUNHILL Blue sustains its position as the number one Premium Lights offer through accelerated growth in 2012.



Source: Retail Audit, base: Total Whites

The journey towards leadership in the Premium Lights and Menthol segments was significantly boosted through the relaunch of DUNHILL Switch in April. DUNHILL Switch is a capsule filter innovation that enables consumers the option to switch a regular cigarette into a menthol cigarette by crushing the capsule within the filter. DUNHILL Switch was first launched in May 2011, with moderate market share performance and consumer insight on future growth. The new DUNHILL Switch was relaunched in April with a new revised pack and a mint capsule product proposition. This variant has shown increasing growth with market share of 0.8 percent in December 2012.



DUNHILL Switch was relaunched in April with a spearmint capsule in a new revised pack.



KENT

With innovation at its core, the KENT range, comprising of 3TEK (Triple Filter Charcoal Technology) and KENT Red, continues to deliver premium products that complement the preferences of today's modern adult smoker.

Driving towards leadership in the Value For Money segment

British American Tobacco Malaysia continues to drive our vision of attaining leadership in the Value For Money (VFM) segment forward through various brand activities for PALL MALL and PETER STUYVESANT.

PALL MALL

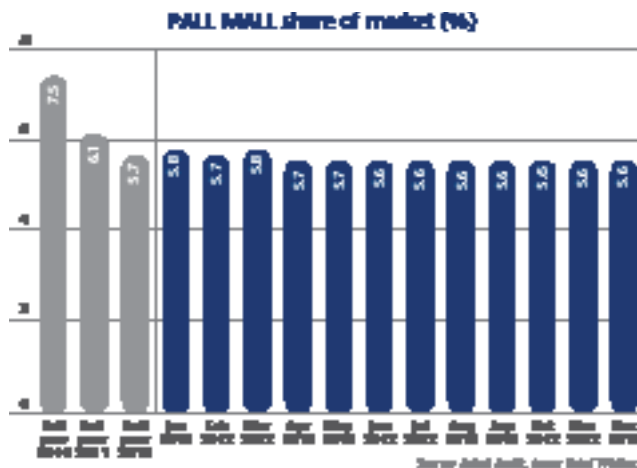
As the second largest brand in the VFM segment, PALL MALL continues to be a focus brand for British American Tobacco Malaysia.

With the emphasis on reinforcing PALL MALL's VFM Menthol credentials and position as the number one Menthol brand in VFM, PALL MALL kicked off the year with the launch of PALL MALL Mint.



PALL MALL core range relaunch.

PALL MALL Mint features a spearmint-flavoured capsule in the filter. Adult smokers can boost the menthol level of their cigarette by crushing the capsule in the filter and releasing spearmint.

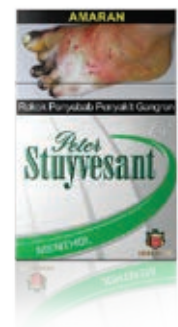


With a spearmint-flavoured capsule in the filter, PALL MALL Mint gives adult smokers the option to boost the menthol level of their cigarette by crushing the capsule in the filter. PALL MALL Menthol share of segment remains positive at 56.2 percent.

As part of a globally-driven initiative, PALL MALL also relaunched its core range in July with an enhanced international pack. In 2012, PALL MALL stabilised its market position with indications at the end of the year suggesting a solid platform for future growth and improvements in PALL MALL's brand equity amongst adult smokers.

PETER STUYVESANT

In 2012, PETER STUYVESANT maintained its position and brand credentials as a high quality proposition in the VFM segment. In November, there was an upgrade on the PETER STUYVESANT Menthol.



TRADE MARKETING

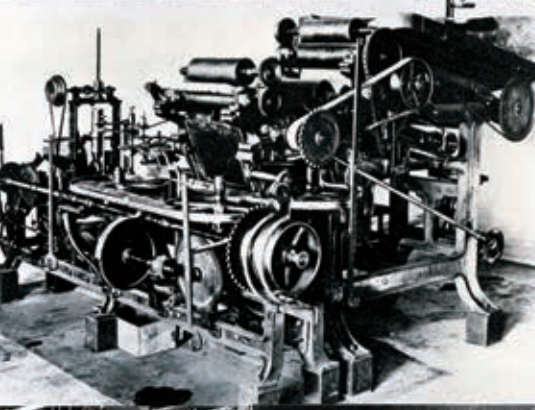
Recharting our Route-to-Market footprint in a changing business environment

In 2011, British American Tobacco Malaysia embarked on one of the biggest change management journeys in our history – transitioning from our hybrid distribution model of Direct Sales Store operations, upskilled Exclusive Distributors (EDx) and traditional Exclusive Distributors (EDs), to a full-fledged EDx distribution model. By May 2012, this distribution model transition was successfully completed for Peninsular Malaysia. Our new distribution footprint will be fully completed following the migration of our East Malaysia EDx operations in 2013.

This transition will enable British American Tobacco Malaysia to place higher focus on driving trade marketing activities successfully through a dedicated EDx environment.

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

Unparalleled pursuit of operational excellence and efficient deployment of resources.



100 years of PRODUCTIVITY



Enhancing operational performance and deploying resources effectively to fuel business growth

AS OUR INDUSTRY BECOMES MORE GLOBALLY-INTEGRATED, BRITISH AMERICAN TOBACCO MALAYSIA AIMS TO ENSURE IT CONTINUES TO BE COMMERCIALY-VIABLE IN THE FUTURE. WE ARE COMMITTED TO EFFECTIVELY DEPLOY OUR RESOURCES IN ORDER TO GENERATE FUNDS, WHICH CAN BE REINVESTED BACK INTO OUR BUSINESS. WE AIM TO ACHIEVE THIS BY IMPROVING OUR COST AND CAPITAL EFFECTIVENESS, AND ENHANCING OUR OPERATIONAL PERFORMANCE.

KEY HIGHLIGHTS OF 2012

<ul style="list-style-type: none"> • Pioneered a globally standardised Enterprise Resource Planning solution for the British American Tobacco group. 	<ul style="list-style-type: none"> • Migrated to a Global Service Desk for IT. 	<ul style="list-style-type: none"> • Significantly improved production efficiency and quality. 	<ul style="list-style-type: none"> • Launched a new project to set the direction for 2013 to be a manufacturing facility that is Best in Class, Quality, Delivery and Cost in Asia Pacific.
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PIONEERING TECHNOLOGY TO DELIVER A GLOBALLY-INTEGRATED BUSINESS

In July 2011, British American Tobacco Malaysia piloted a globally designed Enterprise Resource Planning (ERP) solution on one SAP platform. Our key role as the pilot market was to test the new system and to ensure the system was fit-for-purpose, with seamless end-to-end processes between British American Tobacco Malaysia and our shared services. These entities include the BASS Asia Pacific Finance Shared Services, the Asia Pacific Supply Chain Service Centre, and the Regional Product Centre, which provide finance shared service, above-market planning and product development respectively. The pilot project was conducted as a cross-collaborative effort between the local project team in British American Tobacco Malaysia, with various global and shared service teams.

The ERP Solution was successfully implemented on time, and in full on 3 September 2012 with no disruption to the Company’s critical processes of purchasing resources, manufacturing, transporting goods, receiving payment, and

selling of its products. The successful implementation of the solution was a result of robust project governance and strong commitment from the teams, overcoming geographical and time differences.

Key benefits of implementing the ERP solution:

As a result of implementing the ERP solution, employees and supply chain partners now have access to the following new functionalities:

- Visibility of demand from across the region facilitating operations planning.
- Real time inventory visibility and production status through Radio Frequency (RF) technology.
- Greater visibility of hub-to-hub shipments.
- More control in managing credit for direct accounts.
- Extensive use of workflow for all expense approvals.

Did you know?

100 YEARS OF PRODUCTIVITY:

Each day, our factory in Virginia Park produces a combined cigarette length of 5,200 kilometres which is equivalent to 6,265 Burj Khalifas (the world’s tallest man-made structure) stacked one on top of each other!

New functionalities have enhanced British American Tobacco Malaysia’s capability to leverage working capital efficiencies and speed to market.

Outlined below are examples of how these functionalities have improved our operational capabilities:

- **Enhancement of British American Tobacco Malaysia’s Warehouse Management.**

British American Tobacco Malaysia’s Warehouse Management

WITH ERP SOLUTION

Auto update whilst picking up of goods. Real time capture of data without the need for paper list.



- **Automated workflow for expense approvals.**

Travel & Expense Claim

WITH ERP SOLUTION



Employee fills in SAP and sends receipts to Finance Shared Services for processing



Manager approves online (does not see receipts)



Employee paid weekly (i.e. does not have to wait for monthly payment run)

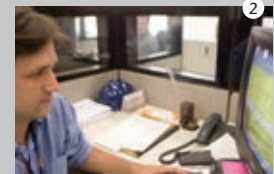
- **Automating our external warehouse operators’ and distributors’ operations.**

External Warehouse Operators’ and Distributors’ Operations

WITH ERP SOLUTION



Goods issue/receipt at external warehouse operators and distributors



Directly update into ERP system via web portal access

Information Technology (IT) service readiness for ERP roll out

As part of the readiness activities for the implementation of the ERP solution in British American Tobacco Malaysia, the local IT team worked closely with the project team on the readiness of British American Tobacco Malaysia’s IT infrastructure. This covered the review and implementation of changes to:

- The IT wide area network.
- External and internal internet links to distributors, our state offices, and British American Tobacco’s global data centres.

- Radio Frequency (RF) network in the factory to enable material movement and tracking on the system.
- Internet accessibility for distributors.
- Disaster recovery plans.
- Testing of interfaces between legacy systems to the new ERP system.



Upgrading of the Dry Ice Expanded Tobacco Plant was conducted from October to December 2012.

Developing globally-consistent processes to deliver operational efficiencies across the organisation

British American Tobacco Malaysia will continue to implement Business Planning & Consolidation (BPC), Product Specification Management and Business Intelligence (BI) reporting. These implementations will enable our business planning processes to be consistent across the globe, and deliver efficiencies through automated processing. All these modules are anticipated to have an impact on ways of working within British American Tobacco Malaysia and across the British American Tobacco Group.

MIGRATION TO A GLOBAL SERVICE DESK FOR IT

British American Tobacco Malaysia migrated its local IT Service Desk in April 2012 to a single Global IT Service Desk operated by a global British American Tobacco vendor. The Global Service Desk acts as the first point of contact for all end-user related IT issues and requests. A single workflow tool was implemented concurrently to track issue and request escalation and resolution.

The benefits of a Global IT Service Desk include:

- The usage of one process, tool, and reporting to record, report, and manage all IT service requests across all British American Tobacco end markets.
- 24-hour support services across global time zones, throughout the year.
- Promoting a self-help culture amongst users through the Request Management Portal.



Our supply chain worked together with representatives from British American Tobacco Korea to improve Malaysia's product quality performance.

The implementation of the Global IT Service Desk was also a pre-requisite for the implementation of the ERP solution in British American Tobacco Malaysia.

EXPANDING OUR OPERATIONAL CAPACITY

Throughout 2012, British American Tobacco Malaysia's Supply Chain continued to expand production for export contract manufacturing. Production was expanded in line with British American Tobacco's strategic direction for its global factory footprint in the future. In 2012, this resulting growth in our operations elevated British American Tobacco Malaysia's Supply Chain to a Tier 1 factory status in Asia Pacific, which is the highest factory production volume tier for the British American Tobacco Group.

We increased our finished goods production capacity in the Secondary Manufacturing Department by 10 billion sticks as compared to 2011. This increase resulted from our export contract manufacturing demand from British American Tobacco group's top markets, which include Japan and Australia, amongst others. British American Tobacco Malaysia also supplies to countries within the ASEAN Free Trade Area such as Cambodia and the Philippines.

Upgrading our operations to cater for increased production demands

The Company upgraded its Secondary Manufacturing Department capabilities in 2012 to cater for the increased production demands through the following initiatives:

- Installed an additional DUNHILL resealable Reloc machine. Commercial production on this machine began in January 2012.

- Two additional production lines were set up in May 2012 to support production demand from Australia.

Our supply chain also expanded its semi-finished goods (cut tobacco) operations in the Primary Manufacturing Department by 40 percent, producing for Australia and the Pacific Islands.

The Company upgraded its Primary Manufacturing Department capabilities in 2012 to cater to the increased production demands through the initiatives below:

- Increased our Primary Manufacturing Department work shifts from two to three shifts.
- Automated the packaging and boxing line to strap our goods cases and label barcodes.

British American Tobacco Malaysia's Supply Chain also carried out a major upgrading of its Dry Ice Expanded Tobacco (DIET) plant from October to December 2012. The DIET machine expands the surface area of tobacco leaves using dry ice. The project to upgrade the DIET plant involved replacing two DIET machines. The new DIET machine increases efficiency of carbon dioxide recovery during the process, which will benefit production output. The enhanced process efficiency also aims to reduce carbon dioxide emission into the atmosphere.

The first DIET was successfully processed using the new machines in November 2012, and the project was carried through without health and safety incidences.

TURNAROUND PERFORMANCE AS A TIER 1 FACTORY

Since expanding its production to cater for export contract manufacturing volumes from other markets in 2011, British American Tobacco Malaysia's supply chain has been building its capacity and up-skilling employees, to better meet customer demands for high quality products.

As a result of carrying out activities to achieve this, the Company has demonstrated greater reliability in delivering its products to customers, as well as logging a significant improvement in customer feedback on product quality.

Both remarkable results were achieved through focused tactical plans led by the Supply Chain Leadership Team and with full involvement from across the production teams. These activities included campaigns that focused on upskilling our machine operators and factory personnel with knowledge on improving product quality performance.

Additionally, British American Tobacco Malaysia's supply chain collaborated with the Asia Pacific Supply Chain Service Centre and other factories from Korea and Singapore to share best practices and to align understanding of plans and manufacturing operations. This cross-collaboration helped in improving our supply chain performance.

A NEW ERA TO BE THE BEST IN ASIA PACIFIC

In October 2012, British American Tobacco's supply chain held a full day team event with over 400 of its employees. The event aimed to share current achievements and results, enhance rapport and trust, as well as motivate the supply chain team to deliver in their roles for the following year. The event culminated with the launch of Project New E.R.A. (Efficient, Reliable and Accountable). The objectives of the project are outlined below:

New E.R.A

- **Efficient**
Leading a Tier 1 factory that consistently delivers high quality products at the right cost and time.
- **Reliable**
Obtaining high trust and confidence from customers and consumers in our products and services.
- **Accountable**
Being responsible individuals and delivering as one high performing team.

Project New E.R.A. will drive us to sustain solid performance in 2013 and focus on the key areas below:

- Being the preferred Tier 1 (highest factory production volume tier) factory in Asia Pacific.
- Delivering our products more efficiently and on time, with improved cost effectiveness.

Through this project, we aim to elevate British American Tobacco Malaysia's supply chain as a consumer-focused manufacturing facility that is Best in Class, Quality, Delivery and Cost in Asia Pacific.

Uncompromising standards of integrity and responsibility
in how we conduct our business sustainably.



100 years of RESPONSIBILITY



Driving sustainable growth responsibly

AT BRITISH AMERICAN TOBACCO MALAYSIA, WE BELIEVE THAT A CENTRAL PART OF BEING A SUSTAINABLE BUSINESS IS OPERATING WITH INTEGRITY AND RESPONSIBILITY.

OUR VISION OF A SUSTAINABLE TOBACCO BUSINESS IS ONE THAT MANAGES THE IMPACT OF ITS OPERATIONS AND PRODUCTS RESPONSIBLY TODAY AND PREPARES FOR A FUTURE IN WHICH IT CONTINUES TO CREATE VALUE FOR SHAREHOLDERS AND STAKEHOLDERS.



Our commitment towards operating responsibly is a principle that British American Tobacco Malaysia has always subscribed to. Throughout our 100 years of history in Malaysia, we have dedicated countless hours, hard work and resources towards making a difference to the communities in which we operate.

As we look towards the future, we transition from carrying out individual acts of charity to supporting long-term sustainability of our community and environment. We recognise that this is the right thing to do. We also acknowledge that supporting the sustainability of our biodiversity and surrounding community makes sound business sense. The success of our business now and in the future depends on the availability of these resources, and an operating environment that is commercially-viable.

Our goal of enhancing sustainability is all about creating value for our shareholders, in a way that keeps the best interests of our stakeholders as well. How we do this, is through addressing key business-related social, environmental and economic impacts which build that stakeholder and shareholder value.

British American Tobacco Malaysia recognises that enhancing sustainability is a long-term commitment, and we need to continually evolve our approach according to our operating environment. In this Responsibility section of our 2012 Annual Report, we will share examples of how we translate our sustainability agenda into real life initiatives.



British American Tobacco Malaysia Sustainability Framework

Sustainability agenda – commitment from Senior Management

British American Tobacco Malaysia strongly believes that our sustainability agenda needs to be supported by a robust governance process to ensure that we live up to our principles and standards. Demonstrating its commitment from the top, the Company’s sustainability agenda is governed by a CSR Committee. Our CSR Committee comprises of all members of British American Tobacco Malaysia’s functional directors (also known as the ‘Top Team’) and is chaired by the Managing Director.

The objectives of the CSR Committee are as follows:

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

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

British American Tobacco Malaysia’s Sustainability Framework

British American Tobacco Malaysia’s sustainability initiatives are aligned to Bursa Malaysia’s CSR Framework. Our Sustainability Framework focused on creating value for our shareholders and stakeholders in four key areas: Community, Workplace, Environment and Marketplace.



Community

KEY HIGHLIGHTS IN 2012

• POVERTY ERADICATION

- Officially handed over homes built for 15 hardcore poor families in Kelantan.
 - Completion due on 20 homes for hardcore poor in Kedah.
-

• EDUCATION

- Awarded scholarships to 19 students.
 - Provided Higher Education Starter Kits to 141 students in Kelantan.
-

• EMPLOYEE VOLUNTEERISM

- Conducted annual blood donation drive with 99 employee donors.
-

• ENVIRONMENT

- Awarded grant by Earthwatch programme to initiate biodiversity programme in local community.
-

• UNDERPRIVILEGED

- Contributed food aid through MyKasih Foundation which will benefit over 2,500 hardcore poor for a year.
-

OUR COMMUNITY

British American Tobacco Malaysia places the highest commitment towards conducting Corporate Social Investment activities that support the sustainability of our surrounding communities.

BUILDING HOMES FOR THE HARDCORE POOR

- In 2008, the British American Tobacco Malaysia Foundation established a flagship initiative to build homes for the hardcore poor in Malaysia. In line with the Government's agenda of eradicating hardcore poverty, we believe that equipping the hardcore poor with the most basic of necessities will provide them with a head start to break out of the cycle of poverty.

An official handover ceremony was held in Gua Musang, Kelantan on 11 February 2012 to present 15 hardcore poor families with their homes. This first phase of the Company's initiative to build homes was a collaboration between the British American Tobacco Malaysia Foundation and the Kelantan Southern Development Authority (KESEDAR).



Corporate and Legal Affairs Director, Christine Lee (centre) presenting certificates to a representative of the 15 homes built in Gua Musang, Kelantan, while Kelantan Southern Development Authority General Manager Tuan Haji Mohd Arshad Ismail (left) looks on.

The second phase of this initiative was targeted at building 20 homes for the hardcore poor in Kedah in collaboration with the Kedah Regional Development Authority (KEDA) under the *Program Penempatan Masyarakat Setempat* (PPMS). Construction of the homes were completed in 2012 and the houses will be occupied after water and electricity facilities are installed. The total cost of the homes to date is RM1.16 million.

PROVIDING EDUCATION OPPORTUNITIES FOR OUR ASPIRING LEADERS

- British American Tobacco Malaysia's involvement in supporting education to students can be traced back to 1956. However, the provision of scholarships was formalised with the establishment of the former Malaysian Tobacco Company Foundation in 1983.
- To date, the British American Tobacco Malaysia Foundation has awarded scholarships to more than 2,000 deserving Malaysians, bringing the total investment of the Foundation to date to more than RM15.5 million.

In December 2012, the British American Tobacco Malaysia Foundation held its 29th Foundation Day Awards Ceremony, awarding scholarships to 19 students from the retailers and leaf growers community, as well as employees' children. The scholarships awarded amounted to RM224,000 for the full duration of their courses.



British American Tobacco Malaysia Foundation awarded scholarships to 19 aspiring students during the Foundation Day Awards Ceremony.

GIVING A HEAD START IN HIGHER EDUCATION TO THE TOBACCO GROWING COMMUNITY

- Since 2003, the British American Tobacco Malaysia Foundation and the National Kenaf and Tobacco Board (NKTB) have jointly supported the Higher Education Starter Kit (HESK) Programme to ease the financial difficulties of students from the tobacco growing community in pursuing higher education.
- To date, more than RM1.3 million has been awarded to more than 2,000 students under this programme.

A total of 141 recipients were awarded with the Higher Education Starter Kit on 4 September 2012. The ceremony was held in the National Kenaf and Tobacco Board (NKTB) headquarters in Kubang Kerian, Kelantan and was officiated by the Deputy Minister of Plantation Industries and Commodities, Y.B. Datuk Hamzah Zainuddin.

The awards totalled RM98,700, and will help students obtain necessities such as books, clothes, accommodation, and transportation as they take their first step into tertiary education.



Deputy Minister of Plantation Industries and Commodities Y.B. Datuk Hamzah Zainuddin (centre) presenting tobacco farmers' children with their Higher Education Starter Kit awards while Corporate and Legal Affairs Director Christine Lee (left in beige jacket) looks on.



Employees participating in British American Tobacco Malaysia's annual blood donation drive.

Keeping the Employee Volunteerism spirit alive

- Since 2007, the British American Tobacco Malaysia Foundation has encouraged employees to volunteer their time and hard work towards giving back to the community through its various programmes. To date, approximately 1,000 employees have contributed their time in making a difference in the community.

In 2012, we continued to keep the spirit of volunteerism alive by encouraging employees to participate in British American Tobacco Malaysia's blood donation drives. Approximately 100 employees donated blood during the blood donation drives, held in February and September.

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

PROTECTING BIODIVERSITY IN OUR LOCAL COMMUNITIES

- Since 2008, British American Tobacco Malaysia has encouraged employees to initiate biodiversity activities within their communities using grants awarded by Earthwatch, in partnership with British American Tobacco's Biodiversity Partnership programme.

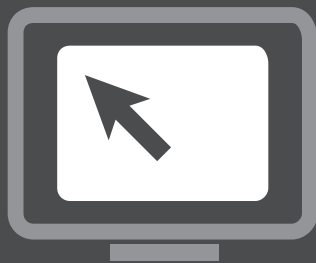
In July 2012, an employee initiated a tree-planting campaign in his housing area in Puchong, Selangor, utilising the grant of GBP1,500 funded by Earthwatch. Approximately 15 residents in the neighbourhood planted a variety of 70 plants and trees in the initiative, which was supervised by the Selangor district landscaping office.

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

EASING THE BURDEN OF THE UNDERPRIVILEGED THROUGH FOOD AID

- In August 2012, the British American Tobacco Malaysia Foundation contributed RM3.16 million in support of a food aid programme to the needy by the MyKasih Foundation, a non-profit organisation, which aims to provide support to the less fortunate working in corroboration with various organisation like the National Population and Family Development Board, and the Rotary Club in Malaysia.

British American Tobacco Malaysia Foundation's contribution towards the MyKasih Foundation's food aid programme will benefit 2,500 hardcore poor for a year. Families under this programme will receive monetary support to purchase monthly essential household food items.



Workplace

KEY HIGHLIGHTS IN 2012

- **EMPLOYED ROBUST COMMUNICATIONS STRATEGY TO DELIVER A CLEAR LINE OF SIGHT TO EMPLOYEES ON THE COMPANY'S VISION AND BUSINESS OBJECTIVES.**

- **IMPROVEMENTS IN EMPLOYEE WELFARE AND WELLBEING.**

- **INCREASED SAFETY AND HEALTH INITIATIVES TO ELIMINATE WORK-RELATED ACCIDENTS.**

ENGAGING EMPLOYEES

We believe that providing line of sight and clarity on the Company's vision and objectives to employees drives business performance and the development of a high performance organisation. As such, we leverage on a robust communications strategy to provide employees at all levels with a clear line of sight on how their roles and responsibilities are aligned to the Company's strategy and direction. Through this, our employees can better understand and take responsibility for their individual contribution to the Company's performance and sustainability.

Overall, the communications strategy in 2012 leveraged on numerous communications channels that comprised of direct communications (i.e. face-to-face) and indirect communications (i.e. companywide emails, circulars, and newsletters).

Our communications channels and activities for 2012 are outlined below:

Indirect communications

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

Direct Communications

In 2012, we disseminated our key business information through the direct communications channels outlined below:

	Business Update (Employee town hall session)	Functional Team Talks	Departmental/ Functional meetings	Focus Group sessions	“Hot Topic” briefing sessions
Scheduled dates	February, May, August, October	March, June, September, November	Throughout 2012	Throughout 2012	Throughout 2012
Objective	To share updates on the global business, the region we operate in (i.e. Asia Pacific), as well as the business in Malaysia.	(See Business Update objectives) Additionally, updates from individual functions are also shared companywide.	To provide departmental updates and encourage team feedback. These updates enable departments to align strategy and plans within the team.	To communicate Company’s strategic direction for the year, and obtain employee feedback and ideas for improvement.	To brief on implementation of new processes and new ways of working. Clinics provide open forums for employees to provide feedback and ask questions.
Audience	Management employees	All employees	Specific employee groups	All employees	Specific employee groups
Spokesperson	Managing Director, Top Team and senior management	Senior management	Senior management	Top Team and senior management	Business Content Experts

EMPLOYEE PROPOSITION

British American Tobacco Malaysia believes that creating an environment for high performance necessitates providing an employee proposition that is relevant and which addresses their needs. The compelling proposition that we offer to our employees include:

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

Our proposition above demonstrates British American Tobacco Malaysia’s commitment towards focusing our efforts where it matters – in our people.

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

NURTURING EMPLOYEE WELFARE AND WELLBEING

Practising a healthy work-life balance can be difficult with a challenging work schedule. Because of this, British American Tobacco Malaysia believes in providing appropriate and adequate support to our employees to improve the quality of life at work. We also encourage celebration of successes and employee achievements to keep the organisation constantly energised.

Outlined below are our key initiatives to improve employees’ welfare at work:

- **Improving quality of life at work:**

British American Tobacco Malaysia practices *flexi time*, which allows employees to customise start/stop hours and create an efficient work schedule for themselves without disrupting the efficiency of the Company.

The Company has also outlined guidelines that enables employees’ replacement of annual leave for attending to business matters required by the Company during non-work days.

Additionally, the Company’s in-house clinic provides health-related education, counseling, prevention and other programmes for employees to ensure their health and general wellbeing are well taken care of.

- **Keeping employees energised:**

In 2012, British American Tobacco Malaysia conducted various activities under the Great Place to Work; a key pillar underpinning the Company's strategic direction. These activities included opening a coffee bar at the Company's Chill Out room, and allocating parking spaces for all employees, among others. In conjunction with British American Tobacco Malaysia's 100 years anniversary, activities were held for employees throughout the year in celebration.

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

SAFETY AND HEALTH AT OUR WORKPLACE

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

In 2012, British American Tobacco p.l.c launched a global campaign to reduce the number of accidents at the workplace to zero. The campaign, *Closing the Gap to Zero*, was aimed at making British American Tobacco as safe as possible for all employees across the world. The campaign emphasised the importance of adhering to behaviour and policies that drive towards the goal of zero accidents.

In line with carrying out the Global *Closing the Gap to Zero* campaign in 2012, British American Tobacco Malaysia conducted additional local-level activities which emphasised good health and safety practices in the organisation.

Outlined below are the key activities conducted:

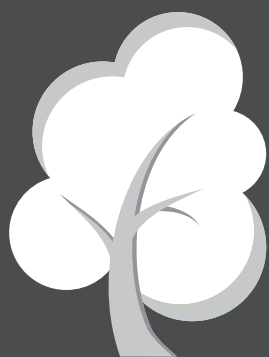
- o *Safety and Health Campaign*
In conjunction with the World Safety and Health Day on 28 April 2012, the Company organised a week-long Safety and Health Campaign in our Virginia Park headquarters. Throughout the week, more than 400 employees attended and participated in the five-day event, which featured activities promoting safety and health. Following an enthusiastic employee response, the Safety and Health Campaign was also rolled out to British American Tobacco Malaysia's regional offices in Puchong, Cheras, Kota Bharu, Butterworth and Johor Bahru. This campaign roadshow was attended by our employees as well as employees of our external distributors.
- o *Distribution of motorcyclist reflective safety vests to employees*
In November, British American Tobacco Malaysia distributed more than 110 reflective safety vests to employees who come to work by motorbike. The distribution of the vests started in early November 2012.
- o *Defensive Driving Programme*
The Company also conducted 10 sessions of the Defensive Driving Training Programme to train

employees on handling their vehicles during an emergency situation. The sessions were organised for over 90 employees across Malaysia. The Defensive Driving Training programme is aligned to the national 1Malaysia staff upskilling and safety programme.

- o *5S (Sorting, Setting in Order, Shine, Standardising, Sustaining the Practice) Programme*
In November, British American Tobacco Malaysia held a one-day event to relaunch our 5S Programme. The aim was to reinforce the merits of good housekeeping practices within the factory vicinity. A briefing and *gotong-royong* session was held in conjunction with the relaunch, and saw the participation from employees and our partner contractors.
- o *Safety and health initiatives around the factory and workplace:*
 - o **Forklift driving training** – Organised training at our headquarters in Virginia Park and Leaf Warehouse in Kota Bharu to maintain high safety standards among employees.
 - o **Factory walkpath safety** – Carried out improvements to factory walkpaths to ensure safety of employees.
 - o **Written safety procedures** – Put in place more safety procedures for factory machines.
 - o **Site Safety Awareness campaign** – Distributed Environment, Health and Safety awareness posters and stickers to 26 office sites around Malaysia to raise awareness on safe work practices.
 - o **Safety briefing for contractors and employees** – Conducted 10 briefing sessions to over 105 Company contractors on safety risks for a project to install the Dry Ice Expanded Tobacco machine in the factory.
- o *Green Card Programme for External Contractors*
Our emphasis on high safety standards applies not only to our employees but also to the business partners we work with. All contract supervisors that have been hired by British American Tobacco Malaysia for contract work around the office premises are required to undergo the Green Card Programme. In the Green Card Programme, these contract supervisors are briefed by our Environment, Health and Safety (EHS) team on the EHS policies and regulations in British American Tobacco Malaysia. The contract supervisors then undergo an evaluation session to ensure they have full understanding of these policies.

A Green Card refresher training programme was carried out in July 2012 for existing green card holders, and a total of 20 contractors had their green cards renewed.

British American Tobacco Malaysia (commercial unit) also achieved 1 million man-hours without a Lost Work Case, from October 2011 to December 2012.



Environment

KEY HIGHLIGHTS IN 2012

- ENVIRONMENTAL MANAGEMENT GOVERNED BY STRINGENT ENVIRONMENT MANAGEMENT POLICIES.
 - INITIATED VARIOUS ACTIVITIES IN OUR OPERATIONS TO REDUCE ENERGY, WATER, AND AIR POLLUTION.
 - CONTINUED DRIVING A CARBON POSITIVE BUSINESS FORWARD.
 - INITIATED BIODIVERSITY AWARENESS ACTIVITY IN LOCAL COMMUNITY.
-

OUR ENVIRONMENT POLICY

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

The Company's Global Environmental, Health and Safety policy applies the highest standards throughout its operations across the British American Tobacco Group. The IMS formulated and implemented by our fully-owned subsidiary, Tobacco Importers and Manufacturers, is certified by three international standards (ISO 9001, ISO 14001 and OHSAS 18001) and guides employees towards upholding good Quality, Environment, Health and Safety practices in all our operations.

MAINTAINING HIGH STANDARDS OF RESPONSIBLE MANAGEMENT

To maintain the high standards underpinning the IMS, a yearly surveillance is carried out by external auditors, Lloyd's Register Quality Assurance. In June 2012, an audit was conducted without any minor or major no-compliance findings. In 2012, British American Tobacco Malaysia was successfully recertified for the standards outlined below:

- ISO 9001: 2008, for a quality management system that consistently provides and enhances products that meets regulatory requirements and delivers customer satisfaction.
- ISO 14001: 2004, for implementing, maintaining and improving our environmental management system.
- OHSAS 18001: 2007, for effective management of occupational health and safety in reducing risk and improving performance.

MINIMISING OUR ENVIRONMENTAL IMPACT FOR A SUSTAINABLE FUTURE

British American Tobacco Malaysia believes in taking proactive steps towards reducing our environmental impact to ensure environmental and business sustainability. Outlined below are several of our key initiatives:

- **Reducing energy consumption**

- Energy-efficient machinery** – In 2012, the Company replaced factory machinery such as air compressors, air washers, and vacuum pump used in our manufacturing plant with more energy efficient units after routine equipment maintenance procedures. Replacement of these machineries have resulted in reduction of energy consumption and minimised water consumption.
- Energy-efficient lighting** – Current fluorescent lights (T8) were also replaced with more energy efficient units (T5) within the factory to reduce energy consumption. Sensor lights were installed in main staircases and in toilets in the office to reduce electricity usage when not in use.

- **Improving waste production and management**

Biofilters are used in the Company to organically remove odour from exhaust gases released to the atmosphere from our factory operations. In 2012, the organic woodbark materials used in our biofilters were replaced and the waste material was sent to Recycle Energy Sdn Bhd to be converted into Refuse Derived Fuel, an alternative source of energy.

- **Reducing carbon dioxide emissions**

The Company also replaced two units of Dry Ice Expanded Tobacco impregnator machines and associated parts for better carbon dioxide recovery. These machineries are used in the manufacturing plant.

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

	2011	2012	2012 vs. 2011
Natural Gas (1000m ³)	1,944	1,815	-6.6%
Total Energy (Gj)	366,408	279,550	-23.7%
Water (m ³)	206,598	202,107	-2.1%
Waste recycling rate	97.8%	98.6%	-1.0%

- **Driving a carbon positive business**

In 2000, British American Tobacco Malaysia established an afforestation programme as part of our long-term commitment to reduce our carbon footprint. This programme is aligned to Malaysia’s goal of reducing 40 percent of its carbon dioxide (CO₂) emissions by the year 2020 compared to 2005 levels.

To date, British American Tobacco Malaysia has planted more than 6,467 hectares of various tree species (equivalent to 8,858 football fields). Planted in the Forest Management Unit No.4 in Ulu Tungud, Sabah, the afforestation programme has sequestered more than 230,000 tonnes of CO₂ per annum.

In 2012, British American Tobacco Malaysia’s total CO₂ emissions was 38,549 tonnes and current projections demonstrate that we will remain carbon positive until 2024 based on present business operations.

- **Protecting biodiversity in our local communities**

In July 2012, a British American Tobacco Malaysia employee, Gerald Alfonse, initiated a tree-planting activity within his neighbourhood, which was funded by Earthwatch, a partner in the global British American Tobacco Biodiversity Partnership. The campaign was initiated in response to the trees that were felled in the housing area. Gerald galvanised support from 15 of the neighborhood residents to participate in the tree-planting supervised by the Selangor district landscaping office.

The grant of GBP1,500 was awarded by Earthwatch as part of the *Taking Care of the Environment* programme to raise community awareness on protecting biodiversity. Through this programme, British American Tobacco employees can apply for the grant to fund a biodiversity initiative in their local community.

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

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

Our business partner, TASC0, who provides logistics service has completed the programme. Parkside, our business partner supplying packaging material will be completing the EHS Mentoring Programme in 2013.



KEY HIGHLIGHTS FOR 2012

- **SUPPORTED INDUSTRY'S INITIATIVES TO HELP ADDRESS ILLICIT CIGARETTES TRADE IN THE COUNTRY.**
 - **COMPLIED WITH KEY REGULATORY REQUIREMENTS THAT TOOK EFFECT IN 2012, AND SUPPORTED SENSIBLE REGULATIONS.**
-

TACKLING ILLICIT CIGARETTES TRADE IN MALAYSIA

The illegal trade of cigarettes remains a concern for both the industry and the country, with the latest Illicit Cigarette Study (ICS) conducted by Nielsen in 2012 revealing that illicit cigarette incidence stands at 33.8 percent of the total market. This means that more than three out of 10 cigarette packs sold in the country are illegal.

Malaysia is an attractive market for cigarette smuggling as cigarette prices are the third highest among ASEAN countries after Singapore and Brunei.

Illegal cigarettes trade is not a victimless crime – it undermines the Government's health objectives because they are sold at extremely low prices and do not comply with any regulatory requirements. It also costs the Government an estimated RM2 billion in lost taxes each year.

Increased enforcement from law enforcement agencies however, have begun to show encouraging results, evident from a 1.6 percentage point drop in the latest annualised ICS results (34.5 percent) when compared to last year. This is also clear indication that the Government's decision to not increase excise on cigarettes in 2011 and 2012 is making headway in addressing this issue.

In contributing towards addressing this national scourge, the Confederation of Malaysian Tobacco Manufacturers (CMTM), of which British American Tobacco Malaysia is a member, continued to support and work together with various Government agencies to raise awareness on the severity of illicit cigarettes trade to retailers and members of the public.

CMTM provided support to the Royal Malaysian Customs on their Anti-Smuggling Campaign in five different states (Pahang, Selangor, Melaka, Perlis and Penang) which sought to educate the public on the features of illegal cigarettes, its implications to the nation, and the penalties involved.

A nationwide campaign was also launched by the Ministry of Domestic Trade, Consumer Affairs and Co-operatives in addressing the issue of certain local brands that were sold with fake security ink and false company names and addresses. This campaign sought to educate retailers on the features of such illicit cigarette packs and the laws which it contravenes.

CMTM also continued to proactively engage in dialogues with other law enforcement agencies which included the Malaysian Maritime Enforcement Agency, the Royal Marine Police, the Royal Malaysian Police, the Ministry of Finance and the Ministry of Health enforcement division towards tackling the menace of illicit trade.

PROCUREMENT POLICIES AND PROCEDURES

British American Tobacco Malaysia maintains high standards of conduct in our procurement processes with external business suppliers.

The Company's Procurement Policy, outlines the processes and procedures involved in the acquisition of all goods and services throughout the Company and encompasses the vendor selection process. The Procurement Policy also outlines the responsibilities of all functions to adhere to this process, under the guidance and advice of the Company's Procurement Department.

PRODUCT RESPONSIBILITY

Our business in British American Tobacco Malaysia is not about persuading people to smoke but in offering quality brands to adult smokers. We acknowledge that smoking is a health risk and we want both our consumers and stakeholders to know the facts of ingredients used by our Company in the manufacture of tobacco products.

As such, in line with maintaining transparency towards our products, British American Tobacco Malaysia took the lead seven years ago in the local tobacco industry to voluntarily

publish ingredients in our products on a website (www.bat-ingredients.com) that is accessible to the general public.

REGULATORY DEVELOPMENTS IN 2012

In British American Tobacco Malaysia, we believe that our business must demonstrate responsibility in everything that it does and this includes compliance with regulatory requirements. Acknowledging that tobacco consumption poses real risks to health, we continue to support sensible tobacco regulations that balance the preferences of consumers with societal interests whilst enabling our business to continue to compete.

In 2012, the Ministry of Health proposed several amendments to the current tobacco regulations under the Control of Tobacco Product Regulations 2004, which include:-

- Changes to Pictorial Health Warnings (PHW).
- Introduction of an offence for sale, purchase and possession of illegal packs.
- Reduction of maximum allowable tar and nicotine levels and introduction of maximum allowable carbon monoxide levels.
- Prohibition of price discounting for tobacco products.
- Limiting the size of cigarette packs to 20 sticks per pack and each carton of cigarettes to 10 packs per carton.

In addition, the Ministry of Health also issued a Declaration of Non-Smoking Area 2012 which specified one non-smoking area in Johor and six non-smoking areas in Pulau Pinang. These non-smoking areas are:

- Mutiara Rini Urban Forest, Johor Bahru District, Johor.
- George Town Municipal Park, Timor Laut District, Pulau Pinang.
- Botanic Garden, Timor Laut District, Pulau Pinang.
- Air Itam Dam, Timor Laut District, Pulau Pinang.
- Mengkuang Dam, Seberang Perai Tengah District, Pulau Pinang.
- Ampang Jajar Urban Park, Seberang Perai Tengah District, Pulau Pinang.
- Telok Bahang Dam, Barat Daya District, Pulau Pinang.

Smoking is prohibited in all buildings, premises, public places or land within the specified non-smoking areas as stated above.

As a responsible company, British American Tobacco Malaysia is fully compliant with all existing legislation enacted by the Government governing the manufacturing, marketing and sale of our products.

Global Reporting Initiative (GRI) Indicators 2012

To demonstrate accountability and transparency, British American Tobacco Malaysia is once again incorporating key Global Reporting Initiative (GRI) Indicators in its reporting to provide a comprehensive disclosure of its economic, environmental, social and governance performance in 2012. This is the fourth year that the Company is continuing this initiative in line with its sustainability agenda to demonstrate its commitment in operating responsibly.

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

*For more information on the Global Reporting Initiative, please log on to
www.globalreporting.org*

GRI Code	Issue Area	Response for 2012
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	<p>Direct economic value generated (Revenues): RM4,365 million</p> <p>Economic value distributed:- Operating costs: RM1,001 million Employee wages and benefits: RM118 million Payment to providers of capital: RM775 million</p> <p>Payment to government in the form of taxes: RM2,414 million Community investment: RM5 million</p> <p>Economic value retained: RM52 million</p>
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	British American Tobacco Malaysia has continually implemented measures to reduce its business environment footprint by adopting a multi-pronged approach which encompassed changing employees' behaviour, investing in new technology, improving product designs and practising voluntary carbon off-set through its Afforestation Programme located in FMU No.4, in Ulu Tungud Sabah.
EC3	Coverage of the organisation's defined benefit plan obligations.	British American Tobacco Malaysia contributed an additional four percent into employees' account in excess of the mandatory employer Employees Provident Fund (EPF) contribution, which is 12 percent (for salary above RM5,000) and 13 percent (for salary below RM5,000). Altogether, British American Tobacco Malaysia contributed 16 percent and 17 percent respectively to these two groupings of employees' EPF. Employees contributed 11 percent to EPF.
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	<p>British American Tobacco Malaysia procured from the most competitive supplier offering the highest product quality, regardless of whether it was a local or overseas supplier.</p> <p>British American Tobacco Malaysia practices the Business Enabler Survey Tool (BEST) to select its suppliers. The top 90 percent of vendors (by volume) were all surveyed using BEST, which covers management policies such as education and training, competency and technological enhancement, safety and regulatory compliances, business ethics and environment responsibility.</p> <p>The proportion of spending on locally-based suppliers in 2012 was 40 percent against 55 percent in 2011. However more than 80 percent of the imported materials are within Asia Pacific.</p>
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	<p>British American Tobacco Malaysia hired the most talented personnel, regardless of whether they were local or foreigners. The senior management, defined as the "Top Team" consisted of 71 percent local hire in 2012.</p> <p>Formula $(5 \div 7) \times 100$ percent = 71 percent</p>

GRI Code	Issue Area	Response for 2012
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Please refer to pages: 83 – 85 on the BATM Foundation which encompass building homes for the hardcore poor, the Higher Education Starter Kit (HESK), Foundation Scholarships and Employee Volunteerism.
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	A total of 23 British American Tobacco Malaysia Foundation Scholarship recipients completed their higher education in 2012 and were ready to join the highly skilled workforce. Similarly, a total of 23 British American Tobacco Malaysia Foundation scholarship recipients graduated in 2011.
EN1	Materials used by weight or volume.	Total materials: 36,949 tonnes Non-renewable materials: 3,612 tonnes <i>(Parts, fuels, cleaning materials, chemicals and processing aids)</i> Direct materials: 33,337 tonnes <i>(Leaf, wrapping, packaging, filter and flavouring)</i> Normalised: 1.34 tonnes/million cigarette equivalent British American Tobacco Malaysia recorded a 19.4 percent increase in total materials in 2012. The increase in both non-renewable and direct materials were due to higher volumes of output in production operations.
EN3	Direct energy consumption by primary energy source.	Total: 236,145 Gigajoules Non-renewable: 236,145 Gigajoules <i>(Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)</i> Renewable: 0 Gigajoules Normalised: 10.25 Gigajoules/million cigarette equivalent An decrease of 0.7 percent in direct energy consumption was recorded in 2012 as a result of the second phase of an employee transition from British American Tobacco Malaysia's in-house distribution to exclusive distribution partners.

GRI Code	Issue Area	Response for 2012
EN4	Indirect energy consumption by primary source.	<p>Total: 322,985 Gigajoules</p> <p>Non-renewable: Electricity – 322,985 Gigajoules</p> <p>Normalised: 14.02 Gigajoules/million cigarette equivalent</p> <p>An increase of 5.3 percent in indirect energy consumption was recorded in 2012 from 306,659 Gigajoules in 2011. This was due to higher volumes of output in production operations.</p>
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	<p>British American Tobacco Malaysia initiatives:</p> <ol style="list-style-type: none"> 1. Replacement of air dryer and cooling tower infill. 2. Replacement of air washer and vacuum located in the factory premises. 3. Replacement of normal T8 fluorescent lights in factory premises with energy efficient T5 fluorescent lights. <p>Estimated recorded reductions:</p> <ol style="list-style-type: none"> 1. Air dryer and cooling tower infill replacement estimated to deliver a three percent improvement in air compressor and boiler efficiency. 2. Air washer and vacuum replacement estimated to improve performance efficiency by two percent. 3. Replacement of energy efficient fluorescent lights estimated to deliver 15 percent reduction in energy consumption.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Please refer to GRI G3 Reference EN6.
EN8	Total water withdrawal by source.	<p>Total: 224,383 cubic metres</p> <p>Normalised: 9.7 cubic metres/million cigarette equivalent</p> <p>British American Tobacco Malaysia recorded a 0.5 percent increase in water withdrawal due to a higher production volume in 2012 as compared to 2011.</p>
EN9	Water sources significantly affected by withdrawal of water.	British American Tobacco Malaysia facilities sourced water from its respective Government authorised state water supplier. The water withdrawal did not affect any of the six sites designated as Ramsar List of Wetlands of International Importance in Malaysia.
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high bio-diversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.

GRI Code	Issue Area	Response for 2012
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN13	Habitats protected or restored.	<p>British American Tobacco Malaysia has sponsored an afforestation programme in Forest Management Unit No. 4 located in Ulu Tungud, Sabah since 2002. For the year 2012, the focus was set on maintenance works on the 6,635 hectares of various species of trees planted to date (the equivalent of 9,089 football fields).</p> <p>*Size of one football field is approximately 0.73 hectares.</p> <p>The project partner for this afforestation programme was TSH Resources Berhad.</p>
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Please refer to page 90 on Minimising Our Environmental Impact for a Sustainable Future.
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN16	Total direct and indirect green-house gas emissions by weight.	<p>Total: 35,147 tonnes of carbon dioxide</p> <p>Normalised: 1.53 tonne/million cigarette equivalent</p> <p>A decrease of 8.8 percent in direct and indirect green-house gas emissions was recorded in 2012 mainly due to the five weeks shut down of Diet Plant operations for the Diet Impregnator upgrading works. In spite of the shut down, reductions were still recorded although the Diet Plant had higher production volumes compared to 2011.</p>
EN17	Other relevant indirect green-house gas emissions by weight.	<p>Total: 23,508 tonnes of carbon dioxide</p> <p>An decrease of 16.8 percent in indirect green-house gas emissions was recorded in 2012 as a result of positive reductions in air freight usage.</p>
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Please refer to GRI G3 Reference EN6.
EN19	Emissions of ozone-depleting substances by weight.	All British American Tobacco Malaysia air conditioning equipment are chlorofluorocarbon (CFC) free.

GRI Code	Issue Area	Response for 2012
EN21	Total water discharge by quality and destination.	<p>British American Tobacco Malaysia facilities discharged water through these routes:</p> <ol style="list-style-type: none"> Public waterways (22,370 cubic metres) after the water that was used in factory operations has been treated at our effluent treatment plant to adhere to stringent corporate standards. Sewage system, water that has been used for amenities, such as toilets and office pantry (202,107 cubic metres).
EN22	Total weight of waste by type and disposal method.	<p>2011 : Hazardous Waste – 25 tonnes : Non-Hazardous Waste – 1,810 tonnes</p> <p>2012 : Hazardous Waste – 18 tonnes : Non-Hazardous Waste – 2,309 tonnes</p> <p>All our hazardous wastes were sent to Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan for disposal while a majority of our non-hazardous wastes are sent to Recycle Energy Malaysia in Semenyih for conversion into refuse derived fuel pellets. The remainder of our non-hazardous wastes which are not sent to Semenyih are recycled (e.g. paper, plastic and metal materials).</p>
EN23	Total number and volume of significant spills.	British American Tobacco Malaysia did not have any significant spills in 2012.
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	<p>Total: 18 tonnes (2011: 25 tonnes)</p> <p>All hazardous wastes were sent to Government approved site (Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan) for disposal.</p>
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation’s discharges of water and runoff.	British American Tobacco Malaysia treated water that was used in factory operations through its upgraded effluent treatment plant (increased 20 percent capacity) to meet stringent corporate standards before discharging it into public waterways which are located outside water catchment zones and other protected areas.

GRI Code	Issue Area	Response for 2012
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	<p>British American Tobacco Malaysia's comprehensive environment, health and safety programme achieved improvements in minimising its business environment footprint during the year through the implementation of initiatives in the areas of process and practices:</p> <ol style="list-style-type: none"> Water usage increased by only 0.5 percent from 223,383 cubic metres in 2011 to 224,477 cubic metres in 2012 despite a production volume increase of 30.9 percent. Scheduled waste (hazardous waste) had reduced from 25 tonnes in 2011 to 18 tonnes in 2012. Energy index improved from 14.07 GJ/mille equivalent in 2011 to 12.14GJ/mille equivalent.
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	<p>In June 2012, a check conducted by the Department of Environment (DoE) at Tobacco Importers and Manufacturers Sdn Bhd (TIM) noted three non-compliances to the Environmental Quality (Industrial Effluent) Regulation 2009. This was namely the (i) industrial effluent treatment system which was not in good working condition with two discharge points (due to the upgrade in end 2011); (ii) no display of required signage indicating the point of discharge of industrial effluent and; (iii) failure to notify the DoE of the malfunction of the system of effluent treatment plant (which was under maintenance). All necessary compliances were immediately rectified and adhered to. A total of three compound notices of RM2,000 each was issued to TIM. An appeal was made to the DoE and reduced the total compound from RM6,000 to RM3,500.</p>
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	<p>There were no significant environmental impacts recorded resulting from transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.</p>

GRI Code	Issue Area	Response for 2012
EN30	Total environmental protection expenditures and investments by type.	<p>Total: RM2.55 million</p> <p>Below is the breakdown for total environmental protection expenditures and investments:</p> <ol style="list-style-type: none"> 1) Afforestation maintenance: RM587,800 2) Bio Filter wood bark replacement: RM300,000 3) Replacement of T8 to T5 energy-efficient fluorescent lighting at factory floor and warehouses: RM386,048 4) Turbo air compressor replacement: RM478,999 5) Factory C air washer no. 3 replacement: RM550,000 6) Factory C centralised vacuum plant replacement: RM249,999
LA1	Total workforce by employment type, employment contract, and region.	<p>Total Workforce: 1,032</p> <p>Employment type</p> <p>Permanent/Full-time: 853</p> <ul style="list-style-type: none"> – Management: 586 – Non-Management: 267 <p>Temporary/Consultants/Contracts: 179</p> <p>British American Tobacco Malaysia’s workforce broken down by regions:</p> <ol style="list-style-type: none"> a. North (Kedah, Pulau Pinang, Perak, Perlis) = 89 b. South (Melaka, Johor) = 66 c. East Coast (Pahang, Terengganu, Kelantan) = 114 d. East Malaysia (Sabah, Sarawak) = 68 e. Central (Kuala Lumpur, Selangor, Negeri Sembilan) = 695

GRI Code	Issue Area	Response for 2012
LA2	Total number and rate of employee turnover by age group, gender, and region.	<p>As at 31 December 2012:</p> <p>The total number of employees who left employment in 2012 by age group:</p> <ul style="list-style-type: none"> a. less than 30 years old = 106 b. 30-50 years old = 191 c. above 50 years old = 25 <p>The total number of employees who left employment in 2012 by gender:</p> <ul style="list-style-type: none"> a. Male = 272 b. Female = 50 <p>The total number of employees who left employment in 2012 by region:</p> <ul style="list-style-type: none"> a. East Coast = 49 b. North = 87 c. South = 6 d. East Malaysia = 72 e. Central = 108 <p>Out of the total number of employees which left employment in 2012, 161 employees were part of the second phase of an employee transition from British American Tobacco Malaysia's in-house distribution to exclusive distribution partners.</p>

GRI Code	Issue Area	Response for 2012
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	<p>The following benefits were provided to British American Tobacco Malaysia’s fulltime management and non-management employees:</p> <ul style="list-style-type: none"> a. Medical benefits b. Cigarette ration c. Free meals d. Annual, calamity, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, sports and pilgrimage leave e. Bonus f. Group Term Life Insurance Scheme g. Company vehicle and monthly cash allowance (depending on grade) h. Corporate club membership (depending on grade) i. Housing loan interest subsidy (depending on grade) j. Car loan interest subsidy (depending on grade)
LA4	Percentage of employees covered by collective bargaining agreements.	<p>The percentage of total employees covered by collective bargaining agreements is 21 percent. All eligible employees amounting to 221 non-management staff were covered by the Collective Agreement, effective from 1st July 2004 to 30th June 2007.</p> <p>In October 2007, the Director General of the Trade Unions (DGTU) of the Ministry of Human Resources had decided that British American Tobacco Employees Union (BATEU) could only represent employees of the holding company, British American Tobacco (Malaysia) Berhad. The ex-General Secretary of BATEU (an employee of Tobacco Importers and Manufacturers Sdn. Bhd. (TIM)) had filed a judicial review on behalf of BATEU in the High Court challenging the decision of the DGTU. In July 2010, the High Court has set aside the Judicial Review application made by BATEU and BATEU made an appeal to the Court of Appeal. Subsequently in February 2012, the court of Appeal ruled in favour of the DGTU.</p> <p>With the Court of Appeal decision, employees from British American Tobacco Malaysia’s subsidiary companies, TIM and Commercial Marketers and Distributors Sdn. Bhd. (CMD) cannot be represented by BATEU and would have to form their respective unions.</p> <p>Notwithstanding the DGTU’s decision, all the terms and conditions of the current Collective Agreement have been honoured by British American Tobacco (Malaysia) Berhad and duly extended to the employees of TIM and CMD on a Personal To Holder (PTH) basis pending their respective new Collective Agreements.</p>

GRI Code	Issue Area	Response for 2012																																																					
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	<p>The minimum notice period for retrenchment was not less than 3 months. The notice period was specified in Article 61 of the Collective Agreement between British American Tobacco Malaysia and British American Tobacco Employees Union (BATEU), effective from 1 July 2004 to 30 June 2007.</p> <p>(Please refer to LA4 on judicial review filed on behalf of BATEU)</p>																																																					
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	<p>100 percent of the total workforce was represented by a Senior Manager representing each function in our Corporate Environmental Health and Safety (EHS) Committee.</p> <p>Six representatives (from management and non-management employees respectively) were members of the Petaling Jaya EHS Committee. This committee is headed by a chairman (Head of Production) and also includes representatives from Occupational Health, Security and an appointed Secretary (EHS Manager).</p>																																																					
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.	<p>British American Tobacco Malaysia lost workday case injury incidence rate (LWCIR) for 2012 was two lost workday cases per 1,889,480 man-hours (January to December 2012) worked by its employees.</p> <p>The two lost workday case accidents (LWC) reported during the year were slip and fall and entrapment incidents involving an employee from British American Tobacco Australia and our own employee respectively.</p> <p>By comparison, in 2011 there was one lost workday cases reported during the year which was an accident involving an employee driving a company vehicle.</p>																																																					
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	<p>Assistance Programme</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Education/ Training</th> <th colspan="2">Counselling</th> <th colspan="2">Prevention/ Risk Control</th> <th colspan="2">Treatment</th> </tr> <tr> <th>Yes</th> <th>No</th> <th>Yes</th> <th>No</th> <th>Yes</th> <th>No</th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Programme recipients</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Workers</td> <td>√</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> </tr> <tr> <td>Workers' families</td> <td></td> <td>√</td> <td>√</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> </tr> <tr> <td>Community members</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> <td>√</td> <td></td> <td>√</td> </tr> </tbody> </table>		Education/ Training		Counselling		Prevention/ Risk Control		Treatment		Yes	No	Yes	No	Yes	No	Yes	No	Programme recipients									Workers	√		√		√		√		Workers' families		√	√		√		√		Community members		√		√		√		√
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GRI Code	Issue Area	Response for 2012
		<p>For Workers :</p> <p>Education/Training</p> <ul style="list-style-type: none"> a. Chemical exposure b. Ergonomics c. Noise conservation programme d. Cough etiquette and importance of hand washing <p>Counselling</p> <ul style="list-style-type: none"> a. Chronic diseases b. Sickness absenteeism c. Overseas travel <p>Prevention/Risk Control</p> <ul style="list-style-type: none"> a. Immunisations b. Updates on infectious diseases on intranet, notice boards, email c. Routine – annual/biennial medical examinations d. Early detection of non-communicable diseases – coronary care/ Hypertension/Diabetes/Gout e. Statutory medical examinations f. Vaccinations against Hepatitis A, Hepatitis B, Tetanus Toxoid g. Provision of hand sanitisers and face masks and notice of precautions for overseas travel h. Chemical Hazardous Regulation Act surveillance (CHRA) i. Breast examination, Pap smear, Mammogram/Ultrasound <p>Treatment</p> <ul style="list-style-type: none"> a. Medications for Daily Sickness Report b. Medications for chronic diseases c. Investigations d. Referral to specialists <p>For Workers’ Families:</p> <p>Education/Training</p> <ul style="list-style-type: none"> a. On adhoc basis <p>Counselling</p> <ul style="list-style-type: none"> a. On adhoc basis b. On confidentiality basis <p>Prevention/Risk Control</p> <ul style="list-style-type: none"> a. On adhoc basis <p>Treatment</p> <ul style="list-style-type: none"> a. Clinic/Hospitalisation b. Medications

GRI Code	Issue Area	Response for 2012
LA9	Health and safety topics covered in formal agreements with trade unions.	<p>Environment, health and safety topics were covered in a formal agreement which was specified in various articles contained in the Collective Agreement between British American Tobacco Malaysia Berhad and British American Tobacco Malaysia Employees Union (BATEU), effective from 1st July 2004 to 30th June 2007. (Collective Agreement)</p> <p>Articles 20-23 cover employees maximum working hours, Article 27, 30-31 cover employees' leave entitlement and Article 40 covers employees' entitlement to appropriate personal protective equipment while at work. Article 54 states that the Company's working environment is to be in compliance with relevant regulations including providing for medical examination for employees.</p>
LA10	Average hours of training per year per employee by employee category.	<p>Management 2.33 hours</p> <p>Management attendee Central programmes: 9.84 hours Functional programmes: Operations – 0 hour Marketing – 0 hour</p> <p>Non-management 8.36 hours</p> <p>Non-management attendee Central programme: 9.59 hours Functional programmes: Operations – 11.67 hours Marketing – 24.22 hours</p> <p>The central programmes were under the purview of British American Tobacco Malaysia's Human Resources Department and covered all other functions within the Company with the exception of Operations and Marketing, as these two functions conduct their individual functional programmes.</p> <p>However, the Marketing and Operations management employee programmes were conducted at a central level in 2012 instead of functional level, hence the record of nil for Marketing and Operations management employees.</p>

GRI Code	Issue Area	Response for 2012
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	British American Tobacco Malaysia provided assistance to employees who have been terminated via its career transition or outplacement programme. Plans for restructuring were communicated to the relevant Labour Authorities (i.e. Director General of Industrial Relations and Director General of Labour) and briefing sessions were conducted to employees communicating the business rationale for restructuring and details of the outplacement programme itself. This programme was a collaboration between British American Tobacco Malaysia and CareerSolutions Asia Sdn. Bhd., which provided counselling to affected employees and carried out a transition skills programme.
LA12	Percentage of employees receiving regular performance and career development reviews.	100 percent of employees, both management and non-management staff, received a formal performance appraisal and review during the reporting period.
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	<p>The percentage of British American Tobacco Malaysia’s Board of Directors by gender: Male = 78 percent Female = 22 percent</p> <p>The percentage of British American Tobacco Malaysia’s Board of Directors by age groups: Under 30 years old = 0 percent 30-50 years old = 11 percent Over 50 years old = 89 percent</p> <p>The percentage of employees in British American Tobacco Malaysia by gender: Male = 81 percent Female = 19 percent</p> <p>The percentage of employees in British American Tobacco Malaysia by age groups: Under 30 years old = 29 percent 30-50 years old = 57 percent Over 50 years old = 14 percent</p>
LA14	Ratio of basic salary of men to women by employee category.	<p>Male and female employees of the same grade shared the same salary scale, but their starting salary might differ based on talent, experience and skills set.</p> <p>Male and female management trainees were paid equal basic salaries.</p>

GRI Code	Issue Area	Response for 2012
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	<p>British American Tobacco Malaysia's significant investments were with its suppliers. Our philosophy on supplier partnership was not just about procurement but how we could increase value in the supply chain. We use the Business Enabler Survey Tool (BEST) to select the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provision of education and training, regulatory compliances, business ethics and environment, health and safety responsibility. The top 90 percent of vendors (by volume) were all surveyed using BEST.</p> <p>Other significant investments also included the contracts we have with tobacco leaf farmers. Our contracts cover good agricultural practices, appropriate use of agrochemicals, environmental, occupational health and safety and termination of contracts should farmers be employing child labour.</p>
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Please refer to GRI G3 Reference HR1.
HR4	Total number of incidents of discrimination and actions taken.	<p>There were no incidences of discrimination reported to British American Tobacco Malaysia.</p> <p>We also have a grievance procedure under Article 5 of the Collective Agreement between British American Tobacco Malaysia Berhad and British American Tobacco Malaysia Employees Union (BATEU), effective from 1st July 2004 to 30th June 2007, for non-management employees to escalate matters of discrimination to senior management</p> <p>In addition, our Standards of Business Conduct provides for a comprehensive whistleblowing procedure which enables any employee to raise any concern including that of discrimination. Our code of practise on sexual harassment protects employees from gender discrimination.</p>
HR5	Operations identified in which the right to exercise freedom of association or collective bargaining may be at significant risk, and actions taken to support these rights.	In 2012, there were no significant risks in exercising freedom of association or collective bargaining in British American Tobacco Malaysia.

GRI Code	Issue Area	Response for 2012
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	<p>British American Tobacco Malaysia has identified its leaf supply as at risk for incidents of child labour, as it was not under its direct employment.</p> <p>To mitigate this risk, the Company has gone into an agreement with the local leaf suppliers as part of our Social Responsibility in Tobacco Production (SRTP) to ensure that no child labour was used to perform activities related to tobacco production. Any breach of the terms and conditions of the agreement would result in a cease in supplies to the Company.</p>
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour.	Please refer to GRI G3 Reference HR6.
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	There was no formalised training specifically on human rights issues provided to security personnel. The focus of their responsibilities was to ensure a safe and secure working environment for employees and the core need to treat every individual with respect in the execution of their duties.
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	<p>British American Tobacco Malaysia has identified its leaf supply as at risk for incidents of compulsory/forced labour, as it was not under our direct employment.</p> <p>To mitigate this risk, British American Tobacco Malaysia's Employment Principles builds on its commitment to good employment practices and workplace related human rights. It sets out a common approach to the development of policies and procedures, while recognising that we must take account of local labour laws and practices and the local political, economic and cultural context. Topics covered by our Employment Principles include:</p> <ol style="list-style-type: none"> a. Equality of opportunity and non-discrimination. b. Internal communications and the free flow of ideas. c. Worker representation and freedom of association. d. Fairness at work and the unacceptability of harassment and bullying. e. Do not condone or employ child labour. f. Forced or bonded labour is completely unacceptable. g. Performance responsibility. h. Health, safety and environmental responsibility. i. Community contributions and skills development for employees and communities in markets where our companies operate. j. Personal development and learning. k. Reasonable working hours and family friendly policies. l. Fair, clear and competitive remuneration and benefits.

GRI Code	Issue Area	Response for 2012
SO1	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	British American Tobacco Malaysia aimed to address the social and environmental issues associated with tobacco growing and processing by guiding tobacco farmers on good agricultural practices, the appropriate use of agrochemicals and consideration for environmental, occupational health and safety issues through the Social Responsibility In Tobacco Production (SRTP) policy. We were also active in maintaining our afforestation initiatives.
SO2	Percentage and total number of business units analysed for risks related to corruption.	Please refer to page 33 on Standards of Business Conduct.
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	20 personnel underwent an induction programme throughout 2012 and were informed about British American Tobacco Malaysia's Standards of Business Conduct (SOBC) which included information on anti-corruption and bribery.
SO4	Actions taken in response to incidents of corruption.	There were no incidences of corruption reported to British American Tobacco Malaysia.
SO5	Public policy positions and participation in public policy development and lobbying.	<p>As a responsible company, British American Tobacco Malaysia believes that we can contribute, through information and ideas to help regulators address the key issues surrounding our product.</p> <p>In 2012, we undertook the following through the Confederation of Malaysian Tobacco Manufacturers, of which British American Tobacco Malaysia is a member:</p> <ul style="list-style-type: none"> • Distribution of leaflets to some 80,000 retailers nationwide to educate them on certain local illegal cigarette brands that were selling below the minimum price of RM7.00 which also used false trade descriptions and fake security ink. This was conducted under the purview of the Ministry of Domestic Trade, Consumer Affairs and Co-operatives. • Presentations to various government agencies (e.g. Royal Malaysian Customs, Malaysian Maritime Enforcement Agency, Ministry of Domestic Trade, Co-operatives and Consumerism, etc.) on the Illicit Cigarette Study in Malaysia, the severity of illicit cigarettes trade and the issues affecting the industry. • Involvement in discussion groups and campaigns which were conducted together with the Royal Malaysian Customs and its task forces (both national and state level) to raise awareness on the issue of illicit trade to retailers and also to society at large. These discussions focused on levels of illicit trade in Malaysia, current challenges faced by enforcement/task forces and solutions to addressing illicit trade. • Discussions with the National Kenaf and Tobacco Board on leaf issues, of which the Company's Head of Leaf is a member. <p>At a global level, these and other issues and our core positions with regards to public policy development can be found on www.bat.com.</p>

GRI Code	Issue Area	Response for 2012
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	<p>There were no legal actions against British American Tobacco Malaysia for anti-competitive behaviour, anti-trust, and monopoly practices.</p> <p>British American Tobacco Malaysia's Standard of Business Conduct (SOBC) embeds the principles of fair competition rules in conducting our business. In addition, British American Tobacco Malaysia's Competition Guidelines which was rolled out company-wide on 18 June 2009 also ensures that our business activities are not in any manner anti-competitive nor in breach of the Competition Act 2011.</p>
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	<p>There were no significant fines or any non-monetary sanctions imposed on British American Tobacco Malaysia.</p> <p>However, three compound notices of RM2,000 each was issued to Tobacco Importers and Manufacturers Sdn Bhd in June 2012 for non-compliances to the Environmental Quality (Industrial Effluent) Regulation 2009. Kindly refer to GRI G3 Reference EN28 for more information.</p>
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	<p>Please refer to information on smoking and health which can be found on our website at www.bat.com. Information on tobacco ingredients can be found on www.bat-ingredients.com.</p> <p>British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.</p> <p>The Company also went into an agreement with the local leaf suppliers as part of the Social Responsibility in Tobacco Production (SRTP) to ensure that there was appropriate utilisation of agrochemicals with respect to the environment and operator safety. Therefore, where agrochemicals were deemed necessary, selection and usage adhered to the relevant British American Tobacco Agrochemical Procedures that included the selection of approved chemicals.</p>
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.	<p>British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.</p>

GRI Code	Issue Area	Response for 2012																				
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">2012</th> </tr> <tr> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>The sourcing of components of the product or service</td> <td></td> <td>√</td> </tr> <tr> <td>Content, particularly with regard to substances that might produce an environmental or social impact</td> <td>√</td> <td></td> </tr> <tr> <td>Safe use of the product or service</td> <td>√</td> <td></td> </tr> <tr> <td>Disposal of the product and environmental/social impacts</td> <td></td> <td>√</td> </tr> <tr> <td>Other (explain)</td> <td>N.A</td> <td>N.A</td> </tr> </tbody> </table>		2012		Yes	No	The sourcing of components of the product or service		√	Content, particularly with regard to substances that might produce an environmental or social impact	√		Safe use of the product or service	√		Disposal of the product and environmental/social impacts		√	Other (explain)	N.A	N.A
				2012																		
			Yes	No																		
		The sourcing of components of the product or service		√																		
		Content, particularly with regard to substances that might produce an environmental or social impact	√																			
		Safe use of the product or service	√																			
		Disposal of the product and environmental/social impacts		√																		
Other (explain)	N.A	N.A																				
<p>In 2012, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required health warnings and further textual warnings and/or labeling requirements on every cigarette pack.</p>																						
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	In 2012, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required health warnings and further textual warnings and/or labeling requirements on every cigarette pack.																				
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	<p>The Control of Tobacco Product Regulations (CTPR) 2004 regulates the tobacco industry in terms of prohibition of tobacco product advertisement, regulation on the sale of tobacco products, labeling and packaging requirements among others.</p> <p>Compliance with the regulations was further enhanced by British American Tobacco Malaysia's adherence to the British American Tobacco International Marketing Standards (IMS) which embodies in detail our commitment to marketing appropriately and only to adult smokers. The Standards aim to 'raise the bar' by establishing a benchmark for the industry worldwide and in some countries they are stricter than local laws.</p> <p>The British American Tobacco International Tobacco Products Marketing Standards were updated on 1 July 2007 (currently IMS 2) and a yearly refresher course is conducted to brief the Marketing Department and their relevant agencies on the Standards. British American Tobacco will continue to raise the bar on compliance to marketing standards when it introduces the International Marketing Principles globally in 2013.</p>																				

GRI Code	Issue Area	Response for 2012
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.	There were no incidents of non-compliance with regulations concerning marketing communications.
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	No complaints were received regarding breaches of customer privacy and losses of customer data.
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.



100 years of WINNING ORGANISATION



Uninhibited commitment in developing a team of passionate, well-informed and highly trained professionals.

Attracting, developing and nurturing talent to fuel our growth agenda

BRITISH AMERICAN TOBACCO MALAYSIA'S FOCUS ON ITS PEOPLE IN 2012 WAS TO DEVELOP AN OUTSTANDING TEAM AND CREATE A GREAT PLACE TO WORK TO DELIVER EXCELLENT BUSINESS PERFORMANCE.

KEY HIGHLIGHTS OF 2012

<ul style="list-style-type: none"> Recognised 86 recipients in the Long Service Awards. 	<ul style="list-style-type: none"> Recognised the contribution of over 164 employees through our employee recognition awards. 	<ul style="list-style-type: none"> Conducted more than 30 international, regional and local trainings for management and non-management employees. 	<ul style="list-style-type: none"> Held activities for more than 1000 employees under the Company's Great Place to Work initiative to promote employee wellbeing.
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Our Human Resource and Organisational strategy plays a critical part in enabling British American Tobacco Malaysia to achieve its vision of maintaining market leadership and to grow shareholder value.

We strongly believe that our business growth and continued success is fuelled by our People. A winning organisation delivers winning results. As such, we are committed to create the right environment that can nurture a Winning Organisation.

Our focus for 2012 was to provide employees with robust and challenging development opportunities, recognition, and a solid understanding on how they contribute towards the business' strategic direction. We foster a high performing workforce through robust talent and performance management. Our long-term career and succession planning has enabled us to develop our talent into the leaders of today.

RECOGNISING LONG SERVING EMPLOYEES

British American Tobacco Malaysia believes in recognising our long serving employees and their contribution to the Company's success throughout the years. In 2012, the annual Long Service Award ceremony was held in conjunction with British American Tobacco Malaysia's centennial celebration in December to honour long serving and retiring employees.

A total of 86 employees were awarded the Long Service Award. Out of the total recipients, 25 were recipients for 10 years' service, 13 were for 20 years' service, 29 were for 30 years' service and 19 were retirees.

EMPLOYEE RECOGNITION SCHEME TO REWARD EXCELLENT PERFORMANCE

In line with British American Tobacco Malaysia's commitment to motivate, recognise, and reward high performing employees, the Company presented awards to 164 employees who demonstrated exceptional work commitment and delivered significant achievements in 2012. These employee recognition schemes serve to reward and nurture a high performing work culture amongst all levels of employees.

Did you know?

100 YEARS AS A WINNING ORGANISATION:

In 2012, British American Tobacco Malaysia's longest serving active employee has been with the Company for more than 35 years, which is equivalent to around 1,832 weeks or 12,819 days!

DEVELOPING TALENT AND CONTINUOUSLY UPSKILLING EMPLOYEES

British American Tobacco Malaysia offers various learning and development opportunities, which include line manager coaching, on-the-job learning, in-house training, employee self-service portals, classroom-based training programmes, as well as secondments to other British American Tobacco entities abroad.

Our employee development portfolio includes functional competency training to improve work performance, and exposure to other functions to enhance cross-functional business appreciation. We also focus on management skills and leadership development, which includes senior leadership programmes. In 2012, the Company invested more than RM5 million into various employee development initiatives and continues to commit similar levels of investment each year towards upskilling and self-improvement programmes for our employees.

We have conducted more than 30 international, regional, and local training programmes for over 300 employees in 2012.

o Preferred factory in Asia Pacific

In supply chain, emphasis was placed on upskilling new employees fast in order to meet increased production demand. Capacity building initiatives were put in place to strengthen their fundamental competencies. Our focus on upskilling our supply chain team is aligned to the Company's vision of maintaining our factory as the preferred source of manufacturing for the region.

o Listed here are some of our international, regional, and local training programmes which were organised throughout 2012.

a) International Training

NAME OF TRAINING	OBJECTIVE
Advanced Product Knowledge	Building a deeper understanding of the role of our product within the integrated supply chain.
Corporate and Regulatory Affairs Campaign Management	Building campaigning capabilities, better understanding on regulation, campaign strategy and planning, and stakeholder dialogues.
Finance Development Centre	Initiating a development plan that is owned and driven by participants to equip them for stretched future roles.
Legal Excellence Programme	Enhancing understanding of the main challenges and risks facing the Company, developing legal competencies, and strategic thinking skills.
Marketing ABC	Understanding basic mechanics of marketing.
Marketing Academy	Stretching and challenging participants' strategic thinking in shaping company strategies.
Marketing Negotiation Skills	Understanding principles of negotiation.
Tier 2 Leadership Accelerator Programme: <i>Leadership Excellence Accelerator Programme</i>	Delivering critical experience and skills required for high-potential senior managers to successfully transition to the next level.
Tier 3 Leadership Development Programme: <i>Leading a Global Business</i>	Accelerating development of participants' awareness of their leadership behaviour and the effect it can have on others.

b) Regional Training

NAME OF TRAINING	OBJECTIVE
Business Presentation – Masterclass	Training on creating and delivering compelling business presentations.
Human Resources Business Partners Capability Workshop – Change Management	Explaining the benefits of change management and providing practical skills for managing change.
Leading Self Program	Building fundamental skills under the <i>Manage Self</i> development stage.
Leadership Discovery Course	Accelerating the development of participants' awareness of their leadership behaviour and its impact on others.

c) Local Training

NAME OF TRAINING	OBJECTIVE
Behavioural-Based Forklift Safety Operations	Training non-management employees on proper forklift handling.
Business English Course (British Council)	Developing employees' Business English skills.
Defensive Driving	Identifying defensive driving concepts to trade marketing employees.
Forecasting & Demand Planning Excellence	Maximising best practices and strategies on forecasting and cost saving.
High Impact Presentations	Learning to deliver and create impactful presentations.
Integrated Management Systems (IMS) Auditor	Learning competencies to conduct IMS audits based on ISO standards.
Introduction to Proquis	Coaching for Operations employees on using the Proquis system.
Licensed Manufacturing Warehouse	Deploying knowledge of the facilities on manufacturing warehouse processes.
Mechanical Maintenance	Training non-management employees on mechanical maintenance.

TALENT SOURCING: ATTRACTING AND RECRUITING THE BEST

We believe that attracting and recruiting the best talent for British American Tobacco Malaysia fuels our business sustainability. Our focus on talent sourcing is driven under the Company's Great Place to Work strategic agenda to create a winning organisation.

In 2012, we hired 25 management employees and 10 management trainees across the Company. Approximately 130 technical trainees and technical assistants were hired into the Operations function throughout 2012 to meet the increase in production volumes.

We have also improved our recruitment lead time and raised the bar on our recruitment standards. In 2012, we also experienced better retention rate of new employees.

Outlined below are key initiatives and focus areas in attracting, recruiting and retaining our best talent:

- **Graduate recruitment** – Management Trainees recruited under British American Tobacco Malaysia's Global Management Trainee programme undergo two years of intensive preparation in a selected function, which develops them to assume management roles.
- **Differentiated recruitment approach** – We believe that sourcing the best talent requires a differentiated approach, depending on the level and profile of talent we seek. The Company leverages on 12 different recruitment channels to attract potential talent from targeted groups.
- **Stringent recruitment standards** – All management hires are required to undertake online ability assessments, undergo real time face-to-face assessments by our trained assessors, and experience competency-based interviews as part of our recruitment process.
- **Improved corporate induction** – In 2012, we revamped the Employee Onboarding Framework, which aims at improving the process of inducting new joiners into the Company.

EMPLOYEE ENGAGEMENT: YOUR VOICE SURVEY 2012

British American Tobacco Malaysia conducted an employee opinion survey called the Your Voice Survey in 2012 with the following key objectives:

1. To understand how employees view the organisation, its practices, policies, etc.
2. To understand if there are areas employees are concerned with.
3. To address areas of concern and strive towards delivering a great place to work.

The survey results provided us with a better understanding of the Company's key strengths and areas for development. Some of our key strengths include:

- Our employees taking pride in working for British American Tobacco.
- Employees understanding how their roles contribute to British American Tobacco Malaysia's sustainability agenda.
- Employees being satisfied with the level of teamwork collaboration and support provided at work.

Our key focus areas for development for 2013 include the areas outlined below:

- Providing transparency and clarity on policies and practices pertaining to talent sourcing, talent management, and career progression.
- Incorporating activities to further reinforce a positive work culture for employees to voice their concerns and comments.

EMPLOYEE ENGAGEMENT: CREATING A GREAT PLACE TO WORK

In 2012, British American Tobacco Malaysia identified and set up two key workstreams to help foster a truly winning organisation aimed at creating a more positive and productive work environment. These two workstreams are driven under the *Great Place to Work* umbrella, which is part of the Company's strategic agenda for the year. It includes:

- a) **Accelerating the People Agenda** – to drive a relevant and compelling employee value proposition.
- b) **Creating a Winning Mindset** – to harness leadership skills and further fuel a high performing work environment.

In order to deliver these *Must Wins*, senior managers across the business were tasked with leading various initiatives under the *Great Place to Work* campaign. Relevant and realistic actionable plans were initiated to increase employee engagement and communications across the organisation. These plans included improving corporate induction, recruitment strategies and leadership development, amongst others.

Listed below are key initiatives that took place in 2012 under the two workstreams:

Accelerate People Agenda

- a) **Nationwide Rewards road shows** – Human Resources Business Partners engaged employees across Malaysia on employment terms and benefits (*rewards*) to increase transparency and provide better clarity on the terms and process.
- b) **Employee Onboarding Framework** – Revamped the new company wide onboarding framework to improve the onboarding experiences for new joiners.



Employees participate in the Annual Treasure Hunt organised by the British American Tobacco Malaysia Sports Club.

- c) **Improved recruitment** – Refreshed and reviewed our Company recruitment campaigns and channels to increase effectiveness of recruitment strategies.

Winning Mindset

- a) In order to create a winning mindset, the Company initiated the 'we care' campaign to promote employees' welfare and wellbeing.
- b) **The Accelerated Leadership Programme** was piloted to enhance employees' leadership skills and was aimed at increasing senior leaders' awareness of their leadership styles and enabling participants to work out development plans to improve their leadership effectiveness.

Face-to-face employee engagement

Throughout 2012, British American Tobacco Malaysia also focused on enhancing face-to-face engagement with our employees. In the Operations function, regular team talks were reintroduced to production cell employees. These team talks aimed to:

- create a consistent platform for employees within Operations to share ideas, opinions and experiences.
- provide a standard forum for the management to provide updates on performance, feedback and review solutions with the production team.
- ensure all employees have the opportunity to voice their views and ideas.

Great Place to Work initiatives

Through the British American Tobacco Malaysia Sports Club, a total of 10 major activities were carried out in 2012, which saw the participation of over 1000 employees across the Company. The year culminated with a major celebration to commemorate British American Tobacco Malaysia's 100 years in the country.



Employees participating in the Company's 100 years Family Day activity.

British American Tobacco Malaysia takes great pride in listing our Malaysian employees who are currently in other operating centres around the globe.



INDONESIA

Planning and Reporting Manager

Chief Planning and Integration Officer

Head of Trade Marketing and Distribution

Team Leaders

President Director, Export Leaf

Corporate and Regulatory Affairs Projects Manager

Operations Director

BANGLADESH

Finance Director

UNITED KINGDOM

Head of Brand Strategy Development

SOUTH KOREA

Group Brand Manager

SINGAPORE

Regional Supply Planning Manager

Head of Singapore Manufacturing

Head of Trade

Our International assignee experience

Three years had passed since I came to Indonesia and it certainly did not feel that long. This assignment in Indonesia has enriched me beyond words both from personal and professional point of view. Personally, I have the privilege to know the country, its people and culture a lot better. Professionally, I know myself a lot better and it takes a lot work in a top tier British American Tobacco market. It is extremely enriching and it differentiates a man from a boy so to speak. All these experiences will definitely position anyone who have worked in Indonesia better in their next role.

With British American Tobacco, I have travelled not only within Malaysia, but also to other parts of the world. I have covered all the main islands of Indonesia which include Sumatera, Java, Sulawesi, Kalimantan and various outer islands. If not because of this assignment and British American Tobacco, I would have probably visited Bali at best! Is British American Tobacco a great place to work? You tell me!



Jimmy Ding
Head of Business Development, Bentoel Group, Indonesia



REPORTS AND FINANCIAL STATEMENTS



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Directors' Report

The Directors are pleased to submit their annual report to the members together with the audited financial statements of the Group and Company for the financial year ended 31 December 2012.

Principal Activities

The Company provides day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos and cigars.

There have been no significant changes in the nature of the Group's and the Company's activities during the financial year.

Financial Results

	Group RM'000	Company RM'000
Profit before tax (Tax expense)/Tax credit	1,054,383 (256,637)	732,241 105
Net profit for the financial year	797,746	732,346

Dividends

	RM'000
The dividends paid or declared by the Company since 31 December 2011 were as follows: In respect of the financial year ended 31 December 2011, as shown in the Directors' report of that year: Fourth interim dividend of 66.00 sen per share, tax exempt under the single-tier system, paid on 23 March 2012	188,450
In respect of the financial year ended 31 December 2012: First interim dividend of 65.00 sen per share, tax exempt under the single-tier system, paid on 25 May 2012	185,594
Second interim dividend of 65.00 sen per share, tax exempt under the single-tier system, paid on 24 August 2012	185,594
Third interim dividend of 65.00 sen per share, tax exempt under the single-tier system, paid on 30 November 2012	185,595
	556,783

The Directors declared a fourth interim dividend of 77.00 sen per share, tax exempt under the single-tier tax system amounting to RM219,858,100 in respect of the financial year ended 31 December 2012, payable on 27 March 2013, to all shareholders whose names appear on the Register of Members and Record of Depositors on 14 March 2013. These financial statements do not reflect the fourth interim dividend which will be accounted for in the financial year ending 31 December 2013.

The Directors do not recommend a final dividend in respect of the financial year ended 31 December 2012.

Reserves and Provisions

All material transfers to and from reserves and provisions during the financial year are shown in the financial statements.

Directors

The Directors who held office during the period since the date of the last report are as follows:

Tan Sri Abu Talib bin Othman (Chairman) (*retired on 29 February 2012*)
Datuk Mohamad Salim Bin Fateh Din (Chairman) (*appointed on 11 April 2012*)
Datuk Toh Ah Wah
Dato' Ahmad Johari bin Tun Abdul Razak
Andreas Michael Thompson
Dato' Chan Choon Ngai
James Richard Suttie
Datuk Oh Chong Peng
Datuk Zainun Aishah Binti Ahmad (*appointed on 1 March 2012*)
Lee Oi Kuan (*appointed on 1 March 2012*)

In accordance with Article 103 of the Company's Articles of Association, Datuk Mohamad Salim bin Fateh Din will retire from the Board at the forthcoming Annual General Meeting and being eligible, has offered himself for re-election.

In accordance with Article 97(1) and (2) of the Company's Articles of Association, Datuk Toh Ah Wah, James Richard Suttie and Andreas Michael Thompson will retire by rotation from the Board at the forthcoming Annual General Meeting and being eligible, have offered themselves for re-election.

Datuk Oh Chong Peng who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years, will seek for re-election to continue to act as an Independent Non-Executive Director of the Company. The Board recommends that Datuk Oh Chong Peng be re-elected as an Independent Non-Executive Director of the Company and to hold office until the conclusion of the next Annual General Meeting.

Directors' Benefits

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate pursuant to provisions under the Companies Act, 1965, other than as may arise from equity-settled share-based compensation plans offered by British American Tobacco p.l.c (British American Tobacco p.l.c is deemed to be the ultimate holding company) as disclosed in Note 31 to the financial statements.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than the benefits shown in Note 4 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than by virtue of transactions entered into in the ordinary course of business as disclosed in Note 28 to the financial statements.

Directors' Interests in Shares

According to the Register of Directors' Shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares and share options in the Company and its related corporations are as follows:

The Company	Number of ordinary shares of 50 sen each in Company			
	At 1.1.12	Bought	Sold	At 31.12.12
Shareholdings in the name of the Director:				
Datuk Oh Chong Peng	1,000	–	–	1,000
James Richard Suttie	1,500	–	–	1,500
Dato' Chan Choon Ngai	1,000	–	–	1,000
Shareholdings in which the Director is deemed to have an interest:				
Dato' Chan Choon Ngai	6,000	–	–	6,000

Ultimate Holding Company – British American Tobacco p.l.c	Number of ordinary shares of 25p each in British American Tobacco p.l.c			
	At 1.1.12	Bought/ Granted	Sold	At 31.12.12
Shareholdings in the name of the Director:				
James Richard Suttie	7,154	–	–	7,154
Dato' Chan Choon Ngai	28,961	–	28,961	–
Andreas Michael Thompson	1,120	3,726	5	4,841
Datuk Toh Ah Wah	47,641	60,131	8,422	99,350

Ultimate Holding Company – British American Tobacco p.l.c	Number of ordinary shares of 25p each in British American Tobacco p.l.c			
	At 1.1.12/ Date of Appointment	Awarded	Vested	At 31.12.12
Deferred Share Bonus Scheme & International Share Reward Scheme:				
Shareholdings in the name of the Director:				
Andreas Michael Thompson	7,306	2,288	3,622	5,972
Datuk Toh Ah Wah	16,054	4,736	6,629	14,161
Lee Oi Kuan (appointed on 1 March 2012)	5,631	1,902	2,484	5,049

Directors' Interests in Shares (Cont'd.)

Ultimate Holding Company – British American Tobacco p.l.c	Number of ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.12/ Date of Appointment	Granted	Exercised	Lapsed	At 31.12.12
Shareholdings in the name of the Director,					
Exercise Price and Expiry Date:					
Andreas Michael Thompson					
LTIP – Nil (13 March 2018)	2,500	–	–	–	2,500
LTIP – Nil (27 March 2019)	6,982	–	–	–	6,982
LTIP – Nil (25 March 2020)	5,144	–	–	–	5,144
LTIP – Nil (25 March 2021)	5,228	–	–	–	5,228
LTIP – Nil (28 March 2022)	–	4,067	–	–	4,067
Datuk Toh Ah Wah					
LTIP – Nil (17 March 2014)	10,856	–	10,856	–	–
LTIP – Nil (17 May 2015)	9,244	–	9,244	–	–
LTIP – Nil (15 March 2016)	8,642	–	8,642	–	–
LTIP – Nil (13 March 2017)	8,517	–	8,517	–	–
LTIP – Nil (27 March 2019)	14,098	–	14,098	–	–
LTIP – Nil (25 March 2020)	10,317	–	–	–	10,317
LTIP – Nil (25 March 2021)	11,724	–	–	–	11,724
LTIP – Nil (28 March 2022)	–	8,771	–	–	8,771
Lee Oi Kuan					
LTIP – Nil (27 March 2019)	5,443	–	–	–	5,443
LTIP – Nil (25 March 2020)	3,870	–	–	–	3,870
LTIP – Nil (25 March 2021)	4,377	–	–	–	4,377
LTIP – Nil (28 March 2022)	–	3,524	–	–	3,524

Some of the shares and options in the ultimate holding company held by Directors arose as a result of the Directors' participation in the employee share schemes offered by British American Tobacco p.l.c (British American Tobacco p.l.c indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company). Further details on the employee share schemes offered by British American Tobacco p.l.c are contained in Note 31 to the financial statements.

Statutory Information on the Financial Statements

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:

- a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business at their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

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

No contingent or other liability has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or of the Company to meet their obligations when they fall due.

At the date of this report, there does not exist:

- a) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- b) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements of the Group or of the Company misleading.

In the opinion of the Directors:

- a) the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

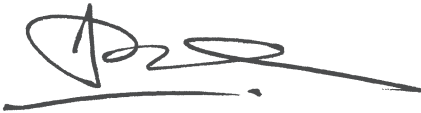
Ultimate Holding Company

The Directors regard British American Tobacco p.l.c, which is incorporated in England and Wales, to be the ultimate holding company of the Company.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 26 February 2013.



Datuk Toh Ah Wah
Managing Director

Petaling Jaya



Andreas Michael Thompson
Finance Director

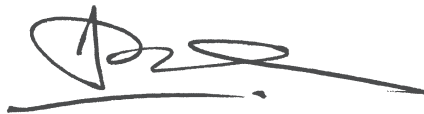
Statement by Directors

Pursuant to Section 169(15) of The Companies Act, 1965

We, DATUK TOH AH WAH and ANDREAS MICHAEL THOMPSON, two of the Directors of British American Tobacco (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 130 to 197 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and of the results and cash flows of the Group and of the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965.

The supplementary information set out on page 198 have been prepared, in all material respects, in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with a resolution dated 26 February 2013.



Datuk Toh Ah Wah
Managing Director



Andreas Michael Thompson
Finance Director

Statutory Declaration

Pursuant to Section 169(16) of The Companies Act, 1965

I, ANDREAS MICHAEL THOMPSON, the Director primarily responsible for the financial management of British American Tobacco (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 130 to 197 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

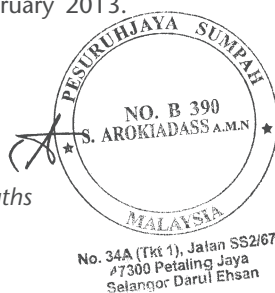


Andreas Michael Thompson
Finance Director

Subscribed and solemnly declared by the abovenamed Andreas Michael Thompson at Petaling Jaya in the state of Selangor on 26 February 2013.

Before me:

Commissioner for Oaths
Petaling Jaya



Independent Auditors' Report

To the Members of British American Tobacco (Malaysia) Berhad
(Incorporated In Malaysia) (Company No. 4372-M)

Report on the Financial Statements

We have audited the financial statements of British American Tobacco (Malaysia) Berhad on pages 130 to 197 which comprise the balance sheet as at 31 December 2012 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies as set out on pages 138 to 152 and other explanatory notes, as set out on Notes 1 to 33.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 so as to give a true and fair view of the balance sheets of the Group and of the Company as of 31 December 2012 and of their income statements and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 13 to the financial statements.

Report on Other Legal and Regulatory Requirements (Cont'd.)

- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in on page 198 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

1. As stated in Note 32 to the financial statements, British American Tobacco (Malaysia) Berhad adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by directors to the comparative information in these financial statements, including the balance sheets as at 31 December 2011 and 1 January 2011, and the statement of income, comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the Company for the year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the balance sheet as of 31 December 2012 and income statements and cash flows for the year then ended.
2. This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



PRICEWATERHOUSECOOPERS

(No. AF: 1146)

Chartered Accountants



LOH LAY CHOON

(2497/03/14(J))

Chartered Accountant

Kuala Lumpur
26 February 2013

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
annual report 2012

Income Statements

For the Financial Year ended 31 December 2012

	Note	Group		Company	
		Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Revenue	2	4,364,786	4,127,245	773,510	802,832
Cost of sales		(2,865,590)	(2,635,104)	-	-
Gross profit		1,499,196	1,492,141	773,510	802,832
Other operating income		11,887	14,243	7,216	9,214
Distribution and marketing costs		(271,747)	(358,432)	-	-
Administrative expenses		(156,376)	(152,662)	(22,033)	(8,700)
Other operating expenses		(3,065)	(11,622)	(230)	(668)
Profit from operations	3	1,079,895	983,668	758,463	802,678
Finance cost – interest expense		(25,512)	(27,400)	(26,222)	(27,400)
Profit before tax		1,054,383	956,268	732,241	775,278
(Tax expense)/Tax credit	6	(256,637)	(236,653)	105	(1,034)
Profit for the financial year		797,746	719,615	732,346	774,244
Profit attributable to: Owners of the Company		797,746	719,615	732,346	774,244
Earnings per share (sen)	7	279.4	252.0	-	-
Net dividends per share (sen)	8	272.0	276.0	272.0	276.0

The accounting policies on pages 138 to 152 and the notes on pages 153 to 197 form an integral part of these financial statements.

Statements of Comprehensive Income

For the Financial Year ended 31 December 2012

	Note	Group		Company	
		Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Profit for the financial year		797,746	719,615	732,346	774,244
Other comprehensive income:					
Changes in fair value of cash flow hedges		1,022	1,510	4	588
Defined benefit plan actuarial (loss)/gain		(159)	59	(287)	337
Deferred tax movement on other comprehensive income	14				
– Deferred tax on fair value changes on cash flow hedges		(255)	(378)	(1)	(147)
– Deferred tax on defined benefit plan actuarial gain		40	—	72	—
Total other comprehensive income for the financial year		648	1,191	(212)	778
Total comprehensive income for the financial year		798,394	720,806	732,134	775,022
Total comprehensive income for the financial year attributable to: Owners of the Company		798,394	720,806	732,134	775,022

The accounting policies on pages 138 to 152 and the notes on pages 153 to 197 form an integral part of these financial statements.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
 annual report 2012

Balance Sheets

As at 31 December 2012

	Note	Group			Company		
		2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Non current assets							
Property, plant and equipment	9	416,014	424,332	405,826	15,064	13,959	16,567
Investment property	10	134	138	1,636	–	–	–
Computer software	11	2,801	4,742	4,336	2,801	4,742	4,336
Goodwill	12	411,618	411,618	411,618	–	–	–
Subsidiaries	13	–	–	–	973,389	1,022,389	1,022,389
Deferred tax assets	14	21,089	20,102	15,158	5,276	4,349	4,166
Loan to a subsidiary	15	–	–	–	80,000	80,000	80,000
		851,656	860,932	838,574	1,076,530	1,125,439	1,127,458
Current assets							
Assets held for sale	16	417	–	888	–	–	–
Inventories	17	312,217	192,959	193,572	–	–	–
Receivables	18	200,400	206,925	179,489	38,420	6,352	104,501
Derivative financial instruments	23	2,287	–	–	–	–	–
Tax recoverable		418	–	–	418	766	–
Deposits, cash and bank balances	19	78,391	306,647	356,623	21,826	145,866	258,517
		594,130	706,531	730,572	60,664	152,984	363,018
Current liabilities							
Payables	20	317,828	361,295	314,208	590,763	319,358	526,098
Deferred income	21	3,304	2,095	–	–	–	–
Derivative financial instruments	23	2,670	322	1,832	–	4	592
Current tax liabilities		85,828	67,566	66,758	–	–	220
Borrowings (interest bearing)	22	250,000	400,000	–	–	400,000	–
		659,630	831,278	382,798	590,763	719,362	526,910
Net current (liabilities)/assets		(65,500)	(124,747)	347,774	(530,099)	(566,378)	(163,892)
		786,156	736,185	1,186,348	546,431	559,061	963,566
Capital and reserves							
Share capital	24	142,765	142,765	142,765	142,765	142,765	142,765
Cash flow hedge reserve		525	(242)	(1,374)	–	(3)	(444)
Retained earnings		341,606	289,212	349,035	150,873	163,975	168,891
Shareholders' funds		484,896	431,735	490,426	293,638	306,737	311,212
Non current liabilities							
Borrowings	22	250,000	250,000	650,000	250,000	250,000	650,000
Deferred income	21	9,628	7,683	–	–	–	–
Post employment benefit obligations	25	5,115	4,511	4,117	2,793	2,324	2,354
Deferred tax liabilities	14	36,517	42,256	41,805	–	–	–
		786,156	736,185	1,186,348	546,431	559,061	963,566

The accounting policies on pages 138 to 152 and the notes on pages 153 to 197 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the Financial Year ended 31 December 2012

	Note	Issued and fully paid ordinary shares of 50 sen each		Cash flow hedge reserve RM'000	Share based payment reserve RM'000	Retained earnings RM'000	Total attributable to Owners RM'000
		Number of shares '000	Nominal value RM'000				
At 1 January 2012		285,530	142,765	(242)	-	289,212	431,735
Profit for the financial year ended 31 December 2012		-	-	-	-	797,746	797,746
Other comprehensive income:							
- changes in fair value of cash flow hedges	23	-	-	1,022	-	-	1,022
- defined benefit plan actuarial loss	25	-	-	-	-	(159)	(159)
- deferred tax on fair value changes on cash flow hedges	14	-	-	(255)	-	-	(255)
- deferred tax on defined benefit plan	14	-	-	-	-	40	40
Total comprehensive income		-	-	767	-	797,627	798,394
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	-	-	-	5,135	-	5,135
Recharge of share based payment	31	-	-	-	(5,135)	-	(5,135)
Dividends for financial year ended 31 December 2011							
- fourth interim	8	-	-	-	-	(188,450)	(188,450)
Dividends for financial year ended 31 December 2012							
- first interim	8	-	-	-	-	(185,594)	(185,594)
- second interim	8	-	-	-	-	(185,594)	(185,594)
- third interim	8	-	-	-	-	(185,595)	(185,595)
Total transaction with owners		-	-	-	-	(745,233)	(745,233)
At 31 December 2012		285,530	142,765	525	-	341,606	484,896

The accounting policies on pages 138 to 152 and the notes on pages 153 to 197 form an integral part of these financial statements.

	Note	Issued and fully paid ordinary shares of 50 sen each		Cash flow hedge reserve RM'000	Share based payment reserve RM'000	Retained earnings RM'000	Total attributable to Owners RM'000
		Number of shares '000	Nominal value RM'000				
At 1 January 2011		285,530	142,765	(1,374)	-	349,035	490,426
Profit for the financial year ended 31 December 2011		-	-	-	-	719,615	719,615
Other comprehensive income:							
- changes in fair value of cash flow hedges	23	-	-	1,510	-	-	1,510
- defined benefit plan actuarial gain	25	-	-	-	-	59	59
- deferred tax on fair value changes on cash flow hedges	14	-	-	(378)	-	-	(378)
Total comprehensive income		-	-	1,132	-	719,674	720,806
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	-	-	-	4,439	-	4,439
Recharge of share based payment	31	-	-	-	(4,439)	-	(4,439)
Dividends for financial year ended 31 December 2010							
- third interim		-	-	-	-	(179,884)	(179,884)
Dividends for financial year ended 31 December 2011							
- first interim	8	-	-	-	-	(171,318)	(171,318)
- second interim	8	-	-	-	-	(171,318)	(171,318)
- special dividend	8	-	-	-	-	(85,659)	(85,659)
- third interim	8	-	-	-	-	(171,318)	(171,318)
Total transaction with owners		-	-	-	-	(779,497)	(779,497)
At 31 December 2011		285,530	142,765	(242)	-	289,212	431,735

The accounting policies on pages 138 to 152 and the notes on pages 153 to 197 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the Financial Year ended 31 December 2012

	Note	Issued and fully paid ordinary shares of 50 sen each		Cash flow hedge reserve RM'000	Share based payment reserve RM'000	Retained earnings RM'000	Total attributable to Owners RM'000
		Number of shares '000	Nominal value RM'000				
At 1 January 2012		285,530	142,765	(3)	-	163,975	306,737
Profit for the financial year ended 31 December 2012		-	-	-	-	732,346	732,346
Other comprehensive income:							
- changes in fair value of cash flow hedges	23	-	-	4	-	-	4
- defined benefit plan actuarial loss	25	-	-	-	-	(287)	(287)
- deferred tax on defined benefit plan						72	72
- deferred tax on fair value of changes on cash flow hedges	14	-	-	(1)	-	-	(1)
Total comprehensive income		-	-	3	-	732,131	732,134
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	-	-	-	3,532	-	3,532
Recharge of share based payment	31	-	-	-	(3,532)	-	(3,532)
Dividends for financial year ended 31 December 2011							
- fourth interim	8	-	-	-	-	(188,450)	(188,450)
Dividends for financial year ended 31 December 2012							
- first interim	8	-	-	-	-	(185,594)	(185,594)
- second interim	8	-	-	-	-	(185,594)	(185,594)
- third interim	8	-	-	-	-	(185,595)	(185,595)
Total transaction with owners		-	-	-	-	(745,233)	(745,233)
At 31 December 2012		285,530	142,765	-	-	150,873	293,638

The accounting policies on pages 138 to 152 and the notes on pages 153 to 197 form an integral part of these financial statements.

	Note	Issued and fully paid ordinary shares of 50 sen each		Cash flow hedge reserve RM'000	Share based payment reserve RM'000	Retained earnings RM'000	Total attributable to Owners RM'000
		Number of shares '000	Nominal value RM'000				
At 1 January 2011		285,530	142,765	(444)	-	168,891	311,212
Profit for the financial year ended 31 December 2011		-	-	-	-	774,244	774,244
Other comprehensive income:							
- changes in fair value of cash flow hedges	23	-	-	588	-	-	588
- defined benefit plan actuarial gain	25	-	-	-	-	337	337
- deferred tax on fair value changes on cash flow hedges	14	-	-	(147)	-	-	(147)
Total comprehensive income		-	-	441	-	774,581	775,022
Transaction with owners:							
Expense arising from equity-settled share based payment transactions	31	-	-	-	3,193	-	3,193
Recharge of share based payment	31	-	-	-	(3,193)	-	(3,193)
Dividends for financial year ended 31 December 2010							
- third interim		-	-	-	-	(179,884)	(179,884)
Dividends for financial year ended 31 December 2011							
- first interim	8	-	-	-	-	(171,318)	(171,318)
- second interim	8	-	-	-	-	(171,318)	(171,318)
- special dividend	8	-	-	-	-	(85,659)	(85,659)
- third interim	8	-	-	-	-	(171,318)	(171,318)
Total transaction with owners		-	-	-	-	(779,497)	(779,497)
At 31 December 2011		285,530	142,765	(3)	-	163,975	306,737

The accounting policies on pages 138 to 152 and the notes on pages 153 to 197 form an integral part of these financial statements.

Statements of Cash Flows

For the Financial Year ended 31 December 2012

	Note	Group		Company	
		Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Operating activities					
Cash receipts from customers and related companies		4,331,138	3,974,095	6,540	11,424
Cash paid to suppliers, employees and related companies		(3,351,934)	(2,925,388)	(39,110)	(4,493)
Dividends received from subsidiaries		-	-	765,100	791,408
Cash from operations	26	979,204	1,048,707	732,530	798,339
Income tax paid		(245,734)	(240,716)	(403)	(2,109)
Net cash flow from operating activities		733,470	807,991	732,127	796,230
Investing activities					
Property, plant and equipment					
– additions		(48,288)	(80,774)	(4,865)	(1,780)
– disposals		5,024	21,404	108	323
Computer software					
– additions		(613)	(2,305)	(613)	(2,305)
Proceeds from capital reduction in subsidiaries		-	-	49,200	-
Interest income received		7,296	10,501	5,324	4,272
Repayment from/(to) subsidiaries		-	-	272,500	(102,598)
Net cash flow (used in)/from investing activities		(36,581)	(51,174)	321,654	(102,088)
Financing activities					
Dividends paid to shareholders		(745,233)	(779,497)	(745,233)	(779,497)
Interest expense paid		(29,912)	(27,296)	(32,588)	(27,296)
Proceeds from revolving credit		250,000	-	-	-
Repayment of medium term notes		(400,000)	-	(400,000)	-
Net cash flow used in financing activities		(925,145)	(806,793)	(1,177,821)	(806,793)
Decrease in cash and cash equivalents		(228,256)	(49,976)	(124,040)	(112,651)
Cash and cash equivalents as at 1 January		306,647	356,623	145,866	258,517
Cash and cash equivalents as at 31 December	19	78,391	306,647	21,826	145,866

The accounting policies on pages 138 to 152 and the notes on pages 153 to 197 form an integral part of these financial statements.

Summary of Significant Accounting Policies

For the Financial Year ended 31 December 2012

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A. Basis of Preparation

The financial statements of the Group and Company have been prepared in accordance with the provisions of the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

The financial statements of the Group and the Company for the year ended 31 December 2012 are the first set of financial statements prepared in accordance with the MFRS, including MFRS 1, 'First-time Adoption of Malaysian Financial Reporting Standards'. Subject to certain transition elections disclosed in Note 32, the Group and Company have consistently applied the same accounting policies in its opening MFRS balance sheet at 1 January 2011 (transition date) and throughout all years presented, as if these policies had always been in effect. Comparative figures for 2011 in these financial statements have been restated to give effect to these changes. Note 32 discloses the impact of the transition to MFRS on the Group and Company's reported balance sheet, income statement and cash flows.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Group and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 33.

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

(i) Financial Year Beginning on/after 1 January 2013

- MFRS 10, 'Consolidated Financial Statements' (effective from 1 January 2013) changes the definition of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It establishes control as the basis for determining which entities are consolidated in the consolidated financial statements and sets out the accounting requirements for the preparation of consolidated financial statements. It replaces all the guidance on control and consolidation in MFRS 127, 'Consolidated and Separate Financial Statements' and IC Interpretation 112, 'Consolidation – Special Purpose Entities'.
- MFRS 12, 'Disclosures of Interests in Other Entities' (effective from 1 January 2013) sets out the required disclosures for entities reporting under the two new standards, MFRS 10 and MFRS 11, and replaces the disclosure requirements currently found in MFRS 128, 'Investments in Associates'. It requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

A. Basis of Preparation (Cont'd.)

(i) Financial Year Beginning on/after 1 January 2013 (cont'd.)

- MFRS 13, 'Fair Value Measurement' (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7, 'Financial Instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial ones.
- The revised MFRS 127, 'Separate Financial Statements' (effective from 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10.
- Amendment to MFRS 101, 'Presentation of Items of Other Comprehensive Income' (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' ('OCI') in the statement of comprehensive income into two groups, based on whether or not they may be recycled income statement in the future. The amendments do not address which items are presented in OCI.
- Amendment to MFRS 119, 'Employee Benefits' (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.
- Amendment to MFRS 7, 'Financial Instruments: Disclosures' (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the balance sheet and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

(ii) Financial Year Beginning on/after 1 January 2014

- Amendment to MFRS 132, 'Financial Instruments: Presentation' (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

(iii) Financial Year Beginning on/after 1 January 2015

- MFRS 9, 'Financial Instruments – Classification and Measurement of Financial Assets and Financial Liabilities' (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss ('FVTPL'). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in OCI. There is no subsequent recycling of the amounts in OCI to income statement, but accumulated gains or losses may be transferred within equity.

A. Basis of Preparation (Cont'd.)

(iii) Financial Year Beginning on/after 1 January 2015 (cont'd.)

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

MFRS 7 requires disclosures on transition from MFRS 139 to MFRS 9.

Unless otherwise disclosed, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Group and of the Company in the year of initial application.

B. Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

C. Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

C. Revenue Recognition (Cont'd.)

Revenue earned from the sale of the Group's products are recognised upon passing of title to the customer, which generally coincides with their delivery and acceptance and after eliminating sales within the Group. Revenue from sale of cigarettes, pipe tobaccos and cigars is presented at the invoiced value of goods sold, including all government duties and excluding sales taxes and trade discounts.

Other revenue earned by the Group and Company are recognised on the following basis:

- Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.
- Dividend income is recognised when the right to receive payment is established.
- Revenue from services rendered is recognised as and when the services are performed.

D. Property, Plant and Equipment

Property, plant and equipment are initially stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and Company and the costs of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Freehold land is not depreciated as it has an indefinite life. Leasehold land classified as finance lease is amortised in equal installments over the period of the respective leases that range from 15 to 45 years.

Depreciation on capital work in progress commences when the assets are ready for their intended use. Depreciation is provided to their residual values on all other property, plant and equipment on a straight line basis over their estimated useful lives, which are as follows:

Leasehold land	– 15 to 45 years
Buildings	– 35 to 40 years
Machinery and equipment	– 10 to 14 years
Furniture and fittings (including computer equipment and peripherals)	– various periods not exceeding 10 years
Motor vehicles	– 5 years

Small value items are fully depreciated in the year of purchase. In the year 2011, the Group changed its depreciation policy for merchandising units from a three year straight line method to expensed immediately as incurred to align to the Group accounting policies of the ultimate holding company.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. If the residual value of an asset increases to an amount equal or greater than the asset's carrying amount, the asset's depreciation charge is nil unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

D. Property, Plant and Equipment (Cont'd.)

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the asset values will be performed. The impairment loss is charged to income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in the income statement.

E. Investment Property

Investment properties, comprising principally of a building, are held for long term rental yields or for capital appreciation or both, and are not occupied by the Group.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs if the investment property meets the definition of qualifying asset.

After initial recognition, investment property is stated at cost less any accumulated depreciation and impairment losses. Investment property is depreciated on the straight line basis to allocate the cost to their residual values over their estimated useful lives of 35 to 40 years.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Gains and losses on disposals are determined by comparing net disposal proceeds with the carrying amount and are included in the income statement.

Property is subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss is charged to income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus.

F. Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Accounting by Lessee

(i) Operating Leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight line basis over the lease period. Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in income statement when incurred.

(ii) Finance Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

G. Assets Held for Sale

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

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

If there are changes to a plan of sale, the asset held for sale will be reclassified as property, plant and equipment or investment property with its carrying amount at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognised had the asset not been classified as held for sale and its recoverable amount at the date of the change to the plan of sale.

H. Intangible Assets

i. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve. Impairment is recognised immediately as an expense and is not subsequently reversed.

ii. Computer Software

Costs that are directly associated with identifiable and unique computer software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, and are not integral to other property, plant and equipment are recognised as intangible assets. These costs include the software development employee costs and an appropriate portion of relevant overheads. The computer software development costs recognised as assets are amortised upon completion of the computer software products on a straight line basis over their estimated useful lives of three years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

I. Investments in Subsidiaries

In the Company's separate financial statements, investments in subsidiaries is carried at cost less accumulated impairment losses.

On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments is recognised in income statement.

J. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads and gains/losses on qualifying cash flow hedges for purchases of raw materials. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges for purchases of raw materials.

K. Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

L. Cash and Cash Equivalents

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

M. Employee Benefits

(i) Short Term Benefits

Wages, salaries, bonuses and other staff related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees. A provision is made for the estimated liability for employee entitlements to annual leave up to the reporting date. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plan

The Group's contributions to defined contribution plans are charged to income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Defined Benefit Plan

The Group operates a defined benefit plan for employees who joined the Group prior to 1 January 2006, the assets of which are held in a separate trustee-administered fund. This fund is funded by payments from the relevant Group companies. The Group's retirement benefit obligation is determined based on a biennial actuarial valuation (with annual updates) where the amount of the benefit that eligible employees have earned in return for their service in the current and prior years is estimated.

The defined benefit liability recognised in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets, together with adjustments for unrecognised past service cost. The Group determines the present value of the defined benefit obligation and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

The defined benefit obligation, calculated using the projected unit credit method, is determined by independent actuaries, by discounting the estimated future cash outflows using market yields at the end of the reporting period on investment grade bonds which have currency and terms to maturity approximating the terms of the related liability.

M. Employee Benefits (Cont'd.)

(iii) Defined Benefit Plan (cont'd.)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in retained earnings in other comprehensive income in the period in which they arise. The actuarial gains and losses are not subsequently reclassified to income statement in subsequent period.

Past service costs are recognised immediately in income statement, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

(iv) Termination Benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after end of the reporting period are discounted to present value.

(v) Share-Based Payments

A number of employees of the Group participate in equity-settled share-based compensation plans offered by British American Tobacco p.l.c (British American Tobacco p.l.c indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent equity interest in the Company and is deemed to be the Company's ultimate holding company).

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed off over the vesting period, based on British American Tobacco p.l.c's estimate of awards that will eventually vest. Fair value is measured by the use of the Black-Scholes and Monte-Carlo pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations, forfeiture and historical experience.

The grant by British American Tobacco p.l.c of options over its equity instruments to the employees of the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an expense in the income statement, with a corresponding credit to equity.

N. Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

O. Provisions

Provisions are recognised when:

- (i) the Group has a present legal or constructive obligation as a result of past events;
- (ii) it is probable that an outflow of resources will be required to settle the obligation; and
- (iii) a reliable estimate of the amount can be made.

P. Deferred Income

Deferred income relates to distribution rights fee payable up front by third party distributors to the Group for the right to distribute the Groups' products for a minimum contract period of five years. The distribution rights fee is recognised into the income statement over the five years contractual period on a straight line basis. Deferred income are classified as current liabilities if they are earned within one year or less. If not, they are presented as non-current liabilities.

Q. Taxation

Current tax expense is determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits. Tax expense is the aggregate amount included in the determination of profit for the period in respect of current tax and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets, provisions for pensions and other post retirement benefits, allowance for doubtful debts and tax losses and unutilised capital allowances. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax is determined using tax rates enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

R. Foreign Currencies

(i) Functional and Presentation Currency

The financial statements are presented in Ringgit Malaysia, which is the Group's and Company's functional and presentation currency.

(ii) Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'.

(iii) Foreign Entities

Assets and liabilities of foreign subsidiaries are translated at closing rates for purposes of consolidation. Income statement items are translated at average rates during the financial year and resulting exchange differences are dealt with in equity for the financial year.

(iv) Closing Rates

The principal closing rates used in translation of foreign currency amounts were as follows:

Foreign Currency	31.12.2012	31.12.2011
1 US Dollar	3.0580	3.1700
1 Pound Sterling	4.9708	4.9265
1 Euro	4.0317	4.1150

S. Financial Assets

(i) Classification

The Group classifies its financial assets in as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'receivables' and 'cash and bank balances' in the balance sheet.

S. Financial Assets (Cont'd.)

(ii) Recognition and Measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

(iii) Subsequent Measurement – Impairment of Financial Assets

Assets Carried at Amortised Cost

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If 'loans and receivables' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(iv) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

T. Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

U. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method, except for borrowing costs incurred for the construction of any qualifying asset.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. All other borrowing costs are recognised in income statement in the period in which they are incurred.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

V. Share Capital

Ordinary shares are classified as equity.

W. Dividends

Interim dividends are recognised as a liability in the period in which they are declared. Final dividends are recognised in the period approval of members is obtained.

X. Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group regards its Board of Directors as its chief operating decision maker, as the Board is responsible for allocating resources, assessing performance, and making strategic decisions.

The Group is a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products and this forms the focus of the Group's internal reporting systems. While the Group has clearly differentiated brands, segmentation within a wide portfolio of brands is not part of the regular internally reported financial information to the chief operating decision maker and it is not possible to segment the Group results by brand without a high degree of estimation.

Y. Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives in the Group that qualify for hedge accounting are designated as cash flow hedge.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 23. Movements on the hedging reserve are shown in other comprehensive income. The full fair value of a hedging derivative is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in income statement within 'other gains/(losses) – net'.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects the income statement. When the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventories or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains/(losses) – net'.

Notes to the Financial Statements

As at 31 December 2012

1. General Information

The Company provides day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos and cigars.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

The Company deems British American Tobacco p.l.c, which is incorporated in England and Wales, to be its ultimate holding company.

The address of the registered office and principal place of business of the Company is as follows:

Virginia Park, Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan

2. Revenue

	Group		Company	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Sale of cigarettes, pipe tobaccos and cigars	4,364,786	4,127,245	-	-
Dividend income from unquoted subsidiaries	-	-	765,100	791,408
Management fee received from subsidiaries	-	-	4,868	5,407
Fee for usage of property, plant and equipment received from subsidiaries	-	-	3,542	6,017
	4,364,786	4,127,245	773,510	802,832

3. Profit from Operations

	Group		Company	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Profit from operations is arrived at:				
After charging:				
Raw materials and consumables used	522,236	288,425	–	–
Excise payment	2,167,776	2,163,937	–	–
Auditors' remuneration:				
– statutory audit	268	230	80	78
– audit related fees	125	76	125	76
Property, plant and equipment:				
– depreciation (Note 9)	49,450	58,380	3,725	3,952
– loss on disposal	125	–	157	113
Investment property				
– depreciation (Note 10)	4	76	–	–
– loss on disposal	–	122	–	–
Computer software				
– amortisation (Note 11)	2,554	1,899	2,554	1,899
Impairment of asset	18,706	–	–	–
Amortisation of prepayment	1,200	–	–	–
Rental of land and buildings	3,556	5,523	–	–
Inventories written off	2,608	2,132	–	–
Bad debts written off	74	412	–	–
Net foreign exchange loss	5,694	1,432	252	–
Staff costs (Note 5)	118,034	165,392	26,462	31,100
And crediting:				
Property, plant and equipment:				
– gain on disposal	–	1,603	–	–
Recovery of impairment costs	–	13,580	–	–
Reversal on provision for litigation	11,062	5,800	–	–
Interest income on loan to subsidiary	–	–	–	5,040
Interest income on deposits	7,110	10,425	1,955	4,174
Net foreign exchange gain	–	–	–	68

4. Directors' Remuneration

	Group		Company	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Fees	667	517	667	517
Other emoluments	12,741	9,073	10,920	3,909
	13,408	9,590	11,587	4,426

The estimated monetary value of benefits in kind provided to Directors of the Group and Company during the financial year amounted to RM3,368,077 (2011: RM3,175,271) and RM957,879 (2011: RM193,745) respectively.

Share-based payments made to certain Directors of the Group and Company (during their employment with the Group) in the financial year are by way of their participation in employee share schemes (Note 31) offered by British American Tobacco p.l.c.

Details of the movements of certain Directors' equity-settled share-based payment arrangements during the year ended 2012, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows, representing costs incurred by the Group and Company during the tenure of the Directors' service with the Group and Company.

	Number of ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.12	Awarded in 2012	Vested in 2012	Other movements*	At 31.12.12
Executive Directors					
Deferred Share Bonus Scheme	23,001	8,834	(12,567)	5,631	24,899
International Share Reward Scheme	359	92	(168)	–	283
	23,360	8,926	(12,735)	5,631	25,182

* Other movements relate to changes due to movement of Directors during the financial year.

4. Directors' Remuneration (Cont'd.)

Details of the movements of the Directors' participation in the equity-settled Long Term Incentive Plan and Share Option Scheme are as follows, representing costs incurred by the Group and Company during the tenure of the Directors' service with the Group and Company:

Grant Price	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c				
	At 1.1.12	Granted in 2012	Exercised in 2012	Other movements*	At 31.12.12
£5.98	-	-	-	-	-
£8.09	10,856	-	(10,856)	-	-
£10.37	9,244	-	(9,244)	-	-
£14.34	8,642	-	(8,642)	-	-
£15.41	8,517	-	(8,517)	-	-
£19.03	2,500	-	-	-	2,500
£15.79	21,080	-	(14,098)	5,443	12,425
£22.58	15,461	-	-	3,870	19,331
£23.58	16,952	-	-	4,377	21,329
£32.08	-	16,362	-	-	16,362
	93,252	16,362	(51,357)	13,690	71,947

* Other movements relate to changes due to movement of Directors during the financial year.

5. Staff Costs

	Group		Company	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Wages, salaries and bonuses	85,002	120,054	22,423	23,816
Defined contribution plan	19,146	27,073	3,470	3,432
Voluntary redundancy package	681	12,349	-	288
Other staff related expenses	13,205	5,916	569	3,564
	118,034	165,392	26,462	31,100

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

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

Staff costs recharged by the Company to the subsidiaries amounted to RM22,628,000 (2011: RM21,598,917).

6. Tax Expense

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

	Group		Company	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
<u>In respect of current year</u>				
Current tax				
– Malaysian income tax	262,742	242,984	751	1,403
– Foreign tax	5	12	–	–
Deferred tax (Note 14 (i))	(6,941)	(4,871)	(856)	(330)
<u>In respect of prior years</u>				
Under/(over) provision in respect of prior years				
– Malaysian income tax	836	(1,472)	–	(39)
– Foreign tax	(5)	–	–	–
	256,637	236,653	(105)	1,034

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

	Group		Company	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Statutory tax rate	25%	25%	25%	25%
Expenses not deductible for tax purposes	1%	1%	1%	1%
Utilisation of reinvestment allowances	–	-1%	–	–
Income not subject to tax	-2%	–	-26%	-26%
Average effective tax rate	24%	25%	–	–

7. Earnings Per Share

Earnings per share is calculated by dividing the profit for the financial year by the number of ordinary shares in issue.

	Group	
	Year ended 31.12.12	Year ended 31.12.11
Profit for the financial year (RM'000)	797,746	719,615
Number of ordinary shares of 50 sen each in issue ('000)	285,530	285,530
Earnings per share (sen)	279.4	252.0

8. Dividends

Dividends paid, declared or proposed in respect of the financial year are as follows:

	Group and Company					
	Year ended 31.12.12			Year ended 31.12.11		
	Gross per share Sen	Net per share Sen	Amount of dividend RM'000	Gross per share Sen	Net per share Sen	Amount of dividend RM'000
First interim dividend	65.0	65.0	185,594	60.0	60.0	171,318
Second interim dividend	65.0	65.0	185,594	60.0	60.0	171,318
Special dividend	–	–	–	30.0	30.0	85,659
Third interim dividend	65.0	65.0	185,595	60.0	60.0	171,318
Fourth interim dividend	77.0	77.0	219,858	66.0	66.0	188,450
	272.0	272.0	776,641	276.0	276.0	788,063

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

The Directors declared a fourth interim dividend of 77.0 sen per share at the Board of Directors' meeting on 26 February 2013 amounting to RM219,858,100, in respect of the financial year ended 31 December 2012 which will be paid on 27 March 2013 to shareholders registered in the Company's Register of Members at the close of business on 14 March 2013. These financial statements do not reflect the fourth interim dividend which will be accounted for in the financial year ending 31 December 2013.

The directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2012.

9. Property, Plant and Equipment

	Land and Buildings RM'000	Machinery and Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Capital Work In Progress RM'000	Total RM'000
Group						
Net book value at 1 January 2011	80,142	268,073	20,707	22,402	14,502	405,826
Additions	906	41,679	1,565	8,806	27,818	80,774
Disposals	(7)	(1,587)	(11,864)	(4,898)	–	(18,356)
Reversal of impairment	–	13,580	–	–	–	13,580
Reclassifications	66	14,877	11,424	–	(26,367)	–
Depreciation charge	(2,685)	(33,478)	(15,014)	(7,203)	–	(58,380)
Transfer from assets held for sale	888	–	–	–	–	888
Net book value at 31 December 2011	79,310	303,144	6,818	19,107	15,953	424,332
Additions	126	18,174	5,066	7,909	17,013	48,288
Disposals	–	–	(142)	(5,007)	–	(5,149)
Impairment	–	–	(1,590)	–	–	(1,590)
Depreciation charge	(5,508)	(33,017)	(5,317)	(5,608)	–	(49,450)
Transfer to assets held for sale	(417)	–	–	–	–	(417)
Net book value at 31 December 2012	73,511	288,301	4,835	16,401	32,966	416,014
At 31 December 2011						
Cost/Deemed Cost	152,988	540,494	166,960	42,927	15,953	919,322
Accumulated depreciation and impairment	(73,678)	(237,350)	(160,142)	(23,820)	–	(494,990)
Net book value	79,310	303,144	6,818	19,107	15,953	424,332
At 31 December 2012						
Cost/Deemed Cost	152,697	558,668	163,439	35,820	32,966	943,590
Accumulated depreciation and impairment	(79,186)	(270,367)	(158,604)	(19,419)	–	(527,576)
Net book value	73,511	288,301	4,835	16,401	32,966	416,014

9. Property, Plant and Equipment (Cont'd.)

	Land and Buildings RM'000	Machinery and Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Total RM'000
Company					
Net book value at 1 January 2011	6,611	880	4,930	4,146	16,567
Additions	–	–	1,492	288	1,780
Disposals	–	(60)	(2)	(374)	(436)
Depreciation charge	(250)	(56)	(2,785)	(861)	(3,952)
Net book value at 31 December 2011	6,361	764	3,635	3,199	13,959
Additions	–	–	4,865	–	4,865
Transfer from subsidiary	–	–	–	230	230
Disposals	–	–	(3)	(262)	(265)
Depreciation charge	(255)	(47)	(2,761)	(662)	(3,725)
Net book value at 31 December 2012	6,106	717	5,736	2,505	15,064
At 31 December 2011					
Cost/Deemed cost	10,476	1,213	23,130	5,691	40,510
Accumulated depreciation	(4,115)	(449)	(19,495)	(2,492)	(26,551)
Net book value	6,361	764	3,635	3,199	13,959
At 31 December 2012					
Cost/Deemed cost	10,476	1,213	21,691	5,336	38,716
Accumulated depreciation	(4,370)	(496)	(15,955)	(2,831)	(23,652)
Net book value	6,106	717	5,736	2,505	15,064

9. Property, Plant and Equipment (Cont'd.)

	Freehold Land Cost RM'000	Leasehold Land Cost RM'000	Buildings Cost RM'000	Total Land and Buildings RM'000
Group				
Net book value at 1 January 2011	105	18,337	61,700	80,142
Additions	–	–	906	906
Reclassifications	–	–	66	66
Depreciation charge	–	(368)	(2,317)	(2,685)
Disposals	–	–	(7)	(7)
Transfer from assets held for sale	–	–	888	888
Net book value at 31 December 2011	105	17,969	61,236	79,310
Additions	–	–	126	126
Depreciation charge	–	(368)	(5,140)	(5,508)
Transfer to assets held for sale	–	–	(417)	(417)
Net book value at 31 December 2012	105	17,601	55,805	73,511
At 31 December 2011				
Cost/Deemed cost	105	27,521	125,362	152,988
Accumulated depreciation and impairment	–	(9,552)	(64,126)	(73,678)
Net book value	105	17,969	61,236	79,310
At 31 December 2012				
Cost/Deemed cost	105	27,521	125,071	152,697
Accumulated depreciation and impairment	–	(9,920)	(69,266)	(79,186)
Net book value	105	17,601	55,805	73,511

9. Property, Plant and Equipment (Cont'd.)

	Freehold Land Cost RM'000	Leasehold Land Cost RM'000	Buildings Cost RM'000	Total Land and Buildings RM'000
Company				
Net book value at 1 January 2011	105	967	5,539	6,611
Depreciation charge	–	(21)	(229)	(250)
Net book value at 31 December 2011	105	946	5,310	6,361
Depreciation charge	–	(21)	(234)	(255)
Net book value at 31 December 2012	105	925	5,076	6,106
At 31 December 2011				
Cost/Deemed cost	105	1,435	8,936	10,476
Accumulated depreciation	–	(489)	(3,626)	(4,115)
Net book value	105	946	5,310	6,361
At 31 December 2012				
Cost/Deemed cost	105	1,435	8,936	10,476
Accumulated depreciation	–	(510)	(3,860)	(4,370)
Net book value	105	925	5,076	6,106

10. Investment Property

	Group	
	2012 RM'000	2011 RM'000
Net book value at 1 January	138	1,636
Disposal	–	(1,422)
Depreciation	(4)	(76)
Net book value at 31 December	134	138
Cost	162	162
Accumulated depreciation	(28)	(24)
Net book value	134	138
Fair value of investment property	134	138

The Group's property as at 31 December 2012 is a building at Pasir Puteh, Kelantan.

11. Computer Software

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Net book value at 1 January	4,742	4,336	4,742	4,336
Additions	613	2,305	613	2,305
Amortisation charge	(2,554)	(1,899)	(2,554)	(1,899)
Net book value at 31 December	2,801	4,742	2,801	4,742
Cost	36,844	36,231	36,844	36,231
Accumulated amortisation and impairment	(34,043)	(31,489)	(34,043)	(31,489)
Net book value	2,801	4,742	2,801	4,742

12. Goodwill

	Group		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Carrying Amount at 31 December	411,618	411,618	411,618

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

The carrying amount of goodwill is reviewed for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculations. The key assumptions for the recoverable amount of all units are management's current estimates of net cash flows over a period of five years (2011: five years) based on historical growth rate, taking into account industry developments and at the discount rate of 9.1 percent (2011: 6.1 percent). No impairment charges were recognised in 2012 (2011: Nil) and no significant difference in the recoverable amount is expected should the discounted cash flows change by 5.0 percent (2011: 5.0 percent).

13. Subsidiaries

	Group		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Unquoted investments, at cost	975,256	1,024,456	1,024,456
Impairment losses	(1,867)	(2,067)	(2,067)
	973,389	1,022,389	1,022,389

The reduction in the cost of investments in the subsidiaries is due to the capital reduction in ordinary shares owned by the Group in the wholly-owned subsidiaries Rothmans Brand Sdn. Bhd. and Commercial Importers and Distributors Sdn. Bhd.

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

Incorporated in Malaysia

Operating

Commercial Importers and Distributors Sdn. Bhd.
Commercial Marketers and Distributors Sdn. Bhd.

Rothmans Brands Sdn. Bhd.
The Leaf Tobacco Development Corporation
of Malaya Sdn. Berhad
Tobacco Importers and Manufacturers Sdn. Berhad

Principal Activities

Investment holding
Marketing and importation of cigarettes,
pipe tobaccos and cigars
Holding of trademarks
Purchase of tobacco leaf on behalf of a subsidiary

Manufacture and sale of cigarettes and other tobacco
related products

Non-operating

Contemporary Force Sdn. Bhd.
Lucky Strike Originals Sdn. Bhd.
Tobacco Blenders and Manufacturers Sdn. Bhd.

Principal Activities

Dormant
Dormant
Dormant

Incorporated in Negara Brunei Darussalam

Operating

Commercial Marketers and Distributors Sdn. Bhd.*

Principal Activities

Provision of advertising and promotional services

* The financial statements were not audited by PricewaterhouseCoopers, Malaysia.

14. Deferred Tax

	Note	Group			Company		
		2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Deferred tax assets							
At 1 January		20,102	15,158	19,295	4,349	4,166	8,520
Credited/(Charged) to income statement	14(i)	895	4,944	(4,137)	856	330	(4,502)
(Charged)/Credited to statement of comprehensive income	14(ii)	92	–	–	71	(147)	148
At 31 December		21,089	20,102	15,158	5,276	4,349	4,166
Represented by:							
Excess of depreciation over capital allowances		970	2,631	2,309	(1,899)	3,412	2,309
Provisions and retirement benefit		20,090	17,471	12,849	7,175	936	1,709
Cash flow hedge		29	–	–	–	1	148
		21,089	20,102	15,158	5,276	4,349	4,166
Deferred tax liabilities							
At 1 January		42,256	41,805	46,752	–	–	–
(Credited)/Charged to income statement	14(i)	(6,046)	73	(578)	–	–	–
Charged/(Credited) to statement of comprehensive income	14(ii)	307	378	(4,369)	–	–	–
As at 31 December		36,517	42,256	41,805	–	–	–
Represented by:							
Excess of capital allowances over depreciation		41,235	44,333	42,171	–	–	–
Provisions and retirement benefit		(4,922)	(1,997)	92	–	–	–
Cash flow hedge		204	(80)	(458)	–	–	–
		36,517	42,256	41,805	–	–	–

14. Deferred Tax (Cont'd.)

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

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
(i) (Credited)/Charged to income statement						
(Credited)/Charged in respect of deferred tax assets	(895)	(4,944)	4,137	(856)	(330)	4,502
(Credited)/Charged in respect of deferred tax liabilities	(6,046)	73	(578)	-	-	-
Net (credit)/charge to income statement (Note 6)	(6,941)	(4,871)	3,559	(856)	(330)	4,502
(ii) Charged/(credited) to statement of comprehensive income						
Charged/(credited) in respect of deferred tax liabilities & assets	215	378	(4,369)	(71)	147	(148)
Net charge/(credit) to statement of comprehensive income	215	378	(4,369)	(71)	147	(148)

15. Loan to a Subsidiary

On 17 August 2009, the Company issued a five-year RM80,000,000 unsecured loan to its subsidiary, Commercial Marketers and Distributors Sdn. Bhd. bearing interest of 6.3 percent per annum receivable semi-annually. The loan is receivable in a lump sum in 2014.

Credit risk with respect to the loan to Commercial Marketers and Distributors Sdn. Bhd. is limited taking into account its financial position and historical results.

16. Assets Held for Sale

	Group	
	2012 RM'000	2011 RM'000
At 1 January	-	888
Transfer from/(to) property, plant and equipment (Note 9)	417	(888)
At 31 December	417	-

This financial year, property, plant and equipment transferred to asset held for sale relates to leasehold building.

17. Inventories

	Group		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000
At cost			
Raw materials	182,960	108,188	82,895
Work-in-progress	25,872	4,428	6,772
Finished goods	96,508	75,030	99,484
Consumable stores	6,877	5,313	4,421
	312,217	192,959	193,572

18. Receivables

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Trade receivables	116,750	118,746	92,099	-	-	-
Impairment for doubtful debts	(4,551)	(5,093)	(3,095)	-	-	-
Trade receivables (net)	112,199	113,653	89,004	-	-	-
Amounts due from related companies*	58,144	46,783	28,356	34,525	4,327	102,666
Prepayments	24,285	42,882	59,865	162	1,754	1,493
Other receivables	4,559	2,507	641	3,460	-	-
Deposits	1,213	1,100	1,623	273	271	342
	200,400	206,925	179,489	38,420	6,352	104,501

Credit terms of trade receivables range from 1 to 60 days (2011: 1 to 60 days).

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

18. Receivables (Cont'd.)

As at 31 December 2012, trade receivables of RM55,602,000 (2011: RM74,515,000) were past due their contractual payment date but are considered to be recoverable. These relate to a number of external parties where there is no expectation of default. The age analysis of these trade receivables is as follows:

	Group	
	2012 RM'000	2011 RM'000
Past due within 1 month	54,628	48,820
Past due more than 1 month but within 1 year	974	25,695
	55,602	74,515

Movements of the allowance for doubtful debts during the year are as follows:

	Group	
	2012 RM'000	2011 RM'000
At 1 January	5,093	3,095
Provision for receivables impairment	2,040	1,998
Receivables written off during the year	74	–
Unused amounts reversed	(2,656)	–
At 31 December	4,551	5,093

As of 31 December 2012, the Group trade receivables RM56,466,000 (2011: RM69,144,000) were impaired. The amount of provisions was RM4,551,000 (2011: RM5,903,000). The aging of these receivables is as follows:

	Group	
	2012 RM'000	2011 RM'000
1 to 2 months	52,093	62,418
3 to 6 months	9	2,597
Over 6 months	4,364	4,129
	56,466	69,144

18. Receivables (Cont'd.)

The creation and release of provision for impaired receivables have been included in "distribution and marketing costs" in the income statement. The other classes within receivables do not contain impaired assets.

The Group's amounts due from related companies arose mainly from export sales which have a credit term of 60 days (2011: 60 days) and prepayments for leaf purchases which are not subject to any terms of repayment. These amounts are unsecured and interest-free.

The Company's amounts due from related companies arose mainly from payments made on behalf of certain related companies. These amounts are unsecured, interest-free and not subject to any terms of repayment.

Amounts due from related companies of the Group are mainly denominated in US Dollars. All other receivables of the Group and Company are mainly denominated in Ringgit Malaysia.

Approximately 49.0 percent (2011: 48.0 percent) of the Group's trade receivables are derived from its sales to eight (2011: eight) of its key customers. The Group closely monitors collections from these customers. In addition, the Group's historical experience in collection of trade receivables falls within the recorded allowances.

The maximum exposure to credit risk at the reporting date is the total carrying value of receivables disclosed above. The Group does not hold any collateral as security.

19. Deposits, Cash and Bank Balances

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Deposits with licensed banks	–	289,606	275,020	–	140,000	210,000
Cash and bank balances	78,391	17,041	81,603	21,826	5,866	48,517
	78,391	306,647	356,623	21,826	145,866	258,517

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
The currency exposure profile of deposits, cash and bank balances is as follows:						
– US Dollar	52,048	28,297	6,533	298	5,432	487
– Pound Sterling	2,982	5,652	–	193	266	–
– Brunei Dollar	4	359	5,983	–	–	–
	55,034	34,308	12,516	491	5,698	487

19. Deposits, Cash and Bank Balances (Cont'd.)

	Group			Company		
	2012 %	2011 %	1.1.2011 %	2012 %	2011 %	1.1.2011 %
The weighted average interest rates of deposits with licensed banks that were effective during the year (per annum)	2.9%	2.8%	2.4%	2.9%	2.8%	2.6%

Deposits of the Group as at the balance sheet date have an average maturity period of 30 days (2011: 30 days).

20. Payables

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Trade payables	167,444	155,584	119,407	–	–	–
Trade accruals	17,996	19,575	18,428	–	–	–
Amounts due to subsidiaries	–	–	–	560,623	276,369	491,012
Amounts due to related companies	51,628	70,772	18,783	3,842	393	–
Other payables	80,760	115,364	157,590	26,298	42,596	35,086
	317,828	361,295	314,208	590,763	319,358	526,098

The currency exposure profile of trade payables for currencies other than the Group and Company functional currency is as follows:

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
US Dollar	27,334	5,026	81	–	–	–
Pound Sterling	3,339	78	33	–	–	–
Euro	18,198	3,353	5,435	–	–	–
Others	5,818	432	68	–	–	–
	54,689	8,889	5,617	–	–	–

20. Payables (Cont'd.)

The currency exposure profile of amounts due to related companies is as follows:

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
US Dollar	15,002	19,467	91	–	–	–
Pound Sterling	3,892	49,980	37	–	–	–
Others	32,677	1,325	62	–	–	–
	51,571	70,772	190	–	–	–

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

Credit terms of trade payables and suppliers of property, plant and equipment granted to the Group vary from no credit to 120 days (2011: no credit to 120 days).

Amounts due to related companies are repayable within credit terms granted of 60 days (2011: 60 days), are unsecured and interest-free.

21. Deferred Income

The Group changed its distribution model from company-owned distribution to exclusive third party distributorship starting in 2011 by stages and this continued in the current financial year. Distribution rights fee is payable up front by the distributors to the Group in return for the rights granted to distribute the Group's products for a minimum contract period of five years. This income to the Group is recognised over the five years period on a straight line basis.

22. Borrowings (Interest Bearing)

(a) The Group's and Company's borrowings as at 31 December 2012 are as follows:

(i) RM250,000,000 five-year unsecured Medium-Term Notes 2009/2014 with a coupon rate of 4.48 percent per annum, maturing on 15 August 2014 pursuant to an Issuance Programme of up to RM700 million nominal value Medium-Term Notes (MTNs Programme).

(ii) RM250,000,000 revolving credit with tenure ranging from one week to one month.

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

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Total borrowings						
Medium-term notes	250,000	650,000	650,000	250,000	650,000	650,000
Revolving credit	250,000	–	–	–	–	–
Maturity of borrowings:						
Within one year	250,000	400,000	–	–	400,000	–
More than 1 year and less than 2 years	250,000	–	400,000	250,000	–	400,000
More than 2 years and less than 5 years	–	250,000	250,000	–	250,000	250,000

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

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Unsecured						
Current						
Medium-term notes	–	400,000	–	–	400,000	–
Revolving credit	250,000	–	–	–	–	–
Non current						
Medium-term notes	250,000	250,000	650,000	250,000	250,000	650,000

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

(d) The fair value of borrowings are detailed in Note 30(b).

23. Derivative Financial Instruments

	Group		Company	
	2012 Assets RM'000	2012 Liabilities RM'000	2012 Assets RM'000	2012 Liabilities RM'000
Forward foreign exchange contracts – cash flow hedges	2,287	2,670	–	–

	Group		Company	
	2011 Assets RM'000	2011 Liabilities RM'000	2011 Assets RM'000	2011 Liabilities RM'000
Forward foreign exchange contracts – cash flow hedges	–	322	–	4

	Group		Company	
	1.1.2011 Assets RM'000	1.1.2011 Liabilities RM'000	1.1.2011 Assets RM'000	1.1.2011 Liabilities RM'000
Forward foreign exchange contracts – cash flow hedges	–	1,832	–	592

The fair values of derivative financial instruments are determined based on the quoted market price of similar derivatives, as they are not traded on an active market. These derivatives are classified as Level 2 financial instruments in accordance with MFRS 7 classification hierarchy.

The ineffective portion recognised in the profit or loss that arises from cash flow hedges amounts to a loss of RM1,083,000 (2011: nil).

The Group's cash flow hedges are principally in respect of future payment for leaf, wrapping materials, machinery and services over the next 12 months. The Company's cash flow hedges are principally in respect of future payments of services over the next 12 months. The timing of expected cash flows in respect of derivatives designated as cash flow hedges is expected to be comparable to the timing of when the hedged item will affect the income statement, which are expected to occur at various dates during the next 12 months.

Gains and losses recognised in other comprehensive income on forward foreign exchange contracts are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months from the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset.

23. Derivative Financial Instruments (Cont'd.)

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2012 were as follows:

Hedged item	Currency to be paid	RM'000 equivalent	Average contracted rate
2012 Group			
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD 27,460,000	US Dollar	83,370	1 USD = RM3.0361
GBP 6,820,000	Pound Sterling	34,133	1 GBP = RM5.0048
EUR 3,125,000	Euro	12,540	1 EUR = RM4.0128
2011 Group			
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD 8,330,000	US Dollar	25,693	1 USD = RM3.0844
GBP 5,750,000	Pound Sterling	28,372	1 GBP = RM4.9342
EUR 4,460,000	Euro	19,312	1 EUR = RM4.3302
Company			
Future payment for services over the next 12 months			
GBP 150,000	Pound Sterling	739	1 GBP = RM4.9248
1.1.2011 Group			
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD 9,000,000	US Dollar	28,993	1 USD = RM3.2215
GBP 6,250,000	Pound Sterling	30,706	1 GBP = RM4.9130
EUR 7,290,000	Euro	30,027	1 EUR = RM4.1189
Company			
Future payment for services over the next 12 months			
GBP 6,250,000	Pound Sterling	30,706	1 GBP = RM4.9130

24. Share Capital

	Group and Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Authorised 770,000,000 Ordinary shares of 50 sen each	385,000	385,000	385,000
Issued and fully paid 285,530,000 Ordinary shares of 50 sen each	142,765	142,765	142,765

25. Post Employment Benefit Obligations

Defined Benefit Plan

The Group operates a defined benefit plan for its eligible employees in Malaysia (who joined the Group prior to 1 January 2006), the assets of which are held in a separate trustee administered fund. The Company and certain subsidiaries in the Group make contributions to the British American Tobacco Malaysia Retirement Scheme, a tax approved fund independent of the Group.

The defined benefit plan is valued by an independent actuary using the Projected Unit Credit Method. The latest actuarial valuation that was conducted on 31 December 2012 showed that the value of the net assets held in the fund together with the book provisions in the Group's financial statements, adequately met the actuarial liabilities arising from the defined benefit plan as at 31 December 2012.

The amounts recognised in the balance sheet are determined as follows:

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Present value of defined benefit obligations	12,085	11,487	10,882	6,129	5,889	5,972
Fair value of plan assets	(6,970)	(6,976)	(6,765)	(3,336)	(3,565)	(3,618)
Net liability	5,115	4,511	4,117	2,793	2,324	2,354
Analysed as:						
Non-current	5,115	4,511	4,117	2,793	2,324	2,354
	5,115	4,511	4,117	2,793	2,324	2,354

25. Post Employment Benefit Obligations (Cont'd.)

Defined Benefit Plan (cont'd.)

The amounts recognised in the income statement under other operating expenses are as follows:

	Group		Company	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Current service cost	(615)	(629)	(259)	(295)
Interest cost	(538)	(692)	(208)	(382)
Expected return on plan assets	134	196	34	106
Total, included within staff cost	(1,019)	(1,125)	(433)	(571)

Movements in defined benefit obligations were as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 January	4,511	4,117	2,324	2,354
Charge for the year	1,019	1,125	433	571
Contributions paid	(574)	(587)	(251)	(264)
Benefits paid	-	(85)	-	-
Actuarial loss/(gain) recognised	159	(59)	287	(337)
At 31 December	5,115	4,511	2,793	2,324

25. Post Employment Benefit Obligations (Cont'd.)

Defined Benefit Plan (cont'd.)

Changes in the present value of defined benefit obligations were as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 January	11,487	10,882	5,889	5,972
Service cost	615	629	259	295
Interest cost	538	692	208	382
Benefits paid	(746)	(648)	(622)	(216)
Liability transferred to subsidiary	-	-	99	(201)
Actuarial loss due to assumption change	-	287	-	93
Actuarial loss/(gain) due to actual experience	191	(355)	296	(436)
At 31 December	12,085	11,487	6,129	5,889
Defined benefit obligations expected to be payable in the next year	6,604	5,036	5,267	4,842

Changes in the fair value of plan assets were as follows:

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
At 1 January	6,976	6,765	6,213	3,565	3,618	1,444
Expected return on plan assets	134	196	143	34	106	41
Contributions by employer	574	587	646	251	264	263
Benefits paid	(746)	(563)	(233)	(622)	(216)	(209)
Assets transferred from/(to) a subsidiary	-	-	-	99	(201)	2,080
Actuarial gain/(loss) on plan assets	32	(9)	(4)	9	(6)	(1)
At 31 December	6,970	6,976	6,765	3,336	3,565	3,618
Contribution payable in the next year	565	596	631	234	255	298

25. Post Employment Benefit Obligations (Cont'd.)

Defined Benefit Plan (cont'd.)

The developments of actuarial gains and losses as at 31 December were as follows:

	Group			Company		
	2012 RM'000	2011 RM'000	1.1.2011 RM'000	2012 RM'000	2011 RM'000	1.1.2011 RM'000
Actuarial loss/(gain) from prior year	539	598	508	(35)	302	271
Actuarial loss/(gain) recognised in year	159	(59)	90	287	(337)	31
Cumulative actuarial loss recognised	698	539	598	252	(35)	302

The actual return on plan assets is RM166,000 (2011: RM187,000).

Principal actuarial assumptions used at the balance sheet date in respect of the Group's and the Company's defined benefit plan were as follows:

	2012 %	2011 %	1.1.2011 %
Discount rate	6.0	6.0	6.5
Expected return on plan assets	3.0	3.0	3.0
Expected rate of salary increases	6.0	6.0	6.0

The expected rate of return on scheme assets in 2012 is derived from an investment allocation of 20.0 percent into Malaysian Government bonds, and 80.0 percent into money market instruments yielding annual rates of investment returns of 3.2 percent and 3.1 percent respectively.

26. Cash from Operations

	Group		Company	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
Profit for the financial year	797,746	719,615	732,346	774,244
Adjustments for:				
Defined benefit plan charge (Note 25)	1,019	1,125	433	571
Interest income	(7,110)	(10,425)	(1,955)	(9,214)
Property, plant and equipment				
– depreciation	49,450	58,380	3,725	3,952
– recovery of impairment	–	(13,580)	–	–
– loss/(gain) on disposal	125	(1,603)	157	113
Investment property				
– depreciation	4	76	–	–
– loss on disposal	–	122	–	–
Computer software				
– amortisation	2,554	1,899	2,554	1,899
Impairment of asset	18,706	–	–	–
Amortisation of prepayment	1,200	–	–	–
Bad debts written off	74	412	–	–
(Writeback)/allowance for doubtful debts	(616)	1,998	–	–
Inventories written off	2,608	2,132	–	–
Reversal for litigation	(11,062)	(5,800)	–	–
Interest expense	25,512	27,400	26,222	27,400
Tax expense/(credit)	256,637	236,653	(105)	1,034
Changes in working capital:				
– inventories	(121,866)	(1,519)	–	–
– receivables	6,881	(29,922)	(35,437)	103,091
– payables	(42,658)	61,744	4,590	(104,751)
Cash from operations	979,204	1,048,707	732,530	798,339

27. Capital Commitments

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Property, plant and equipment:				
– Authorised and contracted for	–	13,373	–	–
– Authorised but not contracted for	20	432	–	432
	20	13,805	–	432

28. Significant Related Party Disclosures

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

The Group's and Company's transactions are with member corporations of British American Tobacco p.l.c (British American Tobacco p.l.c indirectly through British American Tobacco Holdings (Malaysia) B.V., owns 50.0 percent equity interest in the Company and is deemed to be the Company's ultimate holding company).

(a) Group's Transactions

	Group	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
(i) Sale of Goods		
Sale of cigarettes and tobacco products to:		
– British-American Tobacco Company (HK) Ltd.	5,265	4,255
– Rothmans Far East B.V.	7,405	9,812
– British American Tobacco Marketing (Singapore) Pte. Ltd.	85,228	69,082
– B.A.T. China Ltd.	909	1,062
– British American Tobacco International Ltd.	53,074	18,107
– British American Tobacco Korea Manufacturing Co. Ltd.	4,542	14,965
– India Tobacco Company Ltd.	1,911	1,817
– British American Tobacco Taiwan Logistics Ltd.	2,933	–
– Rothmans Far East Japan (a division of Rothmans Far East B.V.)	475	–
– British American Tobacco Japan Ltd.	87,589	–
– British American Tobacco (New Zealand) Ltd.	2,257	–
– British American Tobacco (Australia) Ltd.	89,201	–
– British American Tobacco Papua New Guinea	14,178	–
– Solomon Islands Tobacco	4,929	–
– British American Tobacco Phillipines Ltd.	1,915	–
	361,811	119,100

28. Significant Related Party Disclosures (Cont'd.)

(a) Group's Transactions (cont'd.)

	Group	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
(ii) Purchase of Goods		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
– British American Tobacco Marketing (Singapore) Pte. Ltd.	138,142	82
– British American Tobacco (Germany) GmbH	–	7
– B.A.T (GLP) Ltd.	194,373	66,800
– PT Export Leaf Indonesia	47,400	47,914
– B.A.T. (U.K. & Export) Ltd.	356	2,151
– BAT Supply Chain WE Ltd.	2,527	–
– British American Tobacco (Australia) Ltd.	11,537	–
– British American Tobacco International Ltd.	232	296
– BAT Theodorus Niemeyer B.V.	791	1,462
– British American Tobacco Korea Manufacturing Co. Ltd.	61	–
	395,419	118,712
(iii) Procurement of Services		
Procurement of information technology services from:		
– British American Shared Services Ltd.	29,735	15,353
– BAT GSD (KL) Sdn. Bhd.	542	–
	30,277	15,353
(iv) Technical and Advisory (includes share based payment charges)		
Payment of fees for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	42,440	53,950
– British American Tobacco International Ltd.	–	1,552
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	11,391	9,472
– British American Tobacco (Singapore) Pte. Ltd.	474	425
– British American Tobacco Asia Pacific Region Ltd.	2,237	4,303
– British American Tobacco (Holdings) Ltd.	5,029	–
– British American Tobacco Marketing (Singapore) Pte Ltd.	8,562	–
– BAT Asia Pacific	203	–
	70,336	69,702

28. Significant Related Party Disclosures (Cont'd.)**(a) Group's Transactions (cont'd.)**

	Group	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
(v) Royalties		
Royalties paid/payable to:		
– Dunhill Tobacco of London Ltd.*	91,043	88,729
– Benson & Hedges (Overseas) Limited*	3,176	4,583
– British American Tobacco (Investments) Inc.	–	7,168
– The American-Cigarette Company (Overseas) Ltd.**	4,187	4,259
– St. Regis Tobacco Corporation Ltd.**	188	289
– The House of Edgeworth Inc.	6,436	–
	105,030	105,028
(vi) Sale and Purchase of Equipment		
(Sale)/purchase of equipment (to)/from:		
– British American Tobacco Australasia Limited	–	1,294
– British American Tobacco Denmark	–	115
– B.A.T. Mexico, S.A. De C.V.	1,555	(11,425)
– British American Tobacco Tuntun Mamulleri Sanayi Ve Ticaret Anonim Sirketi	–	19,424
– British American Tobacco Korea	(5,467)	–
– British American Tobacco (Singapore) Pte. Ltd.	488	–
	(3,424)	9,408

28. Significant Related Party Disclosures (Cont'd.)

(a) Group's Transactions (cont'd.)

	Group	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
(vii) Provision of Technical and Advisory Support Services to:		
– B.A.T China Ltd.	79	95
– British American Tobacco – Vinataba (JV) Ltd.	26	42
– British-American Tobacco Company (HK) Ltd.	120	114
– British American Tobacco Cambodia Ltd.	48	48
– British American Tobacco Services Limited, Taiwan Branch	–	89
– Rothmans of Pall Mall Myanmar Pte. Ltd.	–	128
– British American Tobacco (Vietnam) Ltd.	108	1,107
– British American Tobacco (Singapore) Pte. Ltd.	1,293	3
– British American Tobacco Marketing (Singapore) Pte. Ltd.	830	826
– British American Tobacco Japan, Ltd.	35	54
– British American Tobacco (Thailand) Ltd.	–	1
– Ceylon Tobacco Company Ltd.	3	5
– British American Tobacco (PNG) Limited	–	240
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	85	–
– British American Tobacco Bangladesh Company Ltd.	–	18
– British American Tobacco International Ltd.	10	69
– British American Tobacco Services Limited, Taiwan Branch	59	–
– British American Tobacco (New Zealand) Ltd.	17	–
– British American Tobacco Papua New Guinea	5	–
	2,718	2,839

* Payments in respect of royalty agreements with these entities were made to B.A.T. (U.K. & Export) Ltd.

** Payments in respect of royalty agreements with these entities were made to B.A.T. (Brands) Inc. (previously made to British American Tobacco International Holdings (Switzerland) Ltd., Zug.)

28. Significant Related Party Disclosures (Cont'd.)

(b) Company's Transactions

	Company	
	Year ended 31.12.12 RM'000	Year ended 31.12.11 RM'000
(i) Management Fee		
Management fee received from:		
– Commercial Marketers and Distributors Sdn. Bhd.	4,327	4,880
– Tobacco Importers and Manufacturers Sdn. Bhd.	541	527
	4,868	5,407
(ii) Fee for Usage of Property, Plant and Equipment:		
Fee for usage of property, plant and equipment received from:		
– Commercial Marketers and Distributors Sdn. Bhd.	2,428	5,158
– Tobacco Importers and Manufacturers Sdn. Bhd.	1,114	859
	3,542	6,017
(iii) Procurement of Services*		
Procurement of information technology services from:		
– British American Shared Services Ltd.	29,735	15,353
– B.A.T. (U.K. & Export) Ltd.	542	–
	30,277	15,353
(iv) Technical and Advisory (includes shared based payment charges)*		
Payment of fees for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	42,440	53,950
– British American Tobacco International Ltd.	–	1,552
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	11,391	9,472
– British American Tobacco (Singapore) Pte. Ltd.	474	425
– British American Tobacco Asia Pacific Region Ltd.	2,237	4,303
	56,542	69,702
(v) Interest Income		
Interest income from loan to a subsidiary:		
– Commercial Marketers and Distributors Sdn. Bhd.	5,040	5,040

* These costs have been fully re-charged to certain subsidiaries during the year.

28. Significant Related Party Disclosures (Cont'd.)

Key management personnel of the Group and Company are the Directors of which their compensation has been disclosed in Note 4 of the financial statements.

The above transactions have been entered into on terms and conditions that were negotiated among the related parties.

29. Segment Reporting

The Company is domiciled in Malaysia. The revenue from external customers in Malaysia is RM3,905,451,000 (2011: RM3,898,534,000), and the total revenue from external customers and related companies from other countries is RM459,334,000 (2011: RM228,711,000). The Group does not have any non-current assets that are located in countries other than Malaysia. There are also no revenue arising from transactions with a single external customer that comprises 10.0 percent or more of the Group's revenue for the years ended 31 December 2012 and 31 December 2011.

Segment analysis has not been prepared as the Group is a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products and this forms the focus of the Group's internal reporting systems. While the Group has clearly differentiated brands, segmentation within a wide portfolio of brands is not part of the regular internally reported financial information to the chief operational decision maker and it is not possible to segment the Group results by brand without a high degree of estimation.

30. Financial Risk Management

(a) Financial Risk Factors

The Group and Company are exposed to financial risks arising from its business activities; mainly interest rate risks, price risk, currency exchange risks, credit risks and liquidity and cash flow risks. These risks are managed by the Group at Group level.

Straightforward derivative financial instruments are utilised by the Group to lower funding costs, to alter interest rate exposures or to achieve greater certainty of future costs. These instruments are entered into in accordance with objectives and policies approved by the Board of Directors that expressly forbid speculative transactions.

The policy restricts the use of derivative instruments to forward foreign exchange contracts, foreign currency and interest rate swaps, forward rate agreements, currency options and caps. In addition to policies, guidelines and exposure limits, a system of delegated authority limits and extensive independent reporting covers all major areas of the Group's treasury activities.

(i) Interest Rate Risk Management

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on earnings, cash flow and economic value of the Group. As at the balance sheet date, there were no open interest rate swap contracts. Borrowings issued at fixed rates expose the group to fair value interest rate risk. The Group has both fixed and floating rate borrowings as disclosed in Note 22, and a possible 10.0 percent increase or decrease in interest rates on deposits will not result in any significant change in the Group's pre-tax profit.

30. Financial Risk Management (Cont'd.)

(a) Financial Risk Factors (cont'd.)

(ii) Currency Exchange Risk Management

The Group is subject to exposures to currency exchange risk as a result of its purchases of certain raw materials, equipment and services in foreign currencies. The Group's primary currency exchange risk exposures are to the US dollar, Euro and British pound. The currency profile of the assets and liabilities of the Group are disclosed in the respective notes to the financial statements.

The objectives of the Group's foreign exchange policies are to allow the Group to manage exposures that arise from trading activities effectively within a framework of controls that does not expose the Group to unnecessary foreign exchange risks. The Group enters into forward foreign exchange contracts to hedge 50 percent – 95 percent of its exposure on foreign currency sales and payables and on cash flows to be used in anticipated transactions denominated in foreign currencies for the subsequent 12 months.

The Group considers a 10 percent strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 10 percent increase or decrease of functional currency against non-functional currencies would not result in significant changes in the Group's pre-tax profit.

(iii) Price Risk Management

The Group is exposed to price risk relating to leaf purchases, which are included in raw materials disclosed in Note 17. The Group reviews sourcing strategies as and when required, to manage any adverse exposures.

The Group considers a 10 percent change in prices of leaf purchases a possible change. The impact is calculated with reference to the leaf purchases made during the year held as at the year end, unless this is unrepresentative of the position during the year. A 10 percent increase or decrease in leaf purchases would not result in significant changes in pre-tax profit.

The Group operates under increasingly stringent regulatory regimes in accordance with the relevant regulations governing sale and manufacture of tobacco products. Such regulations are developed and driven by the Framework Convention of Tobacco Control. The overall trend of high and increasing levels of excise and taxes, including introduction of new taxes could impact the volumes of the legal industry whilst fuelling illicit trade. The Group has in place strategies to ensure that regulations developed on governing tobacco products are sensible and enforceable, as well as contingency plans to manage the impact of significant excise changes.

(iv) Credit Risk Management

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, setting of counterparty limits and monitoring procedures. The Group seeks to invest cash assets safely and profitably. Credit risks are minimised given the Group's policy of selecting only counterparties with high creditworthiness.

Approximately 49 percent of the Group's trade receivables are derived from its sales to eight of its key customers. The Group closely monitors collections from these customers. In addition, the Group's historical experience in collection of trade receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in the Group's trade receivables.

The age analysis of trade receivables is disclosed in Note 18.

30. Financial Risk Management (Cont'd.)

(a) Financial Risk Factors (cont'd.)

(v) Liquidity and Cash Flow Risks

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and finding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions so as to achieve overall cost effectiveness.

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Maturity of borrowings:				
Within 1 year	250,280	416,200	-	416,200
More than 1 year and less than 2 years	268,165	-	268,165	-
More than 2 years and less than 5 years	-	283,600	-	283,600
Payables within 1 year	317,828	361,295	590,763	319,358
Derivative financial instruments within 1 year	383	322	-	4

(b) Fair Value Estimation

The fair value measurement hierarchy for financial instruments stated in the balance sheets are as follows:

- Level 1: Quoted price (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Group measures its forward foreign exchange contracts (cash flow hedges) at fair values, as disclosed in Note 23. The fair values of forward foreign exchange contracts are determined based on the quoted market price of similar derivatives, as they are not traded on an active market. These derivatives are classified as Level 2 financial instruments in accordance with MFRS 7 classification hierarchy.

30. Financial Risk Management (Cont'd.)

(b) Fair Value Estimation (cont'd.)

The carrying amounts of and fair values of the Group's borrowings are as follows:

	Group		Company	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
At 31 December 2012				
Current borrowings				
RM250 million Revolving credit	250,000	250,000	–	–
Non current borrowings				
RM250 million MTNs	250,000	254,075	250,000	254,075
At 31 December 2011				
Non current borrowings				
RM400 million MTNs	400,000	402,240	400,000	402,240
RM250 million MTNs	250,000	255,550	250,000	255,550

The Group measures the fair values of its borrowings based on observable yield curves.

(c) Capital Management

The Group defines capital as net debt and equity.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group assesses its financial capacity by reference to cash flow and interest cover. Group policies include a set of financing principles including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-back are decided.

31. Share-Based Payments

The Group operates a number of share-based payment arrangements of which the two principal ones are:

Long-Term Incentive plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. Payout is subject to performance conditions based on earnings per share relative to inflation (50 percent of grant) and total shareholder return, combining the share price and dividend performance of the Company by reference to two comparator groups (50 percent of grant). Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled LTIPs are granted in March each year. In 2012, the management board LTIP award was made in March.

Deferred Share Bonus Scheme (DSBS)

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

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

Share Option Scheme (ESOS)

Options exercisable three years from date of grant with a contractual life of ten years, subject to earnings per share performance condition relative to inflation. Participants are not entitled to receive dividends in the period prior to the exercise of the options. The granting of options under this scheme ceased with the last grant made in March 2004 and final outstanding awards must be exercised by March 2014. The awards were both equity and cash-settled.

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

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

31. Share-Based Payments (Cont'd.)

Share-Based Payment Expense

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

	Group	
	2012 Equity- settled in RM'000	2011 Equity- settled in RM'000
LTIP (note a)	2,120	1,613
DSBS (note b)	2,971	2,802
Other Schemes (note c)	44	24
Total recognised in the income statement	5,135	4,439

	Company	
	2012 Equity- settled in RM'000	2011 Equity- settled in RM'000
LTIP (note a)	1,654	1,313
DSBS (note b)	1,848	1,866
Other Schemes (note c)	30	14
Total recognised in the income statement	3,532	3,193

31. Share-Based Payments (Cont'd.)

(a) Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2012 and 31 December 2011, were as follows:

	Group	
	2012 Equity-Settled Number of options in thousands	2011 Equity-Settled Number of options in thousands
Outstanding at start of year	104	129
Granted during the period	22	30
Exercised during the period	(19)	(48)
Forfeited during the period	(2)	(7)
Outstanding at end of year	105	104
Exercisable at end of year	31	11

The weighted average British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was £31.78 (2011: £25.60) for equity-settled options.

The outstanding shares for the year ended 31 December 2012 had a weighted average contractual life of 7.5 years (2011: 7.7 years) for the equity-settled scheme.

	Company	
	2012 Equity-Settled Number of options in thousands	2011 Equity-Settled Number of options in thousands
Outstanding at start of year	75	74
Granted during the period	17	25
Exercised during the period	(10)	(24)
Forfeited during the period	(2)	–
Outstanding at end of year	80	75
Exercisable at end of year	21	–

The weighted average British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was £31.81 (2011: £24.15) for equity-settled options.

The outstanding shares for the year ended 31 December 2012 had a weighted average contractual life of 7.6 years (2011: 8.1 years) for the equity-settled scheme.

31. Share-Based Payments (Cont'd.)

(b) Deferred Share Bonus Scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2012 and 31 December 2011, were as follows:

	Group	
	2012 Equity-Settled Number of options in thousands	2011 Equity-Settled Number of options in thousands
Outstanding at start of year	67	67
Granted during the period	21	28
Exercised during the period	(30)	(26)
Forfeited during the period	-	(2)
Outstanding at end of year	58	67
Exercisable at end of year	1	-

The weighted average British American Tobacco p.l.c share price at the date of exercise for share options exercised during the period was £32.05 (2011: £24.52) for equity-settled options.

The outstanding shares for the year ended 31 December 2012 had a weighted average contractual life of 1.4 years (2011: 1.2 years) for the equity-settled scheme.

	Company	
	2012 Equity-Settled Number of options in thousands	2011 Equity-Settled Number of options in thousands
Outstanding at start of year	41	36
Granted during the period	13	18
Exercised during the period	(19)	(11)
Forfeited during the period	-	(2)
Outstanding at end of year	35	41
Exercisable at end of year	1	-

31. Share-Based Payments (Cont'd.)

(b) Deferred Share Bonus Scheme (cont'd.)

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £32.05 (2011: £24.60) for equity-settled options.

The outstanding shares for the year ended 31 December 2012 had a weighted average contractual life of 1.3 years (2011: 1.2 years) for the equity-settled scheme.

(c) Other Schemes

ESOS

Group

The number of outstanding equity-settled options at the end of the year were 9,709 (2011: 9,709).

Company

The ESOS scheme was last awarded in 2004 and the final outstanding awards must be exercised by March 2014. The number of outstanding equity-settled options at the end of the year were 2,538 (2011: 2,538).

SRS and ISRS

Group

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 1,804 (2011: 3,142).

Company

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 566 (2011: 820).

Valuation Assumptions

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

	Group and Company					
	2012		2011		1.1.2011	
	LTIP	DSBS	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	26.0	26.0	25.0	25.0	25.0	25.0
Average expected term to exercise (years)	3.5	3.0	3.5	3.0	3.5	3.0
Risk-free rate (%)	0.7	0.6	2.0	1.8	2.1	1.8
Expected dividend yield (%)	3.9	3.9	4.8	4.8	4.4	4.4
Share price at date of grant (£)	32.08	32.08	23.77	23.77	22.58	22.58
Fair value at grant date (£)	21.79	28.50	15.60	20.58	15.62	19.78

31. Share-Based Payments (Cont'd.)

(c) Other Schemes (cont'd.)

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

	Group and Company		
	2012 %	2011 %	1.1.2011 %
Average share price volatility FTSE 100 comparator group	39.0	40.0	38.0
Average share price volatility FMCG comparator group	26.0	26.0	25.0
Average correlation FTSE 100 comparator group	38.0	39.0	37.0
Average correlation FMCG comparator group	36.0	35.0	33.0

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

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

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

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

32. Transition from FRS to MFRS

(a) MFRS 1 Mandatory Exceptions

(i) MFRS Estimates

MFRS estimates as at transition date are consistent with the estimates as at the same date made in conformity with FRS.

(ii) Hedge Accounting

Hedge accounting can only be applied prospectively from the transition date to a hedging relationship that qualifies for hedge accounting under MFRS 139 'Financial Instruments: Recognition and Measurement' at that date. Hedging relationships cannot be designated retrospectively.

(iii) De-recognition of Financial Assets and Liabilities

For all non-derivative financial assets and liabilities de-recognised before the transition date, MFRS 139 de-recognition requirements can be applied prospectively from the transition date.

(b) MFRS 1 Exemption Options

(i) Exemption for Previous Revaluation as Deemed Cost – Property, Plant and Equipment

In accordance with the exemption in MFRS 1, the Group elected to measure certain land and buildings at the previous revaluation as deemed cost as at the date of revaluation. Accordingly, the carrying amount of these land and buildings have not been restated.

There is no material impact to the Group and Company at the date of transition as there were no material assets which had been previously revalued and has used the IAS 16 transitional provisions.

(ii) Exemption for Deemed Cost – Investment in Subsidiaries

In accordance with the exemption in MFRS 1, the Group and Company elected to measure certain investment in subsidiaries at carrying amount as at transition date as their deemed cost as at that date.

This has no impact to the Group and Company as investments in subsidiaries are all carried at cost previously.

(iii) Designation of Previously Recognised Financial Instruments

MFRS 1 permits a previously recognised financial instrument to be designated as available for sale or fair value through profit or loss on the transition date provided the criteria in MFRS 139 'Financial Instruments: Recognition and Measurement' are met.

The Group and Company does not intend to re-designate any previously recognised financials instruments at date of transition.

32. Transition from FRS to MFRS (Cont'd.)

(b) MFRS 1 Exemption Options (cont'd.)

(iv) Exemption for Employee Benefits

MFRS 1 provides retrospective relief from applying MFRS 119 'Employee Benefits', in respect of the recognition of actuarial gains and losses. The Group elected to recognise all cumulative actuarial gains and losses that existed at its transition date as liability in opening retained earnings for all its employee benefit plans.

This has no impact on the Group and on the Company as both the Group and Company applies full adjustment of actuarial gains and losses to other comprehensive income prior to MFRS adoption.

(v) Share Based Payment Transactions

The Group operates a number of equity-settled, share-based compensation plan under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- (i) including any market performance conditions;
- (ii) excluding the impact of any service and non-market performance vesting conditions; and
- (iii) excluding the impact of any non-vesting conditions.

The Group and Company also elect to apply other optional exemptions listed below from the full retrospective application of MFRS to facilitate transitioning to MFRS:

- Insurance contracts.
- Leases.
- Borrowing cost.
- Impairment of assets.

The above have no impact to the Group.

(c) Explanation of Transition from FRSs to MFRSs

The transition from FRS to MFRS has had no effect on the reconciliation of equity and reconciliation of total comprehensive income of the Group and of the Company and on the reported cash flows generated by the Group and the Company.

33. Critical Accounting Estimates and Assumptions

Estimates and judgements are continually evaluated based on historical experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements used in preparing the financial statements that have a significant effect on the carrying amount of assets and liabilities are as follows:

(i) Impairment of Goodwill

The carrying amount of goodwill is reviewed for impairment, annually as well as more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value-in-use of the cash-generating units to which goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill is disclosed in Note 12.

(ii) Income Taxes

Current tax expense is determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits. Significant estimation is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Deferred Tax

Deferred tax assets and liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax is disclosed in Note 14.

(iv) Impairment of Property, Plant and Equipment

Property, plant and equipment is reviewed for impairment losses whenever events or changes in circumstances indicate that carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and its value-in-use.

Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the assets values will be performed.

(v) Depreciation of Machinery and Equipment

Machinery and equipment are depreciated on a straight line basis over their estimated useful lives. The Group estimates the useful lives of these machinery and equipment to be within 10 to 14 years. Changes in the expected level of usage and technological developments may result in the change of economic useful lives and the residual values of these assets, effecting a revision of future depreciation charges.

(vi) Provision of Retirement Benefit Obligations

Provision of retirement benefit obligations is determined using actuarial valuation prepared by an independent actuary. The actuarial valuation involved making assumptions including expected turnover, mortality and disability experiences of the current scheme members, discount rate, rate of return scheme assets, salary increase rate and normal retirement age.

Supplementary Information Pursuant to Bursa Malaysia Securities Berhad Listing Requirements

Realised and Unrealised Profit/(Loss)

The following analysis of realised and unrealised retained profits/(accumulated losses) at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

	Group		Company	
	Financial year ended 31.12.12 RM'000	Financial year ended 31.12.11 RM'000	Financial year ended 31.12.12 RM'000	Financial year ended 31.12.11 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries				
– Realised profits	525,882	494,238	145,897	162,731
– Unrealised (loss)/profits	(16,608)	(36,321)	4,976	1,244
Less: Consolidation adjustments	(167,668)	(168,705)	–	–
Total retained profits	341,606	289,212	150,873	163,975

The unrealised portion within unappropriated profits (retained earnings) for the Group as at 31 December 2012 predominantly relates to net deferred tax liability of RM15,428,000 (2011: RM22,154,000) and provisions for non-material litigation of RM1,655,000 (2011: RM12,727,000).

The consolidation adjustments recognised for the Group mainly relate to accumulated goodwill amortisation recognised from years 2000 to 2005.

The unrealised portion within unappropriated profits (retained earnings) for the Company as at 31 December 2012 predominantly relates to net deferred tax asset of RM5,564,000 (2011: RM4,349,000) and provisions for non-material litigation of RM1,665,000 (2011: RM1,665,000).

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

Analysis of Shareholdings

As at 1 March 2013

Share Capital

Authorised Share Capital : RM385,000,000 comprising 770,000,000 ordinary shares of RM0.50 each
 Issued and Fully Paid-Up Share Capital : RM142,765,000 comprising 285,530,000 ordinary shares of RM0.50 each
 Voting Rights : One vote per ordinary share

Distribution of Shareholdings

(without aggregating the securities from different securities account belonging to the same Depositor)

Size of shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of issued shares
1 – 99	608	13.257	9,575	0.003
100 – 1,000	2,228	48.582	987,445	0.345
1,001 – 10,000	1,209	26.362	4,685,157	1.640
10,001 – 100,000	400	8.722	12,511,722	4.381
100,001 – 14,276,499*	139	3.030	109,599,001	38.384
14,276,500 and above**	2	0.043	157,737,100	55.243
Total	4,586	100.000	285,530,000	100.000

Notes:

* Less than 5% of issued shares

** 5% and above of issued shares

Directors' Direct Interests in Shares in the Company

Name	Number of shares held	% of issued shares
Datuk Oh Chong Peng	1,000	0.00*
James Richard Suttie	1,500	0.00*
Dato' Chan Choon Ngai	1,000	0.00*

Directors' Indirect Interests in Shares in the Company

Name	Number of shares held	% of issued shares
Dato' Chan Choon Ngai	6,000	0.00*

Note:

* Less than 0.01%

Substantial Shareholders Based on the Register of Substantial Shareholders

Name	Number of shares held	% of issued shares
British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.000
AmanahRaya Trustees Berhad – <i>Skim Amanah Saham Bumiputera</i>	14,972,100	5.243

Top 30 Securities Account Holders

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

No	Name	Number of shares held	% of issued shares
1	British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.000
2	Amanahraya Trustees Berhad – <i>Skim Amanah Saham Bumiputera</i>	14,972,100	5.243
3	Citigroup Nominees (Tempatan) Sdn Bhd – <i>Employees Provident Fund Board</i>	13,614,502	4.768
4	Kumpulan Wang Persaraan (Diperbadankan)	7,731,100	2.707
5	Cartaban Nominees (Asing) Sdn Bhd – <i>SSBT Fund 4545 For Lazard Emerging Markets Portfolio</i>	6,121,600	2.143
6	Valuecap Sdn Bhd	5,888,600	2.062
7	HSBC Nominees (Asing) Sdn Bhd – <i>BNP Paribas Secs SVS Lux For Aberdeen Global</i>	4,977,320	1.743
8	Cartaban Nominees (Asing) Sdn Bhd – <i>Exempt An For State Street Bank & Trust Company (West CLT OD67)</i>	4,124,085	1.444
9	Amanahraya Trustees Berhad – <i>Amanah Saham Malaysia</i>	4,000,000	1.400
10	Malaysia Nominees (Tempatan) Sendirian Berhad – <i>Great Eastern Life Assurance (Malaysia) Berhad (Par 1)</i>	3,801,100	1.331
11	HSBC Nominees (Asing) Sdn Bhd – <i>BBH And Co Boston for Vanguard Emerging Markets Stock Index Fund</i>	2,861,187	1.002
12	HSBC Nominees (Asing) Sdn Bhd – <i>Exempt An For JPMorgan Chase Bank, National Association (U.S.A.)</i>	2,552,100	0.893
13	HSBC Nominees (Asing) Sdn Bhd – <i>Exempt An For JPMorgan Chase Bank, National Association (U.K.)</i>	2,238,088	0.783
14	Citigroup Nominees (Tempatan) Sdn Bhd – <i>Exempt An For American International Assurance Berhad</i>	2,113,500	0.740
15	HSBC Nominees (Asing) Sdn Bhd – <i>BNP Paribas Secs SVS Paris For Aberdeen Asia Pacific Fund</i>	1,750,900	0.613

No	Name	Number of shares held	% of issued shares
16	HSBC Nominees (Asing) Sdn Bhd – BNYM SA/NV For Virtus Emerging Markets Opportunities Fund	1,735,000	0.607
17	HSBC Nominees (Asing) Sdn Bhd – Exempt An For The Bank Of New York Mellon (Mellon Acct)	1,508,211	0.528
18	HSBC Nominees (Asing) Sdn Bhd – Exempt An For JPMorgan Chase Bank, National Association (U.A.E.)	1,347,355	0.471
19	Cartaban Nominees (Asing) Sdn Bhd – Government Of Singapore Investment Corporation Pte Ltd For Government of Singapore (C)	1,228,400	0.430
20	HSBC Nominees (Asing) Sdn Bhd – Exempt An For JPMorgan Chase Bank, National Association (JPMFunds)	1,223,600	0.428
21	Cartaban Nominees (Asing) Sdn Bhd – State Street London Fund OD75 For Ishares Public Limited Company	1,125,500	0.394
22	Cartaban Nominees (Asing) Sdn Bhd – Exempt An For RBC Investor Services Trust (Clients Account)	984,700	0.344
23	Cartaban Nominees (Asing) Sdn Bhd – RBC Investor Services Banks For Vontobel Fund - Emerging Markets Equity	960,400	0.336
24	Cartaban Nominees (Tempatan) Sdn Bhd – Exempt An For Eastspring Investments Berhad	897,700	0.314
25	Amanahraya Trustees Berhad – As 1Malaysia	894,300	0.313
26	HSBC Nominees (Asing) Sdn Bhd – Exempt An For BNP Paribas Securities Services (Jersey GBP)	889,800	0.311
27	Cartaban Nominees (Asing) Sdn Bhd – State Street Australia Fund 7FAF For Monetary Authority of Singapore	877,000	0.307
28	Citigroup Nominees (Asing) Sdn Bhd – CBNY For AGF Emerging Markets Fund	837,994	0.293
29	HSBC Nominees (Asing) Sdn Bhd – Pictet and CIE for Pictet Global Selection Fund - Global High Yield Emerging Equities Fund	782,000	0.273
30	Citigroup Nominees (Asing) Sdn Bhd – CBHK For Kuwait Investment Authority (Fund 221)	780,000	0.273
	Total	235,583,142	82.507

Particulars of properties

As at 28 February 2013

The properties held by the Group and Company at 28 February 2012 are as follows:-

Location	Date of purchase/ last Revaluation	Usage	Approx. age of building (years)	Land/ Built-up area (square metres)	Net Book Value RM'000
Freehold					
No. 36A, Jalan Lengkok Canning, Ipoh Garden, Ipoh, Perak	30.11.1989	shop and office	24	143.07	80
No. A79, Jalan Telok Sisek, Kuantan, Pahang	28.4.1994	shop and office	21	110.59	210
Leasehold					
Lots 122 and 124, Jalan Universiti, Petaling Jaya, Selangor (99 year leases expiring on 8.4.2062 and 29.9.2060 respectively)	30.9.1961	factory, office and store	51	46,905.44	66,588
Lots P.T 683-685, 687-689 Mukim Panchor, District Kemumin, Kawasan Perindustrian Pengkalan Chepa II, Kota Bharu, Kelantan (66 year lease expiring 25.7.2048)	26.7.1982	industrial land, store and office	25	29,952.00	4,552
No. 2, Jalan Foochow, Kuching, Sarawak (999 year lease expiring 31.12.2923)	3.10.1991	shop and office	23	156.10	170
No. 120, Jalan Semangat, Petaling Jaya, Selangor (99 year lease expiring 12.7.2061)	24.5.1993	office and store	37	6,119.00	4,737
Lot 1, Block A, Hong Tong Centre, Miles 4, Penampang, Kota Kinabalu, Sabah (99 year lease expiring 31.12.2080)	30.9.1999	shop and office	19	136.56	397
No. 8, Jalan Melaka Raya 13, Taman Melaka Raya, Melaka (99 year lease expiring 7.7.2093)	30.3.1996	shop and office	18	143.00	275

Corporate directory

Head office

**BRITISH AMERICAN TOBACCO
(MALAYSIA) BERHAD**
(Company No. 4372-M)

Virginia Park
Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : +60 (3) 7956 6899/7491 7100
Fax: +60 (3) 7955 8416

Factory

**TOBACCO IMPORTERS AND
MANUFACTURERS SDN. BERHAD**
(Company No. 4414-U)

Virginia Park
Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : +60 (3) 7956 6899/7491 7100
Fax: +60 (3) 7955 8416

Branch offices

**COMMERCIAL MARKETERS AND
DISTRIBUTORS SDN. BHD.**
(Company No. 42316-T)

Pulau Pinang

No. 50 Weld Quay
10300 Penang
Tel : +60 (4) 261 8840
Fax: +60 (4) 261 8799

Ipoh

No. 120, Jalan Silibin
30000 Ipoh, Perak
Tel : +60 (5) 528 7680/528 7689
Fax: +60 (5) 528 7648

Kuala Lumpur

Unit No. BB1-1
Jalan Shamelin Niaga 2
Shamelin Heights Business Park
Taman Shamelin Perkasa
56100 Kuala Lumpur
Tel : +60 (3) 9200 8371
Fax: +60 (3) 9200 8370

Selangor

No. 3, Jalan Industri PBP3
Taman Perindustrian
Pusat Bandar Puchong
47100 Puchong
Selangor
Tel : +60 (3) 5891 9888
Fax: +60 (3) 5891 9882

Melaka

12, Jalan Abadi 3
Taman Malim Jaya
75250 Melaka
Tel : +60 (6) 337 6593/336 5435
Fax: +60 (6) 335 6449

Johor Bahru

No. 4 Jalan Asas
Larkin Industrial Estate
80350 Johor Bahru, Johor
Tel : +60 (7) 232 0412
Fax: +60 (7) 238 6208

Kuantan

PT64561 Jalan IM 3/15
Kawasan Perindustrian Ringan
Bandar Indera Mahkota
25200 Kuantan, Pahang
Tel : +60 (9) 573 7831/573 8373
Fax: +60 (9) 573 3484

Kota Bharu

Lot PT 1453 & 1454, 1st Floor
Kawasan Perindustrian
Pengkalan Chepa 2
Seksyen 39 Kemumin
16100 Kota Bharu, Kelantan
Tel : +60 (9) 773 8831/773 8873
Fax: +60 (9) 773 8968

Kota Kinabalu

Lot 1, Block A Hong Tong Centre
Mile 4, Penampang
P.O. Box 11236
88813 Kota Kinabalu, Sabah
Tel : +60 (88) 722 628/722 629
Fax: +60 (88) 722 630

Kuching

Lot 8943, Section 64, KTLD
No. 2, Jalan Foochow
93300 Kuching, Sarawak
Tel : +60 (82) 481 884/481 886
Fax: +60 (82) 335 490

Leaf Office

**THE LEAF TOBACCO
DEVELOPMENT CORPORATION OF
MALAYA SDN. BHD.**
(Company No. 4998-P)

Kota Bharu

Lot No. 2952
Kawasan Perindustrian
Pengkalan Chepa II
Jalan Padang Tembak
16100 Kota Bharu, Kelantan
Tel : +60 (9) 774 7400/774 7434
Fax: +60 (9) 773 5855

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE FIFTY-SECOND ANNUAL GENERAL MEETING OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD ("BATM" OR THE "COMPANY") WILL BE HELD AT KRISTAL BALLROOM, HILTON PETALING JAYA, NO. 2 JALAN BARAT, 46200 PETALING JAYA, SELANGOR DARUL EHSAN ON WEDNESDAY, 17 APRIL 2013 AT 11.00 A.M. FOR THE FOLLOWING PURPOSES:

As ordinary business

- To receive the Audited Financial Statements for the financial year ended 31 December 2012 and the Reports of the Directors and Auditors thereon.

Ordinary Resolution 1

- To re-elect the following Directors who retire by rotation in accordance with Articles 97(1) and (2) of the Company's Articles of Association:

(a) Datuk William Toh Ah Wah

Ordinary Resolution 2

(b) James Richard Suttie

Ordinary Resolution 3

(c) Andreas Michael Thompson

Ordinary Resolution 4

- To re-elect Datuk Mohamad Salim bin Fateh Din who retires in accordance with Article 103 of the Company's Articles of Association.

Ordinary Resolution 5

- To re-elect Datuk Oh Chong Peng who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company.

Ordinary Resolution 6

- To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ended 31 December 2013 and to authorise the Directors to fix their remuneration.

Ordinary Resolution 7

As special business

- To consider and if thought fit, to pass the following Ordinary Resolution:

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR BATM AND ITS SUBSIDIARIES TO ENTER INTO RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE WITH RELATED PARTIES ("PROPOSED RENEWAL OF RECURRENT RPTS MANDATE")

Ordinary Resolution 8

"THAT, Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 21 March 2013) granted by the shareholders of the Company pursuant to Paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad authorising the Company and/or its subsidiaries (British American Tobacco Malaysia Group) to enter into recurrent related party transactions of a revenue or trading nature (Recurrent RPTs) of British American Tobacco Malaysia Group with Related Parties (as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad) as set out in Paragraph 2.2 and Appendix II of the Circular to Shareholders dated 21 March 2013 which are necessary for the British American Tobacco Malaysia Group's day-to-day operations, be and is hereby renewed provided that:

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

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

- the conclusion of the next Annual General Meeting (AGM) of the Company following the AGM at which the Proposed Renewal of the Recurrent RPTs Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM, the mandate is again renewed;

- (ii) the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but must not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (iii) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is earlier;

AND THAT, the Directors of the Company be and hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the Proposed Renewal of Recurrent RPTs Mandate."

By Order of the Board



CHAN MEI MAE
LS0009460
Secretary

Petaling Jaya
21 March 2013

Notes:

1. Only Members whose names appear in the Record of Depositors as at 9 April 2013 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his/her behalf.
2. A proxy need not be a Member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified.

4. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominees may appoint in respect of each Omnibus Account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
5. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised.
6. If there is no indication as to how a Member wishes his/her vote to be cast, the proxy will vote or abstain from voting at his/her discretion. In the event a Member duly executes the Form of Proxy but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the Meeting as his/her proxy.
7. The original Form of Proxy must be duly executed and deposited at the Registrar of the Company at Tricor Investor Services Sdn Bhd, Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the Meeting or any adjourned meeting thereof.
8. **Registration of Members/Proxies**
Registration of Members/Proxies attending the Meeting will commence at 9.00 a.m. on the day of the Meeting and will close at 11.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration.
9. **Explanatory Notes on Special Business
Recurrent Related Party Transactions Mandate**

Proposed Ordinary Resolution 8, if passed, will enable British American Tobacco Malaysia Group to enter into any of the recurrent related party transactions of a revenue or trading nature which are necessary for the British American Tobacco Malaysia Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Further information on the Proposed Renewal of the Recurrent RPTs Mandate is set out in the Circular to Shareholders dated 21 March 2013, which is despatched together with the Company's 2012 Abridged Annual Report.

Administrative Details for British American Tobacco Malaysia Fifty-Second Annual General Meeting

DATE : 17 APRIL 2013
TIME : 11.00 A.M.
**PLACE : KRISTAL BALLROOM, HILTON PETALING JAYA, NO. 2 JALAN BARAT,
 46200 PETALING JAYA, SELANGOR DARUL EHSAN**

Registration

1. Registration will start at 9.00 a.m. at the entrance of Kristal Ballroom and will close at 11.00 a.m. sharp.
2. Please read the signage to ascertain which registration table you should approach to register yourself for the meeting and join the queue accordingly.
3. Please produce your original Identity Card (IC) to the registration staff for verification. Please make sure you collect your IC thereafter.
4. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
5. You will be given a security sticker and no person will be allowed to enter the meeting room without the security sticker. There will be no replacement in the event that you lose or misplace the security sticker.
6. After registration, please leave the registration area immediately and proceed to Kristal Ballroom.
7. You are not allowed to register on behalf of another person even with the original IC of the other person.
8. The registration counter only handles verification and registration. You may proceed to the Help Desk for any clarification or queries.

Entitlement to Attend and Vote

9. Only Members whose names appear in the Record of Depositors as at **5.00 p.m. on 9 April 2013** (General Meeting Record of Depositors) shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time.

Proxy

10. If you are a Member of the Company at the time set out above, you are entitled to appoint not more than two (2) proxies to exercise all or any of your rights to attend, speak and vote at the Annual General Meeting.
11. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominees may appoint in respect of each Omnibus Account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
12. To appoint a proxy, the original Form of Proxy which is attached together with the Company's 2012 Abridged Annual Report must be completed and signed, sent and delivered to the Company's Share Registrar, Tricor Investor Services Sdn. Bhd. at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by 15 April 2013 at 11.00 a.m.
13. In the case of a Member which is a company, the Form of Proxy must be executed either under its seal or under the hand of any officer or attorney duly authorised.

Revocation of Proxy

14. If you wish to appoint a proxy, please note that a proxy may be revoked by:-
 - i. attendance of the appointer at the Annual General Meeting and exercising his/her voting rights at the Annual General Meeting personally will automatically revoke the proxy;
 - ii. notice of revocation of the Form of Proxy or the authority served by 15 April 2013 at 11.00 a.m.;
 - iii. appointing new proxy by depositing a new Form of Proxy in favour of another person by 15 April 2013 at 11.00 a.m.; and
 - iv. transfer of shares by the appointer.

Corporate Member

15. Any corporate member who wishes to appoint a representative instead of a proxy to attend this Annual General Meeting should lodge the certificate of appointment under the seal of the corporation, at the office of the Company's Share Registrar, Tricor Investor Services Sdn. Bhd. at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by 15 April 2013 at 11.00 a.m.

Annual Report 2012

16. The Annual Report 2012 is available on Bursa Malaysia's website at www.bursamalaysia.com under Company Announcements and also at the British American Tobacco Malaysia's website at www.batmalaysia.com

Enquiry

17. If you have general queries prior to the meeting, please contact the British American Tobacco Malaysia Legal and Secretarial Department at 603-74917100 or the following person during office hours:
Name : Ms. Lim Lay Kiow
Share Registrar : Tricor Investor Services Sdn. Bhd.
Telephone number : 603 – 2264 3883

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Form of Proxy

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No. 4372-M)

(Incorporated in Malaysia)

CDS Account No.

I/We _____ (NRIC/Passport/Co. No.: _____)
(Name as per NRIC/Passport/Certificate of Incorporation in Capital Letters)

of _____
(Full Address)

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint _____

_____ (NRIC/Passport No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

and/or failing him/her _____ (NRIC/Passport No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fifty-Second Annual General Meeting of the Company, to be held at Kristal Ballroom, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 17 April 2013 at 11.00 a.m., and at any adjournment thereof.

My/our proxy/proxies shall vote as follows:

(Please indicate with an "X" in the spaces provided below how you wish your votes to be cast on the resolutions specified in the notice of meeting. If you do not do so, your proxy/proxies will vote or abstain as he/she may think fit)

Resolutions		For	Against
Ordinary Resolution 1	To receive the Audited Financial Statements for the financial year ended 31 December 2012 and the Reports of the Directors and Auditors thereon.		
Ordinary Resolution 2	Re-elect Datuk William Toh Ah Wah who retires by rotation in accordance with Articles 97 (1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 3	Re-elect James Richard Suttie who retires by rotation in accordance with Articles 97 (1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 4	Re-elect Andreas Michael Thompson who retires by rotation in accordance with Articles 97 (1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 5	Re-elect Datuk Mohamad Salim bin Fateh Din who retires in accordance with Article 103 of the Company's Articles of Association.		
Ordinary Resolution 6	Re-elect Datuk Oh Chong Peng who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company.		
Ordinary Resolution 7	Re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ending 31 December 2013 and to authorise the Directors to fix their remuneration.		
Ordinary Resolution 8	Proposed Renewal of Shareholders' Mandate for British American Tobacco (Malaysia) Berhad and its Subsidiaries to enter into Recurrent Related Party Transactions of a revenue or trading nature with Related Parties.		

Dated this _____ day of _____ 2013.

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

	No. of Shares	Percentage
Proxy 1		
Proxy 2		
TOTAL		100

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

Notes:

1. Only Members whose names appear in the Record of Depositors as at 9 April 2013 (General Meeting Record of Depositors) shall be eligible to attend the Meeting or appoint proxy(ies) to attend and vote on his/her behalf.
2. A proxy need not be a Member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified.
4. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominees may appoint in respect of each Omnibus Account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
5. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised.
6. If there is no indication as to how a Member wishes his/her vote to be cast, the proxy will vote or abstain from voting at his/her discretion. In the event a

Please fold here to seal

Member duly executes the Form of Proxy but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the Meeting as his/her proxy.

7. The original Form of Proxy must be duly executed and deposited at the Registrar of the Company at Tricor Investor Services Sdn Bhd, Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the Meeting or any adjourned meeting thereof.

8. **Registration of Members/Proxies**

Registration of Members/Proxies attending the Meeting will commence at 9.00 a.m. on the day of the Meeting and will close at 11.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration.

9. **Explanatory Notes on Special Business**

Recurrent Related Party Transactions Mandate

Proposed Ordinary Resolution 8, if passed, will enable British American Tobacco Malaysia Group to enter into any of the recurrent related party transactions of a revenue or trading nature which are necessary for the British American Tobacco Malaysia Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Further information on the Proposed Renewal of the Recurrent RPTs Mandate is set out in the Circular to Shareholders dated 21 March 2013, which is despatched together with the Company's 2012 Abridged Annual Report.

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stamp

The Share Registrar
Tricor Investor Services Sdn Bhd
(Company No. 118401-V)
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia

Please fold here to seal



**BRITISH AMERICAN
TOBACCO
MALAYSIA
CELEBRATING 100 YEARS**

British American Tobacco (Malaysia) Berhad (4372-M)
Virginia Park, Jalan Universiti, 46200 Petaling Jaya, Selangor, Malaysia
Tel: +60 (3)7956 6899 / 7491 7100 • Fax: +60 (3)7955 8416

www.batmalaysia.com