

CORPORATE GOVERNANCE REPORT

STOCK CODE : 4162
COMPANY NAME : British American Tobacco (Malaysia) Berhad
FINANCIAL YEAR : December 31, 2017

OUTLINE:

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board of Directors ("Board") sets the strategic direction and also oversees and ensures that the conduct of the businesses of the Group is in compliance with relevant laws, policies, standards and guidelines applicable to the Group.</p> <p>The roles and responsibilities of the Board are set out in the Company's Code of Corporate Governance and the Board Committees' roles and responsibilities in discharging its function which had been delegated by the Board are set out in respective Board Committee's Terms of Reference.</p> <p>The Board is also guided by the Statement of Delegated Authorities, which clearly define the matters that are specifically reserved for the Board and Board Committees.</p> <p>The Board meets quarterly to review performances and strategies of the Company. When the need arises, special board meetings will be convened.</p> <p>The Company's corporate governance framework is set out in the Company's Code of Corporate Governance and is directed towards achieving its business objectives in a manner which is responsible and in accordance with high standards of honesty, transparency and accountability. The Company is also guided by the Company's Business Principles of Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct.</p> <p>The Company's sustainability strategies are captured in the Sustainability Pillar which provides a more insightful view into the Company's initiatives to deliver balanced growth in a responsible and sustainable manner.</p> |

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| Explanation for departure : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure : | | |
| Timeframe : | | |

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.2

A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The role of the Chairman of the Board is set out in the Company's Code of Corporate Governance. The Chairman plays an important leadership role and is responsible for the following:</p> <ul style="list-style-type: none"> (a) providing leadership for the Board so that the Board can perform its responsibilities efficiently and effectively; (b) setting the agenda for meetings of the Board and ensuring that board members receive complete and accurate information in a timely manner; (c) leading Board and shareholders meetings; (d) encouraging active participation and allowing dissenting views to be freely expressed; (e) managing the interface between the Board and management; (f) ensuring the Board is constituted in accordance with and acts in compliance with relevant statutory requirements; (g) leading the Board in establishing and monitoring good corporate governance practices in the Company; and (h) establish and maintain relationships with the stakeholders of the Company including government institutions, shareholders and potential shareholders and major external bodies. |
| Explanation for departure | : | |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.3

The positions of Chairman and CEO are held by different individuals.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The positions of the Chairman and Managing Director are held by two different individuals. The Chairman, Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat is an Independent Non-Executive Director and the Managing Director, Hendrik Stoel is Non-Independent Executive Director. | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.4

The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

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| Application | : | Applied |
| Explanation on application of the practice | : | The Board is supported by a qualified company secretary, Datuk Lee Oi Kuan (LS0009536) who is a member of Institute of Chartered Secretaries and Administrators. She also holds a Degree in Law and is responsible for ensuring that the Board is advised and kept updated on the applicable laws, rules and procedures (including the Listing Requirements of Bursa Securities) governing the Company and its business and good corporate governance practices that evolved. This is to ensure that the business is governed in accordance with the said laws, rules and procedures and to high standards of governance. |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.5

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

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| Application | : | Applied | |
| Explanation on application of the practice | : | Meeting papers, which are complete and accurate, are circulated to the Board and Board Committees' members five calendar days prior to the meeting. Minutes of meetings are circulated and confirmed as a correct record by the Board and Board Committees at the following meeting. | |
| Explanation for departure | : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

Practice 2.1

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board's charter is set out in the Company's Code of Corporate Governance and this is reviewed and revised in line with developments. The last revision of the Code of Corporate Governance was approved by the Board in July 2017.</p> <p>The roles and responsibilities of the Board, Chairman, Managing Director, Board Committees, Investor Relations and Company Secretary are set out in the Company's Code of Corporate Governance, whereas the Statement of Delegated Authorities set out matters reserved for the Board.</p> <p>The Company's Code of Corporate Governance is available on the Company's website at www.batmalaysia.com.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>In the Company's Guiding Principles, the Company expressed its commitment to "Freedom through Responsibility" and "Strength through Diversity". To ensure that these principles are embedded in its daily business lives and in the employees' behaviour at work, the Company has in place its Standards of Business Conduct (SOBC) which set out high standards of ethical behaviour. The SOBC is very wide, but the unifying factor is the Company will never compromise these standards for the sake of results and that results must be Delivered with Integrity.</p> <p>Amongst areas covered by the SOBC are Whistleblowing, Conflicts of Interest, Bribery and Corruption, Respect in the Workplace, Human Rights and Our Operations, and Accurate Accounting and Record Keeping.</p> <p>The Standards of Business Conduct is available on the Company's website at www.batmalaysia.com.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Group has in place a whistleblowing policy since 2004 which sets out the procedures which must be followed to enable employees to voice their concerns without fear of retaliation and with the confidence that their complaints will be acted upon and their identity kept confidential. This policy is reviewed for enhancements from time to time.</p> <p>In 2018, a globally managed portal and hotline (managed by third party) is available for employees and external party to lodge a whistleblowing report via online, phone or text messaging.</p> <p>This portal and hotline is available on the Company's website at www.batmalaysia.com.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.1

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

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| Application | : | Applied | |
| Explanation on application of the practice | : | 57% of the Board members are Independent Directors. | |
| Explanation for departure | : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.2

The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

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| Application | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | <p>The Nomination Committee has reviewed and is of the opinion that Datuk Oh Chong Peng continues to provide valuable contributions and insights given his experience to support the Board.</p> <p>It is also noted that Datuk Oh's relationship with a majority of the Directors including Senior Management is of short tenure, namely less than three years due to the changes of the Directors and Senior Management and as such, independence and objectivity is not compromised due to his own long tenure on the Board.</p> <p>The Nomination Committee recommended to the Board for Datuk Oh Chong Peng to continue to act as Independent Non-Executive Director of the Company.</p> <p>The Board will seek shareholders' approval at the forthcoming 2018 Annual General Meeting for Datuk Oh Chong Peng continues to be an Independent Non-Executive Director of the Company but not based on the two-tier voting process as this is not provided in the Company's Constitution. This process would be incorporated in the Company's new Constitution, which is to be tabled to the shareholders in the 2019's Annual General Meeting.</p> |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | The Company intends to adopt a policy which limits the tenure of its independent directors to nine years. |
| Timeframe | : | Within 1 year |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.3 - Step Up

The board has a policy which limits the tenure of its independent directors to nine years.

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| Application | : | Not Adopted |
| Explanation on adoption of the practice | : | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Board is committed to ensuring that the Directors of the Company possess a broad balance of skills, knowledge, experience, background, independence and diversity, including gender diversity.</p> <p>The Nomination Committee is delegated with the responsibility of assessing and considering suitable candidates for the appointment of Board and Senior Management taking into consideration their capabilities, professionalism, integrity, expertise and experience.</p> | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.5

The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

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| Application | : | Applied | |
| Explanation on application of the practice | : | Two out of seven Directors (30%) of the Board are women. | |
| Explanation for departure | : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.6

In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

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| Application | : | Applied |
| Explanation on application of the practice | : | The guiding principle upon which the Nomination Committee acts will be to ensure that the best quality candidates taking into consideration their capabilities, professionalism, integrity, expertise and experience are appointed as Board Members. To this end, the Nomination Committee will rely on varied sources from recommendations from existing Board Member, management or major shareholders as well as independent sources. |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.7

The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Nomination Committee is chaired by Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat, an Independent Non-Executive Director and Chairman of the Board. | |
| Explanation for departure | : | | |
| | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |
| | : | | |

Intended Outcome

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>For the year ended 2017, an annual evaluation was undertaken to assess the effectiveness of the Board, each Board Committee and each individual Director. The process was internally facilitated and conducted through questionnaires circulated to the Board covering a variety of areas, such as board skills matrix, board structure and level of participation at Board and Committee meetings and included Director's self and peer review of fit and properness, contribution and performance, calibre and personality.</p> <p>The duly completed questionnaires were collated and the results reported to the Nomination Committee for deliberation. Thereafter, the recommendations of the Nomination Committee and the results of the evaluation were tabled to the Board.</p> <p>The results of the evaluation show that the Board functions well and confirms the effectiveness of each Committee. Individual Director contributes effectively to the right mix of the Board with balance of skills, knowledge, expertise and experience which complement each other.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

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| Application | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | <p>The Remuneration Committee is authorised by the Board to recommend to the Board on all elements of remuneration and compensation payments of the Executive Directors and Leadership Team Members.</p> <p>In determining the remuneration of Directors, the Remuneration Committee takes into account the skills, experience, the demands and performance of the Company.</p> <p>In determining the remuneration of Senior Management, the Remuneration Committee will take into account the value of the role and position within the approved pay range, and individuals skills, experience and competency as well as the performance of the individual against set business objectives.</p> <p>The Directors' fees and benefits, which have been reviewed by the Remuneration Committee and the Board are recommended by the Board to the shareholders for approval.</p> |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | The Company is in the process of finalizing the remuneration framework of Directors and Senior Management. |
| Timeframe | : | Within 1 year |

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.2

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Remuneration Committee is authorised by the Board to implement policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of Board and Senior Management. The Terms of Reference of Remuneration Committee is available on the Company's website at www.batmalaysia.com . | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.1

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

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| Application | : | Applied | |
| Explanation on application of the practice | : | Each Director's detailed remuneration is disclosed in the Company's Annual Report. | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

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| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | <p>The detailed remuneration on a named basis of top three Senior Management who are the Executive Directors have been disclosed in the Annual Report.</p> <p>The Company departs from the Practice this year and intends to adopt the Step-Up Practice 7.3 next year. The Company is in the midst of reviewing its internal process for the disclosures of remuneration components of Senior Management who are not Board Members of the Company.</p> | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | The Company will take the necessary measures to comply next year. | |
| Timeframe | : | Within 1 year | |

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.3 - Step Up

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

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| Application | : | Not Adopted |
| Explanation on adoption of the practice | : | |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.1

The Chairman of the Audit Committee is not the Chairman of the board.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Chairman of the Audit Committee is Datuk Oh Chong Peng, who is an Independent Non-Executive Director and not the Chairman of the Board. | |
| Explanation for departure | : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.2

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

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| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | Though the Company has yet to adopt this policy for the year 2017, the Company does not consider a former audit partner as a candidate for appointment to the Audit Committee. | |
| | | The Company took cognizant of this policy in 2017 and has adopted the measure as explained below. | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | The Company has adopted this policy to observe the cooling-off period before a former key audit partner is appointed as a member of Audit Committee in February 2018. | |
| Timeframe | : | Others | n/a |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>Procedure is in place for the Audit Committee to conduct annual evaluation of external auditor to assess their suitability, objectivity and independence.</p> <p>The Audit Committee has obtained written assurance from the external auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.</p> | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

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| Application | : | Adopted |
| Explanation on adoption of the practice | : | The Audit Committee comprise solely of Independent Directors. |

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.5

Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The members of the Audit Committee have the necessary skills to discharge its duties and are financially literate. The profiles of the members are provided in the Annual Report. The Chairman of the Audit Committee is a Chartered Accountant.</p> <p>The Company is committed to ensure that its Audit Committee members keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules. In 2017, the Directors were trained on the new financial reporting standards, MFRS 15 on Revenue from Contracts with Customers and MFRS 9 on Financial Instruments.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company’s objectives is mitigated and managed.

Practice 9.1

The board should establish an effective risk management and internal control framework.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Board has established a robust risk management and internal control framework to identify and assess the risks faced by the Group, and thereafter design, implement and monitor appropriate internal controls to control and mitigate those risks. | |
| Explanation for departure | : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.2

The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

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|--|---|---|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | Details of the features of risk management and internal control framework and the adequacy and effectiveness of the framework are disclosed in the Company's Annual Report. | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.3 - Step Up

The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

| | | |
|--|---|--|
| Application | : | Adopted |
| Explanation on adoption of the practice | : | The Audit Committee comprising of all independent Directors, oversee the Company's risk management framework and policies. |

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.1

The Audit Committee should ensure that the internal audit function is effective and able to function independently.

| | | | |
|--|---|--|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The function of Internal Audit for the Group is fulfilled through the Global Audit Function of British American Tobacco p.l.c. (BAT p.l.c Group Internal Audit). The BAT p.l.c Group Internal Audit has direct access to both the Audit Committee (AC) and the Chairman of the AC and reports to the AC on all matters of control and audit.</p> <p>The AC approves the scope of work for the year and reviews the plan on a quarterly basis.</p> <p>The AC reviews the adequacy of the BAT p.l.c Group Internal Audit’s resources and evaluates the performance of the Internal Auditors.</p> <p>Internal Audit Report is tabled to the AC on a quarterly basis.</p> | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.2

The board should disclose–

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

| | | | |
|--|---|--|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | A statement on the Internal Audit Function with the required disclosures is available under the Audit Committee Report in the Company’s Annual Report. | |
| Explanation for departure | : | | |
| | | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.1

The board ensures there is effective, transparent and regular communication with its stakeholders.

| | | |
|--|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | Communication and engagement with stakeholders are made through various platforms and media, including general meeting, investors' conferences and analyst briefings. The Company has a dedicated Corporate Finance team which meets key institutional investors and analysts on a regular basis, as well as answers queries from shareholders. Stakeholders are encouraged to direct their inquiries via email at ocpeng@bat.com for shareholder relation matters while Fdoffice_malaysia@bat.com for investor relation matters. |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other’s objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.2

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

| | | | |
|--|---|---|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | The Company’s Annual Report consists of information such as Annual Financial Statements, Corporate Governance, Sustainability Statements and such other disclosures as provided in the Company’s Annual Report. The Company incorporates the more comprehensive Global Reporting Initiative (GRI) G4 Indicators into its Annual Report. | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.1

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

| | | | |
|--|---|--|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | The Notice for the Company's Annual General Meeting (AGM) to be held on 19 April 2018 is dated 21 March 2018 to ensure the shareholders are given notification 28 days prior to the meeting. | |
| Explanation for departure | : | | |
| | | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.2

All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

| | | | |
|--|---|---|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | All Directors attended the Annual General Meeting (AGM) held on 18 April 2017 and all Directors have confirmed their attendance for the forthcoming AGM to be held on 19 April 2018. The Board members who are also members of the Board Committees attend the AGM to provide responses to questions raised by the shareholders if addressed to them. | |
| Explanation for departure | : | | |
| | | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- including voting in absentia; and
- remote shareholders' participation at General Meetings.

| | | | |
|--|---|--|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | Shareholders are entitled to appoint proxy/proxies to vote on their behalf in their absence, the copies of the proxy forms are available in the Company's website and the CD-Roms distributed in the Company's Abridged Annual Report. The Company's General Meeting has always been held at location which is nearby to its Registered Office. | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT
CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA**

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

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