

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

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

Summary of Minutes of the Fifty-Fourth (54th) Annual General Meeting of British American Tobacco (Malaysia) Berhad held at Ballroom 1, 1st Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Monday, 27 April 2015 at 11.00 a.m.

PRESENT

Tan Sri Mohamad Salim bin Fateh Din	:	Chairman / Independent Non-Executive Director
Datuk Oh Chong Peng	:	Independent Non-Executive Director
Mr. Stefano Clini	:	Managing Director
Mr. James Richard Suttie	:	Non-Independent Non-Executive Director
Dato' Chan Choon Ngai	:	Non-Independent Non-Executive Director
Mr. Pablo Daniel Sconfianza	:	Finance Director
Datuk Zainun Aishah binti Ahmad	:	Independent Non-Executive Director
Ms. Lee Oi Kuan	:	Corporate & Regulatory Affairs Director

IN ATTENDANCE

Mr. David Chiam Joy Yeow	:	Company Secretary
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BY INVITATION

Mr. Marcelo Alvarenga Guimaraes	:	Marketing Director
Ms. Fiona Jane Geddes	:	Human Resources Director
Mr. Joel Solomon A/L Enock Solomon	:	Operations Director
Ms. Loh Lay Choon	}	Messrs. PricewaterhouseCoopers (External Auditors)
Mr. Richard Bedlow	}	
Mr. Kenny Poon	}	Messrs. Jeff Leong, Poon & Wong (External Counsel)
Ms. Lee Seen Yin	}	
Ms. Tiffany Teh	}	

1. CHAIRMAN OF THE MEETING

Tan Sri Mohamad Salim bin Fateh Din chaired the 54th Annual General Meeting (“AGM”) of the Company.

2. WELCOME ADDRESS AND CHAIRMAN’S OPENING SPEECH

On behalf of the Board of Directors (“Board”) and the Company, the Chairman thanked the members for attending the AGM. The Chairman also expressed gratitude to the management team and all employees for their commitment and dedication and the Company’s business partners for their confidence and continuous support.

Members were briefed as follows:

- (a) The Group reported an impressive Net Profit growth of 9.5% to RM902 million and delivered a total revenue growth of 6.2%, in spite of overall decline of 3.7% in domestic and duty free sales volume as well as declining contract manufacturing volumes of 14.8%.
- (b) The Group witnessed a decline in market share by 0.7ppt, after three successive years of share growth to close at 61.2%. DUNHILL remained the number one brand in the country with 47% share of market on a full year basis, albeit with a decline of 0.6ppt.
- (c) The trade and consumption of illegal cigarettes remained the Group's biggest challenge in year 2014, and the Group greatly appreciated the efforts by the Royal Malaysian Customs ("RMC"), which had embarked on a relentless enforcement campaign in the market and heavier penalties for offenders. Recent figures showed an unprecedented 2.0ppt decline in illegal cigarette levels to 33.7% compared to 2013.
- (d) The Company declared a fourth interim dividend of 78sen per share, making the total net dividend payout for the financial year to be 309sen per share-which represented an increase of 9.6ppt over 2013.
- (e) Being an industry leader, the Group would continue to run its business in adherence to strong standards of corporate governance, risk management practices and a high degree of accountability.

3. QUORUM

The requisite quorum being present pursuant to Article 71 of the Company's Articles of Association, the Chairman declared the Meeting duly convened at 11.00 a.m.

4. NOTICE OF MEETING

With the consent of all members present, the Notice of Meeting having been circulated on 2 April 2015 was taken as read.

5. VOTING PROCEDURES

Before the Meeting proceeded to the first item on the Agenda, members, proxies and the corporate representative present were briefed of their rights to speak and vote on the resolutions set out in the Notice of the 54th AGM dated 2 April 2015.

The Meeting was informed that there were 7 proposed Ordinary Resolutions which require a vote by simple majority of members to vote, except Ordinary Resolution 5 which require a majority of not less than three-quarters of the members present to vote. Each resolution was required to be put for discussion and voting by one proposer and one seconder. Voting could be done by way of show of hands, which means each member or his/her proxy or proxies shall represent one vote.

If a poll was demanded on any particular motion, voting would then be done by ballot, which means, one share shall represent one vote and for purposes of counting the aggregate number of shares from the Form of Proxy lodged in time for the Meeting would be taken into account. In such event, the External Auditors, the Share Registrar and a member present would act as scrutineers to verify the poll results.

6. 2014 FINANCIAL PERFORMANCE AND HIGHLIGHTS

Members were briefed on the Company's 2014 performance and highlights as follows:

- (a) A brief overview of the Company, its steep history of being in operation for more than 100 years in Malaysia and being in the Top 25 listed companies on Bursa Malaysia Securities Berhad in terms of market capitalisation.
- (b) The Company's revenue in 2014 had grown by 6.2% compared with the year before and as a result, the profit from operations also grew by 9.6%. The growth had led to an increase of 9.5% in earnings per share and approximately 9.6% increase in dividend per share.
- (c) Industry volumes dropped by 4.4% but on a positive note, the illegal trade incidence also dropped by 2ppt to 33.7% given the efforts of the enforcement agencies, especially RMC, for embarking on a continuous enforcement campaign to curb illegal cigarettes.
- (d) On the share of market of the Company's products, Dunhill maintained its resilience and market leadership albeit with a decrease of 0.6ppt from 47.5% in year 2013 to 47% share of market in 2014. Peter Stuyvesant had an outstanding year, driving a growth from 3.2% to 4.3% share of market. Pall Mall's performance dipped slightly but remained stable as of quarter 2 of 2014 at approximately 4.5% share of market.
- (e) The Company posted a 6.2% growth in revenue of RM4.5bil in year 2013 and RM4.8bil in year 2014, which came from the increase of domestic and duty free volumes of 8.5%, offsetting a reduction of total export volume of 10.6%. As such, the domestic and duty free revenue increased by RM279mil. The revenue performance brought a 9.6% growth in profit from operations, amounting to RM1.2bil in year 2014.
- (f) A strong share performance in year 2014 improved the Company's business efficiency and effectiveness. With such resilient performance, the Company's operating margin increased to 25.7% last year and recorded a cash conversion ratio of 102%. Due to the performance above, the Company had paid higher dividend amounting to RM3.09 per share during the financial year.
- (g) On total shareholders' return, the Company's compounded annual growth rate was a commendable 8.9% since the merger of the Group in 1999.
- (h) In the area of corporate responsibility, British American Tobacco Malaysia Foundation had awarded RM358,000 in scholarships to 26 aspiring students as well as donated 351 digital assets to deserving non-governmental organisations and communities with the aim of educating and empowering underprivileged youth across Malaysia. For employees, the Company had organised a Safety and Health Week and Fire fighting training for the workplace and home.

- (i) The Company was also recognised and awarded with the following:
- i. The most profitable company in the consumer products sector for the fifth consecutive years under *The Edge Billion Ringgit Club Awards 2014*;
 - ii. Top 10 list for excelling in governance and transparency in an assessment conducted by *Focus Malaysia*;
 - iii. Recognised in *Life at Work 2014* for the Company's talent brand and corporate programmes that promote diversity beyond gender and nationalities;
 - iv. Special recognition for corporate governance practices by *the Minority Shareholders Watchdog Group*, which ranked the Company no. 14 from 873 companies in Malaysia that were assessed in year 2014; and
 - v. The *Best Employer Brand Awards 2015* accredited by *The Employer Branding Institute* at the recent Employer Brand Awards held recently.

The Board proceeded to open the floor to the members and took several questions and comments from members present with regard to the 2014 performance and highlights.

7. QUESTIONS FROM THE MINORITY SHAREHOLDER WATCHDOG GROUP AND MEMBERS OF THE COMPANY

- (1) Members were informed that the Minority Shareholder Watchdog Group ("MSWG") had submitted a series of questions to the Company prior to the AGM and the questions and responses from the management of the Company were as follows:

(a) As stated in the Chairman's letter, contract manufacturing volumes for export saw a decline of 14.8% in 2014, resulting from a partial reallocation of volumes and a generally weaker demand. Does the Board foresee the weaker demand and a lower volume for export to persist in 2015? Please update the shareholders on the current volumes for export and its targets in 2015?

- As a contract manufacturer, the Company responds to the demand from customers and therefore, is not in a position to set, or to enforce export volumes targets.
- When it comes to sourcing decisions, British American Tobacco p.l.c Group takes into consideration the capabilities and commercial conditions of the different production hubs in the Asia Pacific Region. The major production hubs of the Asia Pacific Region are currently Malaysia, Singapore and South Korea.
- As a consequence, the Company strongly believes that the best way to obtain further exports volume is to improve cost, service and quality versus alternative manufacturing locations.
- In 2014, the export volumes softened and at this time, there is no clear indication of contract manufacturing volume increasing in the short/medium term.

- (b) In FY2014, BAT's other operating expenses dropped 84.3% from 15.3 million in 2013 to RM2.4 million?**

What were the major components under the expenses and the reasons for the significant decrease?

The reduction in other operating expenses in 2014 is driven by the absence of one-off events that negatively impacted the Company's 2013 financials. These one-offs events in 2013 pertained to the loss from mouldy semi-finished goods exported to Australia (RM9mil), and the discontinuation of the local leaf operations in Kota Bharu (RM4.8mil).

- (c) How would BAT address the challenges arising from the implementation of the Goods and Service Tax in April 2015? How would it affect the Group's bottom-line for the next few years?**

- The Company has set up an internal project team in early 2014 in preparation for the implementation of The Goods And Services Tax ("GST"). At the same time, the Company has been working closely with the Royal Malaysian Customs on this matter. Throughout this period, the Company has equipped itself with strong systems and processes that support the Company's commercial activities under the new environment. All in all, the Company is confident in facing the operational challenges that come together with this tax regime.
- It is still too early for the Company to comment on the business outlook as GST has just been implemented on 1 April 2015. Nonetheless, the Company will continue to monitor for impact to its business. The Company will also continue to put emphasis behind its core range of products to drive sustainable growth and continued market leadership.

- (d) As reported on page 7 of the Annual Report 2014, in addition to sales to the Malaysian domestic and duty free markets, BAT undertakes contract manufacturing for British American Tobacco p.l.c companies, predominantly in the Asia Pacific region.**

Approximately 61% of BAT's primary manufacturing (leaf processing) and 45% of BAT secondary manufacturing (cigarette making) were used in 2014 for contract manufacturing.

- (i) How would the margin contribution from contract manufacturing compare to sales to the Malaysian domestic and duty free markets?**

- Despite being important to the Company's business, contract manufacturing contributes to only circa 5% of the Company's profit.

- (ii) What are the targeted percentages of usage from both primary and secondary manufacturing for contract manufacturing in 2015?**

- Factory maximum capacity is typically defined by its primary manufacturing (PMD) capacity, and for the Company, this is 31 billion sticks.
- The current volume represents almost 53% utilization of this capacity.
- Based on the current crewing and shift pattern, the PMD utilized 97% of the crewed capacity.

- Based on the current crewing and shift pattern, the secondary manufacturing (SMD) utilized 100% of the crewed capacity, although only 57% of the maximum capacity.
- As highlighted in question number (i) above, the Company is not able to target the usage of both the PMD and SMD as there is no clear indication of contract manufacturing volume movements in the short/medium term.

(iii) Please explain the plans for contract manufacturing for the next few years.

- As highlighted in question number (i) above, as a contract manufacturer, the Company responds to the demand from customers and therefore, is not in a position to set, or to enforce export volumes targets.
- When it comes to sourcing decisions, British American Tobacco p.l.c Group takes into consideration the capabilities and commercial conditions of the different production hubs in the Asia Pacific Region. The major production hubs of the Asia Pacific Region are currently Malaysia, Singapore and South Korea.
- As a consequence, the Company strongly believes that the best way to obtain further exports volume is to improve cost, service and quality versus alternative manufacturing locations.
- In 2015, the export volumes softened. At this time, there is no clear indication of contract manufacturing volume increasing in the short/medium term.

(2) Following the above, other key questions raised by members and responded to by the Board were as follows:

- the components that still led to the increase in revenue and whether there would be a possibility of reduction in operating margin in future to which the response was that the revenue increase was mainly due to the excise led price increase during the year and as for operating margin, members were informed to note that the Company was unable to control the costs variables as the performance of the operating margin was dependent on issues such as the effectiveness of enforcement actions in addressing the illegal trade, pricing decisions by the Company and other factors. Nevertheless, the Company would strive to continue maintaining or increasing its operating margins.
- the rationale on the adjustment of cigarettes' prices that took place towards the end of 2014 to which the Company responded that the adjustment was done to keep its cigarette prices competitive at all times so as not to impact market share and volume.
- whether a share split exercise could be considered to which the Board responded that there was no plan to do so at the moment as such an exercise would not bring any medium to long term value to the Company.
- whether the Company had any plans for the under-utilised capacity in the factory given the reduction of export volumes to which the response was that production of export volumes was based on demand and the Company would strive to maintain its cost competitiveness as compared to other production hubs in the region to try to get more demand.

8. VOTING RESULTS

All the following resolutions tabled at the AGM of the Company were duly passed by the shareholders of the Company:

As Ordinary Business

RESOLUTION	AGENDA
Ordinary Resolution 1	Receipt of the Audited Financial Statements of the Company for the financial year ended 31 December 2014 together with the Reports of the Directors and Auditors.
Ordinary Resolution 2	Re-election of Tan Sri Mohamad Salim bin Fateh Din as Director in accordance with Article 97(1) and (2) of the Company's Articles of Association.
Ordinary Resolution 3	Re-election of Mr. James Richard Suttie as Director in accordance with Article 97(1) and (2) of the Company's Articles of Association.
Ordinary Resolution 4	Re-election of Mr. Pablo Daniel Sconfianza as Director in accordance with Article 103 of the Company's Articles of Association.
Ordinary Resolution 5	Re-appointment of Datuk Oh Chong Peng as Director pursuant to Section 129 of the Companies Act, 1965.
Ordinary Resolution 6	Re-election of Datuk Oh Chong Peng as Independent Non-Executive Director.
Ordinary Resolution 7	Re-appointment of Messrs. PricewaterhouseCoopers as Auditors and fixing of the Auditors remuneration.

As Special Business

RESOLUTION	AGENDA
Ordinary Resolution 8	Proposed renewal of shareholders' mandate for the Recurrent Related Party Transactions of a revenue or trading nature.

9. CLOSURE

The Chairman informed the Meeting that no notice of other business to be transacted at the Meeting had been received.

The Meeting was closed at 1.14 p.m. with a vote of thanks to the Chairman.