

# BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

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

Summary of Minutes of the Fifty-Sixth (56<sup>th</sup>) Annual General Meeting of British American Tobacco (Malaysia) Berhad (“the Company” or “BATM”) held at Ballroom 2, 1<sup>st</sup> Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Tuesday, 18 April 2017 at 10.30 a.m.

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## PRESENT

Tan Sri Dato’ Seri (Dr.) Aseh bin Haji Che Mat	:	Chairman / Independent Non-Executive Director
Mr. Hendrik Stoel	:	Managing Director
Datuk Oh Chong Peng	:	Independent Non-Executive Director
Dato’ Chan Choon Ngai	:	Independent Non-Executive Director
Datuk Zainun Aishah binti Ahmad	:	Independent Non-Executive Director
Datuk Christine Lee Oi Kuan	:	Legal & External Affairs Director
Mr. Ricardo Martin Guardo	:	Finance Director

## IN ATTENDANCE

Mr. David Chiam Joy Yeow	:	Company Secretary
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## BY INVITATION

Ms. Samanmalee Priyanvada Chandrasiri	:	Human Resources Director
Mr. Adrian Lee	}	KPMG PLT (External Auditors)
Ms. Soo Tho Pei Yin	}	
Mr. Kenny Poon	}	Messrs. Jeff Leong, Poon & Wong (External Counsel)
Ms. Lee Seen Yin	}	
Ms. Tiffany Teh	}	

## ATTENDEES

*[721 Members, 432 Proxies and 1 Corporate Representative attended the 56<sup>th</sup> Annual General Meeting as per the summary of attendance]*

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### 1. CHAIRMAN OF THE MEETING

Tan Sri Dato’ Seri (Dr.) Aseh bin Haji Che Mat chaired the 56<sup>th</sup> Annual General Meeting (“AGM”) of the Company.

### 2. WELCOME ADDRESS AND CHAIRMAN’S OPENING SPEECH

On behalf of the Board of Directors (“Board”) of the Company, the Chairman welcomed the members to the Meeting and introduced himself to the members. The Chairman expressed his gratitude to the management and all employees of BAT Malaysia for their tremendous efforts and passion in delivering the results for 2016 despite the tough environment. The Chairman also thanked the shareholders for their continued support and loyalty.

Members were briefed as follows:

- (a) 2016 was a challenging year for the Company given the fragile economic conditions and sharp rise in illegal cigarette trade in Malaysia. The economic backdrop had a profound impact on the tobacco industry where consumer sentiment remained low and affordability was stretched, coupled by the 40% excise increase at the end of 2015 which continued to heavily impact the 2016 results. This has led to the growth of the illegal cigarette market with illegal brands that were cheap and readily available all over the country.
- (b) Notwithstanding the above, the Group continued to receive awards and recognition most notably for efforts in setting benchmarks for high corporate governance standards, shareholder value and human resource policies and practices.
- (c) The employees remained the cornerstone of the organization. In line with the Group's commitment to provide an inclusive and progressive working environment, the Company proudly rolled out a revamp of its family benefits policy to all employees, which has translated in 2 times lower attrition rate than the norm in Malaysia of 6%.
- (d) The Board had recommended a fourth interim dividend of 77 sen per share and announced a special dividend of 46 sen per share in relation to the utilisation of the sale proceeds from the sale of the land and buildings upon which the factory operations are located, after deducted the restructuring expenses, making the total net dividend declared for the financial year to be a commendable 278 sen per share.
- (e) The Group had in 2016 made steps towards a transformative change to its business model that would ultimately sharpen commercial capabilities whilst optimising supply chain and transactional activities.
- (f) Whilst there were many challenges faced by the tobacco industry, the Group had put in place a very clear vision and strategy to navigate the business and the Company would remain committed to investments in the country.

### **3. QUORUM**

The requisite quorum being present pursuant to Article 71 of the Company's Constitution, the Chairman declared the Meeting duly convened at 10.30 a.m.

### **4. NOTICE OF MEETING**

With the consent of all members present, the Notice of Meeting having been circulated on 27 March 2017 was taken as read.

### **5. VOTING PROCEDURES**

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

The Meeting was also informed that the Company had appointed Tricor Investor & Issuing House Services Sdn. Bhd. as Poll Administrator to conduct the polling process and Coopers Professional Scrutineers Sdn. Bhd. as Scrutineer to validate the votes cast.

The polling process for the Resolutions would be conducted upon completion of the deliberation of all items to be transacted at the AGM.

## 6. 2016 FINANCIAL PERFORMANCE AND HIGHLIGHTS

Members were briefed on the Company's 2016 performance and highlights as follows:

- (a) On full year basis, the legal market industry declined by 25.7% whilst BATM volume declined by 29.7%, due to slower recovery after the imposition of the shock excise increase in November 2015. Illegal cigarette incidence registered a 57.1% of total market share in the latest reading for year 2016 due to continued consumers down trading to illegal cigarettes. As a result, the Company's market share declined to 57.1% from 60.9% in year 2015. The net profit for year 2016 was RM721 million as compared to RM910 million in year 2015.
- (b) The challenging macro environment resulted in further pressure on disposable income of consumers. This led to a sharp rise in illegal cigarettes trade.
- (c) Government was increasing its efforts to reduce illegal cigarette incidence by 50% over the next 3 years through the implementation of new strategies as announced in December 2016.
- (d) Despite the tough economic environment, Dunhill maintained its market leadership as a Premium Brand with a 42.2% share of market, notwithstanding a decrease of 3.9% against year 2015. Peter Stuyvesant, the fastest growing brand within the Aspirational Premium segment, continued to grow 0.9% point to reach a market share of 6.5% while Pall Mall remained flat, closing at 4.3% share of market. The Group achieved 57.1% corporate share of market for year 2016.
- (e) The key sustainability achievements for BATM as follows:
  - (i) Community – awarded scholarships to 22 aspiring students.
  - (ii) Workplace – achieved full zero Lost Time Injury in year 2016. Also introduced key initiatives to improve employee wellbeing at work, for example, extended maternity and paternity leave, care giver and enrichment leave.
  - (iii) Environment – focused efforts on energy and water reduction leading to a 33% reduction of Total Energy (Gj) consumed and a 32% reduction of Total Water (m<sup>3</sup>) usage as compared to year 2015.
  - (iv) Marketplace – incorporated the comprehensive Global Reporting Initiative (GRI) G4 Indicators in the 2016 Annual Report and also maintained the 8<sup>th</sup> consecutive year disclosures based on GRI in line with its sustainability agenda to demonstrate its commitment in operating responsibly.
- (f) The Company had received the following awards in 2016:
  - (i) The Edge Billion Ringgit Club Awards 2016
  - (ii) MSWG-ASEAN Corporate Transparency Index, Findings and Recognition 2016
  - (iii) Asia Recruitment Awards 2016
  - (iv) HR Excellence Awards 2016

- (g) The Company's new office would be relocated to Wisma Guocoland at Damansara Heights effective August 2017.
- (h) The Company's main focus now was on growing market share and volume as well as finding ways to support the reduction of illicit trade.
- (i) Revenue for 2016 declined by 18% as compared to year 2015 due to the growth of illicit trade. The implementation of additional productivity savings was not able to offset the unfavourable impact from the volume reduction, leading to a Gross Profit deterioration of 24.2% when compared to 2015.
- (j) Operating Expenses for 2016 were 9.1% lower than the same period last year, largely attributed to lower trade expenditures as well as lower recharges from other related entities. As of December 2016, the Group recorded a one-off restructuring expenses (RM113 million) in relation to the winding down of its factory operations. The one-off restructuring expenses consisted of provision for redundancies (RM41 million), asset impairment (RM35 million), provision for obsolete raw materials and project cost (RM24 million) and leaseback rental (RM13 million). The Group therefore recorded a one-off gain from the disposal of the land and building which the factory operations are located amounting to RM159 million.
- (k) Notwithstanding the above, the Group registered a decline of 25.9% in Profit from Operations in year 2016 when compared to the same period of last year.
- (l) Despite the challenges faced, the Company had paid dividends amounting to RM2.78 per share during the financial year which included a special dividend of RM0.46 per share arising from the land sale proceeds, which represented a 110% earnings per share payout.

## 7. QUESTIONS FROM MINORITY SHAREHOLDERS 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 the Group's business is affected by foreign exchange rate fluctuations due to purchase of goods from overseas amid all contract manufacturing volume for exports had ceased as of 31 December 2016, to what extent has the Group's carried out the hedging activities? How effective are these hedging activities?*
    - In 2016, the Group's foreign currency exposure mainly came from purchases of raw materials that were naturally hedged against proceeds from contract manufacturing exports.
    - The Group has a hedging policy in place whereby the net currency exposure is minimised by partially hedging it for the next 12 months and increasing the hedging ratio as the time for settlement gets nearer. The range on the hedge ratio within 12 months of transaction date is 50 percent to 100 percent.
    - The strategy of the Group is to avoid any ineffective hedges when the cash flow forecast changes before settlement date.

- In the transformed business, the Group will continue to minimise adverse impact of foreign currency volatility arising from business cash flows denominated in foreign currencies by entering into hedges for the forward months.
  - The Group's main foreign currency exposure is in US Dollar and based on the current hedges that the Group has entered into as of 31<sup>st</sup> December 2016, the average contracted rate is at 4.11 which is more favourable versus current rate.
- (b) *We refer to the article published by The Star's on 28 March 2017 announcing the possible hike in the prices of cigarettes and raising of minimum age limit to 21 for those permitted to buy cigarettes. Could the Board comment on this and the impact to the Group?*
- As tobacco consumption poses real risks to health, the Group believe that tobacco products should be regulated in appropriate ways and we continue to support sensible tobacco regulations that balance the preferences of consumers with societal interests whilst enabling our business to continue to compete.
  - 2016 saw the total legal domestic market volume contracting by 25.7% compared to previous year, however total consumption did not decrease. The excise hike in 2015 increased illegal cigarette levels to 57.1% as of December 2016 (Source: Illicit Cigarette Study (ICS) conducted by Nielsen Malaysia). This highlights that consumers have switched to cheap illegal alternatives.
  - Given the current situation, we do not believe increasing the minimum legal age for smoking to 21 or raising cigarette prices to RM21.50 would be an effective policy for reducing smoking.
  - Given the critical level of illegal cigarettes today, we hope the Government will not increase excise and consider a longer moratorium on excise to allow the market to stabilize and enforcement actions on illegal cigarettes to be effective.
- (c) *We noted that the total trade and other receivables increased from RM203.8 million in FYE 2015 to RM342.2 million in FYE 2016 despite the reduction of revenue of 18 percent in FYE 2016.*
- (i) *What were the reasons for the increase in the Group's trade and other receivables which outpaced the increase of the Group's revenue?*
- In the second quarter of 2016, The Royal Malaysian Customs (RMC) had announced that all locally-manufactured cigarettes will be required to affix tax stamps on their boxes effective 1<sup>st</sup> October 2016. The act mandated that the excise duty would have to be prepaid before cigarette manufacturer receive the physical tax stamps.
  - This resulted in a requirement to hold excise paid tax stamps before production which was not required before. This additional excise payment of RM 69 million was recorded as prepayment in trade and other receivables.

- The other reason for increase in trade and other receivables was due to the compensation to be received from related party for the disposal of equipment amounting to RM31 million.
- The remaining amount of the increase was due to trade receivables recorded at year end 2016 given seasonality and year end volume performance.

***(ii) Out of RM37.5 million amount due from subsidiaries, RM6.9 million was past due for more than 120 days. What is the normal trade credit terms and how long has this amount been outstanding?***

- The Group's amount due from fellow subsidiaries have a credit term of 30 to 60 days.
- 90% of the amount due from subsidiaries was from British American Tobacco (PNG) Limited (BAT PNG) which had been overdue for 5 months.
- The main reason for the overdue was due to capital controls in Papua New Guinea, restricting access to foreign currency.
- The Group is positive of receiving the full outstanding balance by end of 2017. During the first quarter of 2017, the Group had received RM3.5 million from BAT PNG.

(2) Other key questions raised by members and responded to by the Board were as follows:

- (a) Question: On whether 2016 was the first year that the Company encountered total annual shareholder return loss of RM8.70 per share which represented a total annual return decline of 15.5%.

Respond: Yes, while there was a decline in 2016, the total shareholders return of the Company was still positive. The high level of illegal cigarette trade formed the main challenge for the Company in 2016 and this would continue to be so in 2017. Nonetheless, the Company would continue to invest in its brand portfolio moving forward and that the outlook of the legal market would change positively once the illegal cigarette trade was effectively addressed by the Government.

- (b) Question: On management's plan to ensure stability of share price moving forward.

Respond: The recent share price volatility was due to the recent announcement by the Deputy Minister of Health that cigarette prices could be raised to RM21.50 per pack from the current RM17.00. Besides that, the legal tobacco market was inevitably affected by illicit trade throughout 2016. To address this, management would continue to work closely with the industry and the Government to curb the illegal cigarette trade and continue its transformation initiatives in order to deliver growth and achieve better performance. With that, the Company hope that its share price would be affected positively.

- (c) Question: On the availability of e-cigarettes in Malaysia.

Respond: The Company was still waiting for the legislative framework which would enable the industry to legitimately market e-cigarettes and other such new generation products.

- (d) Question: On whether the special dividend of 46 sen per share was solely in relation to the utilisation of the sale proceeds from the sale of land building.  
Respond: Yes.
- (e) Question: On the Company's total dividend payout for 2016.  
Respond: The Company continued its strong commitment to pay dividends at a level close to 98% of earnings. On top of the four interim dividends, the Company also declared a special dividend in year 2016.
- (f) Question: On the potential cost savings post the transformation of the new business model.  
Respond: Production costs in Malaysia had increased by 20% as a consequence of year-on-year lower legal sales volume. Moving forward, the outsourcing of production would be expected to bring savings as the regional centres are producing at a much lower per mille cost compared to Malaysia due to their higher production volumes compared to that of the Malaysian factory.
- (g) Question: On the reason for the declining share of market to 57.1%.  
Respond: The Group share of market has declined by 3.8% as compared to year 2015, mainly attributed to the down trading dynamics in the market post the steep excise increase at the end of 2015.
- (h) Question: On which brands would the consumers opt for in the event the purchasing of illegal cigarettes were eventually made more difficult as a result of Government enforcement.  
Respond: There was no direct co-relation but that majority of consumers would shift back to legal cigarettes and that being the market leader with a strong portfolio of good quality brands, the Company's leading brands including Dunhill in premium and Peter Styvesant and Pall Mall in the aspirational premium segment would be the consumers' choice.
- (i) Question: The current issues faced by the Company was primarily due to the Government's imposition of the unprecedented high excise increase and asked if the Government has realized this.  
Respond: Government was aware of this and this was supported by a recent media statement in April 2017 made by the Second Finance Minister, Dato' Seri Johari Abdul Ghani in respond to the Ministry of Health's call to increase excise and cigarette prices to RM21.50 that the Government had no plan to increase the excise duty for cigarettes currently and would center its efforts towards addressing illegal cigarette trade.
- (j) Question: On the market trend going forward in terms of e-cigarettes.  
Respond: BAT group has expertise and capabilities to market e-cigarettes, as well as other new generation products. However, the regulations governing such products in Malaysia were still unclear. On e-cigarettes, it has been reported that the Government had entrusted three ministries to come up with regulations on e-cigarettes. The Company would look into the opportunities for such new products once the Government has developed a clear regulatory pathway for them.
- (k) Question: On the renovation costs of new corporate office.  
Respond: The details of the costs were unavailable but would be cost effective.

## 8. POLL RESULTS

The Ordinary Resolutions tabled at the 56<sup>th</sup> AGM of the Company were duly passed by the shareholders of the Company and the poll results of the resolutions as summarized below:

	FOR		AGAINST	
	No. of shares	%	No. of shares	%
<u>Ordinary Resolution 1</u> - Re-election of Tan Sri Dato' Seri (Dr.) Aseh bin Haji Che Mat as Director	229,589,541	99.53	1,084,888	0.47
<u>Ordinary Resolution 2</u> - Re-election of Hendrik Stoel as Director	220,782,516	95.71	9,891,913	4.29
<u>Ordinary Resolution 3</u> - Re-election of Ricardo Martin Guardo as Director	229,477,953	99.48	1,196,476	0.52
<u>Ordinary Resolution 4</u> - Re-election of Datuk Zainun Aishah binti Ahmad as Director	229,103,228	99.32	1,571,001	0.68
<u>Ordinary Resolution 5</u> - Re-election of Datuk Lee Oi Kuan as Director	229,374,443	99.48	1,196,476	0.52
<u>Ordinary Resolution 6</u> - Re-appointment of Datuk Oh Chong Peng as Director	191,016,891	87.57	27,123,618	12.43
<u>Ordinary Resolution 7</u> - Payment of Directors' fees and benefits to Non-Executive Directors	214,051,236	92.72	16,811,802	7.28
<u>Ordinary Resolution 8</u> - Re-appointment of KPMG PLT as auditors	230,371,975	99.99	1,000	0.00
<u>Ordinary Resolution 9</u> - Retention of Datuk Oh Chong Peng as Independent Non-Executive Director	191,491,593	87.82	26,563,519	12.18
<u>Ordinary Resolution 10</u> - Proposed Renewal of Recurrent Related Party Transactions Mandate	87,605,875	99.32	601,454	0.68

## 9. CLOSURE

There being no other business to be transacted, the Meeting closed at 12.55 p.m. with a vote of thanks to the Chair.