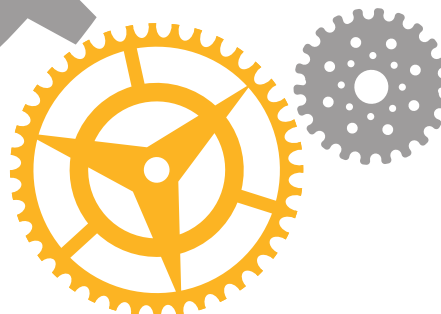


DIRECTORS' REPORT 2016



It is a pleasure and privilege on the part of the Board of Directors to present the Directors' Report and Auditors' Report together with the audited financial statements of British American Tobacco Bangladesh Company Limited (BATB) for the year ended 31 December 2016.

Key Strategic Pillars of Business

BATB had yet another successful year in 2016. The Company made steady progress in many areas during the year despite economic and regulatory challenges. The challenges this year were from different fronts - operational, regulatory and above all from an uneven competitive platform. But your Company continued its journey undaunted and brought you good result for the year together with value enhancement for the stakeholders.

Economic & Industry Overview

The industry had marginal volume growth over the last year as the consumers are moving from bidi to cigarette while total tobacco industry is in decline. The growth dynamics of the industry varied across the 4 price segments. The Low segment experienced growth in 2016 while High and Medium segments declined. The industry growth will be driven by Low segment due to government pricing policies and continued migration from bidi.

Company Performance

BATB Volume growth was achieved through a focused business strategy that was supported by our people across all business functions. Our brand portfolio was strengthened through

innovations and an outstanding range of high-quality products. The focus throughout the year was to match consumer expectations with the right offers across all segments. The Company's Leaf export is declining year on year (2016: BDT 163 crores; 2015: BDT 207 crores; 2014: BDT 272 crores) due to imposition of export duty.

There was higher growth in the low segment volume offsetting the decline in the upper two segments. This trend continues to be a matter of concern as it negatively impacts not only BATB but also Government's revenue from the cigarette industry. Therefore, we continue to engage with policy makers to ensure that balanced price and taxation policies are implemented and the down trading is reduced for the sustainability of the industry and to meet government revenue expectation from the industry. A review on the performance of each of the cigarette segments is as follows:

Premium Segment

Despite facing tougher challenges, Benson & Hedges has stopped volume decline after 4 years. This segment is facing competition due to the increased availability of the smuggled cigarettes in the market which are being sold at a lower price. The company is committed to protect Benson & Hedges and Government Revenue from the illegal and smuggled cigarettes that are present in the market. The price differential between duty free prices and our domestic prices continues to get widened and that will increase the risk of illegal trade and we will draw the attention of the NBR and hope they will address this issue.

High Segment

John Player Gold Leaf and Capstan sales have been declining for last 2 years as consumers are moving down to lower priced brands due to excessive price increase by government. In second half of 2016, the brands performed better than first half as Government did not increase the price in this segment which arrested the volume decline to a certain extent. **Holding the price again will enable John Player Gold Leaf and Capstan to come back to growth momentum and deliver incremental revenue to Government.** The Company has ensured consistent investment behind this brand to hold the strong brand equity of John Player Gold Leaf and Capstan.

Medium Segment

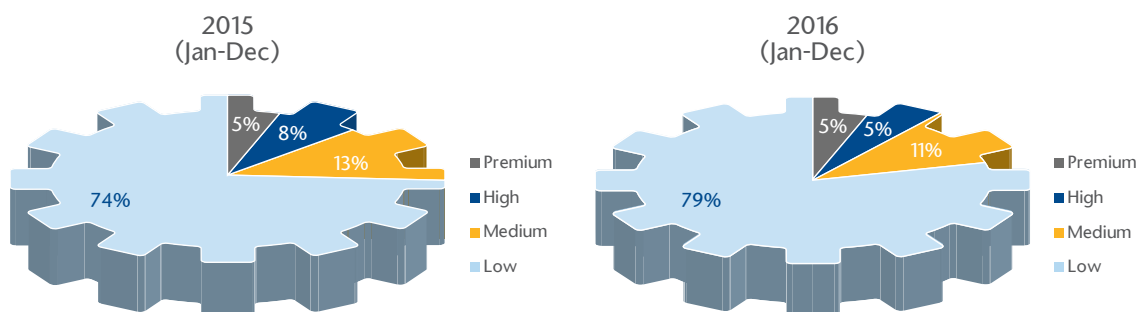
The Medium segment has declined in volume as consumers are moving down to the Low

segment brands due to significant price gap with low segment. Our brand Star has performed better in a declining environment. We have continued focus to maintain the quality of this brand.

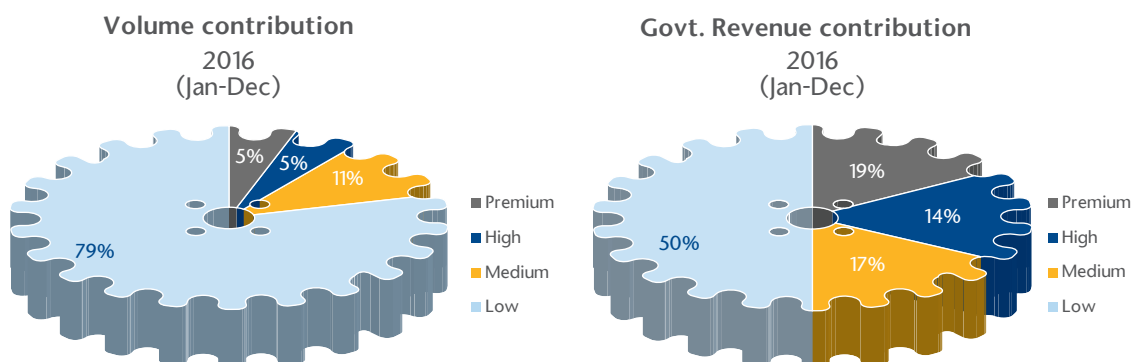
Low Segment

The Volume share in this segment has increased from 74% to 79% of the total cigarette market and it has grown further to 80% during the first half of fiscal year 2016-17. We believe that the growth of this segment is driven by the huge price gap between low and the other segments. The growth in this segment at the expense of the segments above is a major concern for us and we believe that government is also being deprived of a potential higher revenue. The issue was handled in the last budget to some extent but requires a deeper look in the future govt. Budgets.

Segment Wise Volume Contribution



The following chart also shows low segment's volume contribution vis-à-vis its revenue contribution to govt.



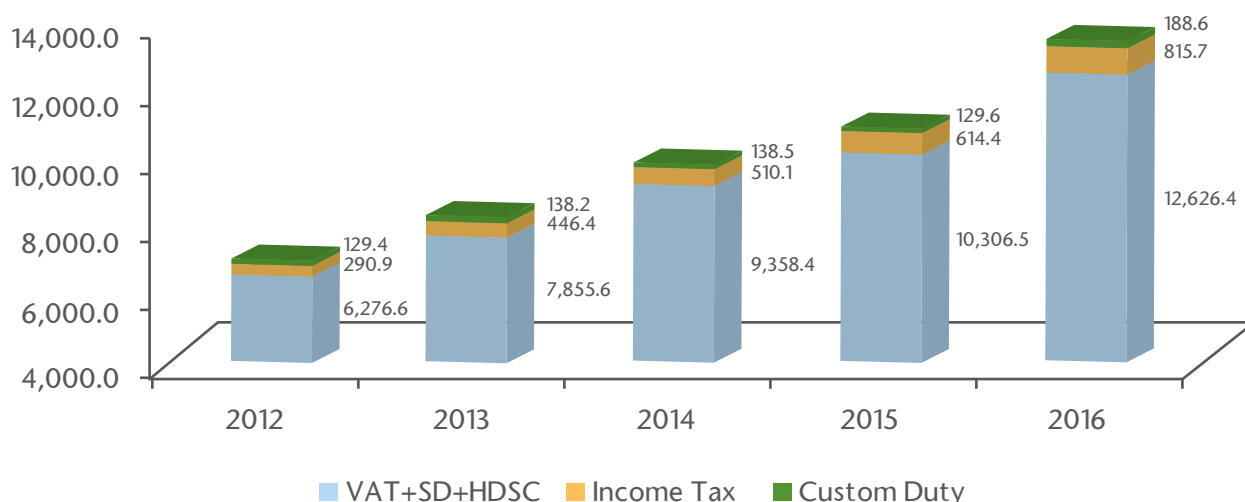
It is evident from the above chart that while low segment contributes 79% of the total volume, this segment contributes only 50% of the total revenue of the government from the cigarette industry.

BATB's Contribution to National Exchequer

In 2016, the Company contributed BDT 13,631 crores to the Government exchequer as Value added tax (VAT), Supplementary Duty (SD), Health Development Surcharge (HDSC), Income Tax & Custom duty. This represents an increase of BDT 2,580 crores over last year. BATB alone contributed 70% of the total VAT, SD & HDSC collected from the Cigarette

shareholders' return and also takes away the incentives for others in the industry to be listed and thus is a hindrance for further growth of the capital market and creates uneven completion. The Company believes that the Government will reinstate differential corporate tax rate structures while considering the upcoming National Budget. Cigarette is already highly taxed (in the form of Supplementary duty & VAT) and there is no

Amount in BDT Crores



industry. The Company will continue to support Government's proposals that help to establish a sustainable level of tax contribution to the National Exchequer while ensuring a sustainable growth for the industry and promoting a level playing field among market players. Since this is a mature industry, it must not be stretched too far without considering the market dynamics and its ability to absorb price increase.

The Company recognizes Government's revenue growth targets and the industry has been working with the National Board of Revenue (NBR) over the years to ensure sustainable revenue growth from the cigarette industry. While listed companies in all other sectors enjoy a differential Corporate tax rate, the same privilege was withdrawn by the Government for listed Cigarette companies. We strongly feel that by targeting the corporate tax structure of a listed cigarette manufacturer, it significantly impacts the

instance of discriminated corporate tax differentials anywhere in the world for Tobacco Companies wherever it is listed in the Stock market. **We appeal to the regulators for a reversal of the position in the next national budget.**

Productivity

The overall supply chain has been challenged to deliver the market needs on-time. As a result, manufacturing capacity was scaled up and also modified to cater to different pack formats. This required significant investment and meticulous planning so that the growing diverse market demand could be met. A series of productivity initiatives were undertaken to improve machine efficiency. The year also focused for processing of raw tobacco. Our leaf growing area was also revamped through various productivity initiatives to process the required tobacco volume while ensuring the right quality.



Cost of Goods Sold and Profit Margins

In spite of various challenges, which threatened to disrupt our supply chain in the year, we could manage logistics and production, which ensured that our ability to manufacture and supply of cigarettes to the market was not compromised. Your Company was able to mitigate cost increase through delivering a number of cost control initiatives that resulted in reduced cost of goods sold per unit in 2016.

Company's operating margin has marginally reduced from 33.1% in 2015 to 31.8% in 2016. The reduction in operating margin was mainly driven by deteriorated sales mix, which, to a large extent was offset by different savings initiatives. Your Company continued its company-wide smart cost management program and explored all opportunities to reduce costs structures. This program has

helped to optimize the operating expenses of the Company and focused resources on areas that were required to fuel growth and sustainability.

Financial Performance

Gross Turnover for the year was BDT 16,563 crores, up by BDT 2,192 crores from the previous year. This increase was driven by volume share gain and smart pricing in upper segments and Government led increase at the lowest price segment. The Profit before Tax has increased by 5.7% to BDT 1,317 crores. The higher profit before tax reflects resilient market position and increased prices, coupled with cost savings and productivity initiatives driven across the Company. The Profit after Tax of 2016 shows an increase as the effective tax rate of 2015 was very high due to imposition of higher retrospective tax rate in 2015.

Key Operating & Financial Information at a Glance

The key operating and financial information for the year 2016 along with the preceding four years are presented below:

Operational Results	(financials in million BDT)	2016	2015	2014	2013	2012
Gross Turnover		165,634	143,712	126,725	109,582	90,174
Net Turnover		43,754	39,895	35,562	31,225	27,471
Profit before Tax		13,170	12,460	10,866	9,104	6,501
Profit After Tax		7,582	5,846	6,282	4,924	3,942
Share Capital		600	600	600	600	600
EPS in BDT		126.37	97.90	104.70	81.14	65.59
No of Employees		1,476	1,400	1,353	1,251	1,119
Total Contribution to National Exchequer		136,306	110,505	100,070	84,402	66,969

Dividend

In view of the performance of the Company and the current liquidity position, the Board recommends a final cash Dividend of BDT 60 per share amounting to total BDT 3,600,000,000 for the year 2016, translating into 47.48% of Profit after Tax, to be approved in the 44th Annual General Meeting of the Company. With this recommendation of proposed final dividend, the summary of the total dividend in 2016 is represented below:

Amount in Million BDT	2016	2015	2014	2013	2012
Profit after Tax	7,582	5,874	6,282	4,924	3,942
Interim Cash Dividend	-	-	600	600	600
Final Cash Dividend @ Tk 60 per share	3,600	3,300	2,700	3,120	2,400
Retained Profit for Reinvestment	3,982	2,574	2,982	1,204	942

Sustainability

Climate and environmental conservation has always been an issue of intense importance for Bangladesh. This is more so, as according to various naturalists' reports, Bangladesh will remain a vulnerable nation to the impacts of climate change in the decades ahead. BATB believes that the business has a key role to play in helping society to achieve the necessary sustainable balance of economic growth, environmental protection and social progress in ways that will build value for all our stakeholders.

The Company undertook and is continuing with the three Corporate Social Responsibility programmes to create positive impact in the communities and environment at large. The flagship activity of the Company, the Afforestation Program, began in 1980 and your Company has distributed 91.5 million free saplings in and around our operational areas including 4 million saplings in 2016. This continued effort makes the program the largest private sector afforestation programs in the country. The Company is committed to continue this program to support the Government initiative to combat the adverse effects of climate change. Over the years, the Company received a number of national and international awards and accolades for the afforestation drive across the country. **Your company received Asia's top rank business award 'Asia Responsible Entrepreneurship Award for Green Leadership' from Enterprise Asia for the largest afforestation project in the private sector of Bangladesh.**

Millions of people in Bangladesh face scarcity of safe drinking water due to arsenic contamination. Responding to this need BATB has taken up a project that provides approximately 350,000 liters of arsenic and other impurities free drinking water to arsenic-prone rural communities every day. This program is aligned with the Government's aim to achieve the Sustainable Development Goals of securing sustainable access to safe drinking water. So far, 65 water filtration units have been installed, using government approved water filtration technology in Jhenaidah, Chuadanga, Meherpur, Kushtia,

Tangail, Manikganj, Satkhira, Gopalganj, Lalmonirhat, Kurigram, Jamalpur, Madaripur and Natore ensuring pure drinking water for nearly 170,000 people every day.

To complement Bangladesh Government's efforts in the renewable energy sector, BATB has undertaken a project to install solar systems in village homes that are in remote, off-grid areas of Chittagong Hill Tracts. The solar initiative of BATB supplied 1864 units of solar home systems in remote villages in Bandarban and Khagrachari districts, giving more than 11,000 rural people their first access to electricity at home

BATB has a fruitful partnership with farmers across the country through its various programs dedicated to improving overall agricultural practices and standards. The Company's Leaf function starts with the hard works of around 33,000 registered farmers within the village community. BATB's contract farming model has been a proven model for years. The Company ensures that the sources are sustainable by proactively setting high standards of agricultural practices. The initiatives include green manuring with Dhaincha stick (*Sesbania Aculeata*) - an effective approach to enrich soil health and fertility. Dhaincha is also promoted as an alternate fuel in leaf growing areas. In 2016, the Company distributed nearly 160 metric tons of free Dhaincha seeds amongst farmers.

Integrated Pest Management (IPM) Clubs have also been expanded in collaboration with the Department of Agricultural Extension of Govt. Of Bangladesh to educate the farmers about the adoption of good agricultural practices for all kinds of crops. As a result of this continuous education program farmers became more cautious and conscious about the use of chemical pesticide in farming and adopted the use of Neem in different forms as an alternative to chemical pesticide. The Company has established 81 IPM clubs as a platform of sharing agricultural knowledge to the farmers. Improving soil fertility and conserving water are integral elements of good agricultural practices. The Company provides the know-how and bears the full cost to install compost pits in the homesteads of our

registered farmers. This significantly reduces dependence on the use of chemical fertilizers and also reduces the cost of production and increase the organic matter content in the soil resulting improved fertility in the cultivation area. As a water management program, proper irrigation systems have been introduced which ensures that, only the required level of water is used and there is no wastage. The Company acknowledges its impact as well as dependence on biodiversity, through the business operations and use of eco-system services, such as forest products, soil and water. So far, 75 biodiversity corners including 11 new corners have been established in 2016 with the help of the registered farmers in order to make farming communities aware of the importance of different elements and their contribution in the eco-system. The biodiversity corners are located in Kushtia, Meherpur, Chuadanga, Jhenaidah, Rangpur, Manikganj, Bandarban, Khagrachari and Cox's Bazar districts.

The Company supports sensible tobacco regulations that balances the interest of consumers with the interests of society and enables the business to continue to compete and prosper. The Company is conducting all its activities in line with the amended Smoking and Tobacco Products Usage (Control) Act, 2013. All of the sales activities are governed in compliance with the Smoking and Tobacco Usage (Control) Act, 2005 and Amendment Act, 2013 and the subsequent Rules along Company policies. These principles symbolize the commitment to marketing the company products appropriately and only to adult users in compliance with local laws and regulations. Therefore, BATB is fully conscious of its standpoints and responsibilities. We have successfully complied with the local regulations regarding the Graphical Health Warning on our cigarette packets. Graphical Health Warning must be implemented on all tobacco products to ensure level playing field. However, we always believe that the regulations with respect to Graphical Health Warnings should not be disproportionate, otherwise it will not deliver the intended results and will significantly erode our Intellectual Property Rights.

The tobacco industry has an economic impact both in terms of revenue generation for the Government and employment generation by employing around 1,500 direct employees, and 50,000 indirect employees in the form of farmers, distributors and suppliers and over 1.3 million retailers. The Company therefore, seeks that the Government takes an inclusive and participative approach about tobacco regulations, so that the regulatory policies reflect the views of all relevant stakeholders and are practical and enforceable.

Winning Organisation

The outstanding performance of BATB in 2016 can be credited to the hardworking people and the efficiency of the teams. The people of BATB are ever committed in driving the business with passion to win in an ever-changing and challenging business environment. The rapid success and growth of the company is powered through providing employees with an amazing work environment and involving the employees within the core business strategies. Peoples' constant resilience to tackle all the challenges has transformed BATB into an organization that is energetic and propels it to success.

BATB focuses on the learning and growth of its people with the aim of developing leadership capabilities to assist the people to realize their full potential. This is done by supplying the right opportunities to learn from their leaders and applying BAT's globally recognized learning and development platforms. The organization continues to provide the people with an environment that listens to their queries and that nurtures the talent. More than 200 employees have been trained through programs that helped them unleash their full potential. BATB focuses on building functional skills and also provides hands-on experiences to develop individuals as leaders. With the aim of sustaining the present agenda for talent, 119 employees were transferred to other roles and 120 were promoted. International assignments were given to 19 Bangladeshi managers in countries such as UK, Singapore, Indonesia, Japan, Korea, Papua New Guinea and Australia. On top of that, 450 employees were provided with leadership and functional skills training.





The 13th edition of “Battle of Minds”, the flagship talent promoting program of the Company was launched for universities all over Bangladesh. Battle of minds provides students with fantastic exposure and a platform to showcase their talent. Every year Battle of Minds comes up with new ways to be more challenging as was the case this time around giving the participants a glimpse of the real life business world. Battle of Minds 2016 was bigger than ever before and posed even tougher challenges for the participants. The talent brand that celebrates the endeavours of the employees was launched alongside Battle of Minds. The total number of participants exceeded over 2500 this year as BATB is determined to leave a footprint in the nation-building process with the help of its Battle of Minds and the success stories of its employees through the talent brand.

The people of BATB plays a big role for its success and BATB tries continuously to provide a work environment and culture that motivates people and helps them achieve their full potential. BATB takes on multiple initiatives in order to create a workforce that is highly engaged and strives to bring the people together in achieving the organisational objectives. We work constantly in involving people to make sure that they are aligned with the mission and vision of the company as well as their individual visions.

All in all, BATB remained steadfast and ready to face the constant challenges that came in our way in 2016 and at the same time met the goals of the Company and delivered results for our shareholders.

Environment, Health and Safety

British American Tobacco Bangladesh is fully committed to ensure safety and health of its people who come into BATB premises as well as minimize impact on environment. To keep the employees aware, the Company carried out various kinds of communications, awareness programs for managers, employees, and contractor people throughout the year. Week long campaign titled ‘EHS Awareness Week’ was arranged focusing on safe work practices in production floor, warehouses, and offices.

The Board of Directors

The Board of Directors of BATB blends a group of corporate specialists and highly qualified senior government officials and ex government officials. It is an amalgam of 9 professionals of whom 7 are non-executive directors including 3 independent directors and most of whom are senior government officials. The Board members are responsible for attaining the company’s business objectives, while also safeguarding the interests of its shareholders and numerous stakeholders. We believe that the company Board includes core competencies considered relevant in the context of BATB. The Company has obliged all regulatory compliances necessary for membership in the Company Board. The composition of the BATB Board is as follows:

- **Mr. Golam Mainuddin**
Chairman, Board of Directors
- **Mr. Shehzad Munim**
Managing Director
- **Mr. Md. Mosharraf Hossain Bhuiyan ndc**
Independent Director & Chairman, Audit Committee
Senior Secretary, Ministry of Industries
- **Mr. Mohammad Moinuddin Abdullah**
Independent Director
Secretary, Ministry of Agriculture
- **Mr. Mikail Shipar**
Independent Director
Secretary, Ministry of Labour and Employment
- **Mr. Jalal Ahmed**
Non-Executive Director
Additional Secretary, Ministry of Finance
- **Mr. Md. Iftikhar-Uz-Zaman**
Managing Director, ICB
(Appointed w.e.f. 22 February 2016)
- **Mr. K. H. Masud Siddiqui**
Non-Executive Director
Ex- Secretary Gov.of Bangladesh
- **Mr. William Francis Pegel**
Finance Director
- **Mr. Md. Azizur Rahman**
Company Secretary

Mr. Md. Fayekuzzaman resigned from the Board with effect from 22 February 2016. The Board of Directors would like to put on record the excellent contributions of Mr. Fayekuzzaman towards improvement of the Company and taking keen initiatives in the different issues

during his tenure as Non-Executive Directors and wish him every success in the future.

Directors Proposed for Re-election

Mr. William Francis Pegel shall retire from the Board by rotation at the 44th Annual General Meeting. The retiring Director, being eligible, is proposed for re-election at the 44th Annual General Meeting.

In accordance with the Articles of Association of the Company, Mr. Golam Mainuddin having reached the age above 65 years shall retire at the upcoming General Meeting. However, being eligible, he is also proposed for re-election at the Meeting for one year i.e. until the conclusion of the 45th Annual General Meeting to be held in 2018.

Board Subcommittees

There are currently three functional sub-committees of the Board, namely: Audit Committee, Compensation Committee and CSR Committee, the details of which are as follows:

Audit Committee

The Board has constituted an Audit Committee as per the BSEC directives. As required, the Report of the Audit Committee is included in this Annual Report. The Committee comprises of Mr. Md. Mosharraf Hossain Bhuiyan ndc (Independent Director & Chairman of the Committee), Mr. K. H. Masud Siddiqui, Mr. Md. Iftikhar-Uz-Zaman and Mr. Golam Mainuddin. All the members of the Committee are non-executives Directors and the Chairman of Audit Committee is an Independent Director. The Audit Committee met four times during the year 2016. Mr. Md. Azizur Rahman, Company Secretary served as the Secretary to the Audit Committee. Our Internal Audit Manager, Mr. Adnan Sharif Khan, presented the audit findings to the Audit Committee in the meetings. The key performances of the Audit Committee during the year were as follows:

- Reviewed and recommended to the Board the quarterly and annual financial statements.
- Considered and recommended to the

Board the appointment and remuneration of the statutory auditors of the Company.

- Reviewed and appraised the performance of the internal control system.
- Reviewed and recommended to the Board the Internal Audit Plan and monitored the progress about the same.
- Discussed the Internal and External Audit Report and findings therein with the auditors, members of Management and monitored the status of implementation of recommendations therein.
- Reviewed and considered the report on matters as required under the BSEC Guidelines.
- Reviewed the Loss and write-off report.

Board Compensation Committee

The Board Compensation Committee makes recommendations to the Board on terms of employment of the members of the Executive Committee, managers and employees. This Committee met once in 2016, and is headed by a Non-Executive Director. The other members include the Managing Director and the Finance Director. The Head of Human Resources acted as the Secretary to the Board Compensation Committee.

Board CSR Committee

The Board Corporate Social Responsibility (CSR) Committee is comprised of four Directors, of which, an Independent Director is the Chairman. The constituents of the Committee are Mr. Moinuddin Abdullah (Chairman of CSR Committee), Mr. Mikail Shipar, Mr. Jalal Ahmed, and Mr. Shehzad Munim. The purpose of the Board CSR Committee is to ensure long term sustainability of Company aspirations and management of the Company's CSR initiatives. The initiatives are managed in a way that secures business stability and sustain positive image and reputation of the Company and establishes the Company's commitment to the



nation at large. The CSR committee met three times in 2016. The initiatives are all aligned with the SDG's and we are contributing to fulfil the Government's commitment to the nation at large.

Going Concern

The Directors are of the opinion that the Company is a going concern. Accordingly, Financial Statements are prepared on a going concern basis.

The System of Internal Control

The Board of Directors assures its Shareholders that the Company has a competent risk management process to ensure that the system of internal control is sound in design and has been effectively implemented and monitored. Although it is possible that all risks to the business are not known at present, the Company takes reasonable steps to identify material risks that may hamper business results and systematically reviews these risks in light of the changing internal and external environment in order to assess that controls that are in place are adequate to address those risks. This report further encloses a detailed discussion on the internal control framework under the Statement of Internal Control.

Directors' Declaration as to Financial Statements

The Directors are responsible for the governance of the Company, and as part of preparation and presentation of the financial statements, the Directors confirm, to the best of their knowledge that:

- the financial statements, prepared by the Management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- proper books of account of the Company have been maintained;
- appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment;

- the International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there from has been adequately disclosed;
- the system of internal control is sound in design and has been effectively implemented and monitored;
- there is no doubt, whatsoever, upon the Company's ability to continue as a going concern.

As required under the BSEC directives, the Directors further confirm that:

- The CEO and CFO have certified to the Board that they have reviewed the financial statements and affirmed that these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.
- The CEO and CFO have certified to the Board that they have reviewed the financial statements and affirmed that these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards and applicable laws.
- The CEO and CFO have further certified to the Board that there are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or in violation of the company's codes of conduct.

Retrospective Tax Demand by LTU-NBR

The VAT and SD demand of BDT 1,924 crore was a claim retrospectively imposed upon the Company on 23rd November 2013 in respect of the Bristol and Pilot cigarettes in the low segment. Subsequently, LTU-VAT recalculated and issued the new demands of BDT 1,780 crore on 12th April 2016 following the order of the Honourable High Court Division passed on 6th March 2016.

The very basis of the demand was based on competitor's complaint that BATB was selling products of higher quality in low segment. Pursuant to the competitor's complaint LTU-VAT conducted a chemical test at Bangladesh Council of Scientific and Industrial Research (BCSIR) to determine the quality of our brands Pilot and Bristol (low segment brands) with our medium segment brands. It is worth mentioning that despite there being no reference of chemical test in the VAT law, LTU conducted this test only for BATB's products and none from the competitors. The test concluded that Pilot and Bristol were similar to our medium segment Brand-Star, in quality. It should also be considered that although the then Commissioner of LTU's sent a letter dated 24 February 2013 to NBR, mentioning that as there is no proof of collection of medium segment VAT and SD by BATB from the consumers then any retrospective VAT claim (additional) for the same would be of no legal standing and against the principles of natural justice.

It may be mentioned that the Company, after getting VAT-1 duly approved by LTU of NBR each year, sold Pilot and Bristol brands in the market at their approved price. The Brand pilot is still being sold by the Company in the low segment after VAT -1 approval from LTU of NBR till date. The brand Bristol has been discontinued by the Company as per verbal request of NBR, Chairman.

An opinion was sought from the Ministry of Law by NBR and they opined that there cannot be any retrospective VAT claim under the scope of the VAT Act. They have confirmed that since BATB did not collect the VAT and SD of medium segment from the consumers, therefore, LTU- cannot impose any retrospective VAT and SD claim on BATB. In accordance with the approval given by NBR for Pilot and Bristol, BATB had sold the products in the approved low segment.

However, a Public Interest Litigation was filed to stay the consideration of Ministry of Law's opinion by NBR. This PIL was filed by an individual named Dr. Moshir Rahman, a Professor by profession. The petitioner has now withdrawn the case and as such there is no legal bar on NBR to consider the opinion of Ministry of Law.

It may also be mentioned here that there was a Supreme Court order to conduct the chemical tests for all the available cigarettes in the Bangladesh Standards and Testing Institution (BSTI) as they are the only competent authority as per law. In accordance with the said Supreme Court order the chemical test of our products were conducted recently and the report is clearly different from that of BCSIR on the basis of which LTU-VAT had initiated the demands. BSTI report clearly shows that none of the cigarette brands are similar to each other. Therefore, the very basis of the demands and the allegation of false price declaration is now baseless in the light of the BSTI chemical test report. The matter is now before the Appellate Division for admission hearing.

The Board feels positive about the outlook of the Honorable Prime Minister and Finance Minister in order to reach a solution of this long outstanding issue.

Other Regulatory Disclosures

- The Company is aware of its various risks and concerns of regulatory bodies. Financial risk management has been disclosed under note 36.B. of the financial statements
- All transactions with related parties have been made on a commercial basis and the basis was the principle of "Arm's Length Transaction". Details of related party and transactions have been disclosed under note 37 of the financial statements.
- The Company's IPO was made during inception. No further issue of any instrument was made during the year.
- From inception, the financial results of the Company have continued to grow as reflected in the yearly financial statements of the Company.
- As per IAS 1 Presentation of Financial Statements, no items of income and expense are to be presented as 'extraordinary gain or losses' no 'extraordinary gain or loss' has been recognized in the financial statements.



- No significant variations have occurred between quarterly and final financial results of the Company during 2016.
- During the year, the Company has paid a total amount of BDT 90,000 as Board meeting attendance fees. The remuneration of Directors has been mentioned in Note 37 of the Financial Statements.
- All significant deviations from the previous year in operating results of the Company have been highlighted and reasons thereof have been explained.
- The key operating and financial data for the last five years have been disclosed in the Directors' Report.
- The Company has proposed cash dividends for the year 2016.
- During 2016, a total of 12(twelve) Board meetings were held, which met the regulatory requirements in this respect. The attendance records of the Directors are shown in Annexure-1 to this report.
- Shareholding patterns of the Company as on 31 December 2016 are shown in Annexure-1 to this report.
- The Directors' profiles have been included in the Annual Report as per BSEC Guidelines.

Corporate Governance Compliance Statement

BATB believes that enriched corporate governance contributes to the long term success of a company and creates trust and engagement between the company and its stakeholders. Accordingly, the Board of Directors and Management are committed to continuously striving for the highest standards in governance to ensure that the business and its affairs are in strict adherence to the doctrine and principles of sound governance such as integrity, transparency, accountability and responsible business conduct to safeguard the interests of its shareholders and stakeholders. It is the responsibility of the

Company Secretary, being the highest governance official in the Company, to ensure effective compliance of rules and regulations in this respect.

As part of its corporate policy, BATB always strives for maximizing its shareholders' value and benefit. In doing so, the Company is committed to maintaining high standards of Corporate Governance. The Company's Corporate Governance framework is directed towards achieving its business objectives in a manner that is responsible and in accordance with its high standards of honesty, reliability, transparency and accountability. The essential elements that define effective corporate governance in the Company are outlined in the Corporate Governance Statement which is appended in this Annual Report. The contents in the statement further expand on the broad practices in BATB. All the employees are expected to live up to these principles and guidelines which are communicated regularly throughout the Company in the form of various training and awareness programmes.

In this respect, we have the pleasure to confirm that the Company has, complied with all the necessary guidelines under BSEC Notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated 7 August 2012. The Compliance Report along with the necessary remarks and disclosures is appended in this Annual Report for the year 2016. Further, a Certificate of Compliance required under the said Guidelines, as provided by M/s. Al-Muqtadir Associates, Chartered Secretaries, is also annexed to this report.

Auditors

As per requirements of law, the current statutory auditors KPMG Rahman Rahman Haque, Chartered Accountants, will retire at the 44th Annual General Meeting. However, they have expressed their willingness to be re-appointed for the year 2017. Based on suggestions of the Audit Committee, the Board recommends the re-appointment of KPMG Rahman Rahman Haque, Chartered Accountants as the statutory auditors of the Company for the year 2017 and continuation upto the next AGM at a fee of Tk. 900,000 (Taka Nine lacs) only and requests the Shareholders to approve the appointment.

Business Commitments

BATB values and continuously updates its corporate strategies and commitments. It was more than 100 years ago, when the Company established itself on this land of opportunities and possibilities - Bangladesh. Since independence, BATB has demonstrated an unwavering dedication to the country and its people and this commitment is what sets BATB apart from any other business entity. This uniqueness is reflected through the passion and dedication of its employees and business partners that has brought BATB across the country to its today's height. BATB is listed on both Dhaka and Chittagong Stock Exchanges and is currently the highest taxpayer. In this year alone we have contributed Taka 13,631 crores in the Government exchequer in the form of supplementary duty, value added tax, income tax, custom duty and other levies. BATB has always cherished and shall continue to value its treasured relationship with the Government of Bangladesh, esteemed shareholders and other stakeholders of the Company.

Awards & Achievements

Our stupendous performance and management in the year 2016 has led us to achieve some prestigious awards from different credible organisations locally and internationally. The Company has been awarded with the Golden Leaf Award for 2016, in recognition of its 'consistent delivery of excellence' and also received Asia Pacific Regional Award 2016 for being the 'best market in the Asia Pacific Region' from BAT Group. In 2016 the Company was also awarded with the following recognitions:

- Highest Tax Payer Recognition by National Bureau of Revenue (NBR)
- ICSB National Award for Corporate Governance Excellence
- ICMAB Best Corporate Award 2015
- 16th ICAB National award for best presented Annual Report
- Asia Best Employer Brand Award 2016 by Chief Marketing Officer (CMO) Council Asia
- Best Employer Award by Bdjobs.com
- 20 Local Government Awards (1st Prize) for Afforestation in different districts (Details of these awards are mentioned in the achievements section of this Annual Report)

Expectations in 2017

BATB has an ambition to provide the best quality products to its numerous customers and brand users. Now, looking ahead in 2017 and beyond, BATB wishes to go ahead with the same zeal that it had started 100 years ago, to be the number one locally listed Company in turnover, in partnering with the national exchequer and in assisting the people to operate as a social responsible Company. Moreover, the Company's initiatives for 2017 will bring about a positive change across the nation with various initiatives directed towards poverty alleviation, gender equality, human development and well-being, partnership in green cultivation practices, prevention of arsenic contamination, forest preservation, and extending sustainable modern energy in off-grid areas.

Acknowledgements

The performance of BATB in 2016, even with so many challenges confronted, demonstrates the determination of the Board, Management and overall the people in the Company. The outstanding achievement of the year is more than a tribute to the countless brand users of the Company and its numerous stakeholders'. And with that conviction at the background the Board of Directors firmly believes that BATB has the necessary strengths, resources and commitments to further propel the Company to newer heights. The Members of the Board would like to place on record their high appreciation to the valued Shareholders and all other Stakeholders of the Company for their persistent support and guidance. The



Board would also like to thank each and every customer for their continued support and for making Company brands their preferred choices. The Board also recognises that its journey and accomplishments during the year was possible because of the cooperation, positive support, and guidance that it had received from the Government of Bangladesh, particularly the Ministry of Finance, Ministry of Commerce, Ministry of Agriculture, Ministry of Labour and Employment, Ministry of Forest & Environment and Ministry of Housing & Public Works, National Board of Revenue, Board of Investment, Investment Corporation of Bangladesh, Bangladesh Securities and Exchange Commission, Stock Exchanges and other numerous stakeholders. The Board would like to appreciate the support from BATB's bankers, insurers & financial institutions, vendors, the Press & Media, business partners and all of our employees. Accordingly, the Board offers its utmost gratitude to them.

We also extend our warmest thanks to the management and employees for being the essential part of BATB during the year. It was their unrelenting commitment, dedication and diligence throughout the year that led to the Company achieving the results, awards and accolades in 2016.

We are proud of you all and look forward to your continued support as we march ahead to take BATB forward as a leading player within the Bangladesh business community.

On behalf of the Board of Directors

sd/-

Golam Mainuddin
Chairman

27 February, 2017

sd/-

Shehzad Munim
Managing Director

27 February, 2017

