

DIRECTORS' REPORT 2018

It is a pleasure and a privilege on the part of the Board of Directors to present the Directors' Report and Auditor's Report together with the audited financial statements of British American Tobacco Bangladesh Company Limited (BATB) for the year ended 31 December 2018.

It is pleasing to state that BATB witnessed yet another successful year in 2018. The Company made steady progress across multiple areas during the year, despite persistent economic challenges and a regulatory backdrop. Some of the key challenges faced by the Company during the year were operational and regulatory challenges, as well as an uneven competitive platform due to growth of illicit cigarettes. Your Company however continued to remain resilient and reported sound results for the year, while contributing to value enhancement for all stakeholders.

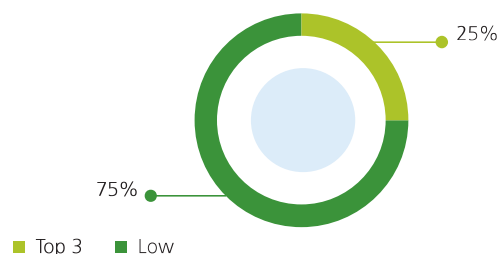
INDUSTRY & COMPANY PERFORMANCE

Economic & Industry Overview

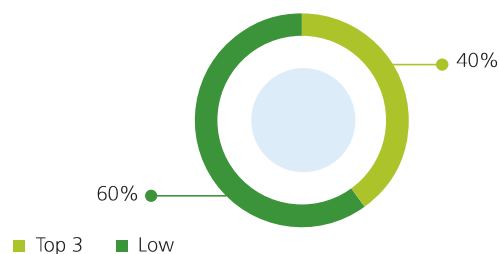
In 2018, Top 3 segments continued growth momentum which helped the favourable price indexing between Top 3 and Low segment also focused brand initiatives by BATB. Low segment price increased by +30% which put consumer affordability under severe stretch resulting into 26% Low segment volume decline vs last year (driven by 49% drop in post budget 2018). The decline in Low segment has offset the gains in Top 3 segments and overall legal industry volume declined by 9% vs last year (Jul-Dec'18 total industry decline was 17% vs Jul-Dec'17). With Low segment consumer affordability stretch, in post budget 2018, cigarette industry experienced an upsurge of illegal brands in different forms: duty not paid & counterfeit cigarettes. This upsurge remains a clear threat for the legal industry sustainability and government revenue which has been duly highlighted to the government. In line with this, Government has conducted successful enforcements against illegal cigarettes during Q3-Q4 2018. To ensure industry sustainability, Government interventions in Factory Manufacturing Cigarette floor segment is required along with the successful continuation of initiatives against illegal cigarettes.

Segment wise volume contribution in the cigarette industry is shown below:

2017 (Jan to Dec) Volume Contribution

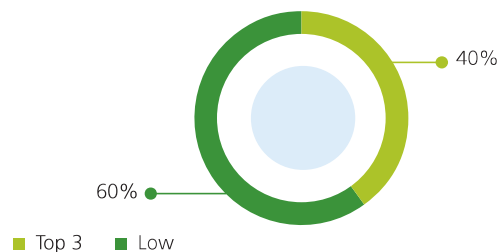


2018 (Jan to Dec) Volume Contribution

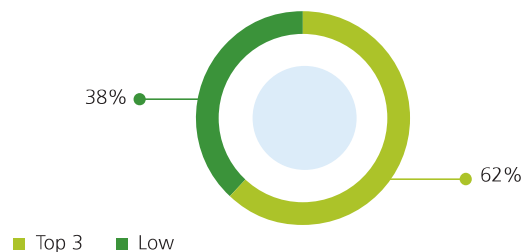


The following chart also shows cigarette industry segment wise volume contribution vis-à-vis its revenue contribution to government:

2018 (Jan to Dec) Volume Contribution



2018 (Jan to Dec) Gov. Revenue Contribution



Overall revenue growth has masked the revenue loss in Low segment where Government revenue from Low segment has declined by 30% in Jul-Dec 2018 period driven by 49% volume loss same period. Historically, Government revenue has been growing at ~17% per annum where Low segment has always been a large contributor. As we have observed 49% Low segment volume decline in Post Jun'18 price increase, we believe that to protect future industry sustainability and revenue growth from the industry, Government needs to intervene in Low segment price. If not taken care properly we foresee a decline in Government revenue in 2019/20 fiscal year. Industry Top 3 segments now generate 62% of government revenue which has increased by 41% in 2018 alone. This has helped the Government to secure +16% growth in overall revenue from cigarette industry.

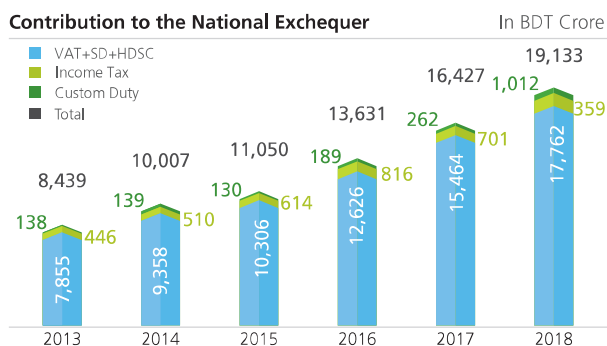
Company Performance

In 2018, our Top 3 segment brands have experienced growth over previous years through a focused business strategy that was supported by our people across all business functions. Our brand portfolio was strengthened through consumer relevant innovations and an outstanding range of consumers' preferred quality products. The focus throughout the year was to match consumer expectations with the right offers across all segments. A review on the performance of each of the cigarette segments is as follows:

- ▶ In 2018, Benson & Hedges expected volume growth vs 2017. This brand is available in the Duty free shop at around \$19.00 per carton and our local price is \$25.00 per carton. As such any future price is required to be done carefully to avoid influx of non duty paid cigarette in the country.
- ▶ John Player Gold Leaf registered +6% volume growth in 2018 vs last year riding on successful range activations. BATB is committed to continue investment behind marketing initiatives to sustain the growth.
- ▶ In June 2018, Government had taken +7% price increase in Medium segment and BATB complied with the price changes. However, as the competition Medium price to consumer remained at pre-price increase level and to protect our volume, BATB Medium prices matched competition Medium consumer price from October onwards. As a result, STAR experienced double-digit volume growth through improft value equation among relevant consumers and protected our segment share.
- ▶ In 2018, legal Low segment brands suffered significantly for illegal cigarettes. The company remains committed in maintaining the consumers' preferred quality of its low segment brands and meeting the needs of the consumers. BATB supports Government interventions and activations against illegal cigarettes with available market information and continuously highlighting the risk of potential revenue and profit loss for both Government and other legal industry operators.

BATB's Contribution to the National Exchequer

In 2018, the Company contributed BDT 19,133 crores to the Government exchequer as Value Added Tax (VAT), Supplementary Duty (SD), Health Development Surcharge (HDSC), Income Tax and Custom Duty. This represents an increase of BDT 2,971 crores over the last year. BATB alone contributed as much as 73% of the total VAT, SD and HDSC collected from the cigarette industry. Going forward, the Company aim to support the Government's proposals that enable the establishment of a sustainable level of tax contribution to the national exchequer, while ensuring sustainable growth for the industry and also promoting a level playing field among market players. Since this is a matured industry, it must not be stretched too far without considering the market dynamics and its ability to absorb price elasticity and avoid growth of illicit and smuggled cigarettes.



The Company recognises the 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 preferential 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 manufacturer, it significantly impacts shareholder returns, while also taking away the incentive for others in the industry to be listed, thus representing a hindrance for further development of the capital markets. The Company believes that the Government will reinstate differential corporate tax rate structures in the upcoming National Budget. Cigarette is already highly taxed (in the form of Supplementary Duty and VAT), and there is no instance of discriminatory corporate tax rates anywhere in the world for listed tobacco companies. We continue to appeal to the regulators for a reversal of position in the next National Budget.

PRODUCTIVITY

Over the years, our Company's manufacturing capacity was scaled up and also modified to cater to different pack formats to meet the consumers demand and expectation. This required significant investments and meticulous planning for meeting the growing demands of a diverse market. In this context, a series of productivity initiatives were undertaken to improve machine efficiency over the last couple of years. A structured approach on machine maintenance resulted in world-class operational efficiency standards at our Company. 2018 also focussed on our leaf growing area which was revamped through various productivity initiatives to process incremental leaf volume, while ensuring the right quality and also limiting additional land requirements.

Cost of Goods Sold and Profit Margins

Overall volumes declined largely due to reduction in the low segment, which was partially offset by growth in the top-3 segment. Through product mix improvement, the Company was able to support growth in profitability. Cost of goods sold was flat due to lower volumes, better mix and productivity savings initiatives. This, paired with the product mix impact, enabled our Company's operating margin growth, which was 4% higher than in 2017.

SUSTAINABILITY

Preservation of the environment, together with our focus on embracing ecological initiatives that have a positive impact on climate change, have always been of critical importance for Bangladesh. This is accentuated, considering the fact that various naturalists' reports indicate that Bangladesh will remain a vulnerable country to the impact of climate change in the decades ahead. In this context, BATB believes that business has a key role to play in helping the society to achieve the necessary sustainable balance of economic growth, environmental protection and social progress in ways that build value for all stakeholders.

The Company is a pioneer in corporate social investments in Bangladesh and is continuing with its three flagship programs, viz. Bonayan, Probaho and Deepto, to create a lasting positive impact in the communities around which we operate and in the extended environment. Our afforestation program, 'Bonayan', took root in 1980 and, since then, the Company has distributed around 100 million saplings free of cost in and around our operational areas, including 4.2 million saplings in 2018. Today, BATB's afforestation platform is considered to be the largest private sector-driven afforestation program of the country. The Company is committed to continue with this program to support the Government's broader initiatives to combat the adverse effects of climate change. Over the years, the Company has received several national and international awards and accolades for its afforestation drive across the country.

Millions of people in Bangladesh face scarcity of safe drinking water due to arsenic contamination. Responding to this pressing need, BATB has taken up a project under 'Probaho' that supplies more than 400,000 litres of potable water that is free of arsenic and other contaminants, especially in arsenic-prone rural communities, every day. This program is aligned with the Government's aim to achieve the Sustainable Development Goal of securing sustainable access to safe drinking water. So far, 78 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 access to pure drinking water for nearly 200,000 people every day.

To complement the Bangladeshi Government's efforts in the renewable energy sector, BATB has undertaken a project to install solar home systems under 'Deepto' in villages that are located in remote, off-grid areas of Chittagong Hill Tracts. Under Deepto, BATB has supplied as many as 2,330 units of solar home systems in remote villages to energise communities and empower people in Bandarban and Khagrachari districts, giving more than 13,000 rural people their first access to electricity at home.

BATB has an effective partnership with farmers in some part of the country through its various agricultural sustainability programs aligned with good agricultural practices (GAP) and standards. The Company's leaf function starts with the hard work of around 38,000 registered farmers within the rural communities. BATB's contract farming system has been established as a proven model and the Company proactively sets high standards in best agricultural practices. These initiatives include green manuring with Dhaincha (*Sesbania Aculeata*), which is an effective approach to enrich soil health and fertility. Dhaincha is also promoted as an alternate fuel in leaf growing areas. Every year, the Company distributes around 250 MT of Dhaincha seeds free of cost among the farming community.

In 2005, BATB established the country's first Integrated Pest Management (IPM) Club in collaboration with the Department of Agricultural Extension (DAE) of the Government of Bangladesh to support farmers in their quest for better crop management practices. For the past couple of years, BATB has established a number of IPM clubs across tobacco growing locations with the aim of driving farmers' education/awareness regarding non-chemical alternatives for pest management, and also the safe use of agrochemicals. The primary objective of IPM clubs is to reinforce Governmental initiatives to reduce the use of agrochemicals. As a result of these ongoing education programs, farmers have become more cautious and conscious about the use of chemical pesticides in farming and have adopted the use of sustainable alternatives. The Company has established 75 IPM clubs as a platform for sharing agricultural knowledge with the farm communities. The Company has been awarded with the Asia Responsible Entrepreneurship Award 2018 in the 'Social Empowerment' category by Enterprise Asia for its IPM Club initiative.



BATB, as a responsible corporate, embraced the opportunity to work for uplifting farmer livelihoods for fulfilling the agricultural sustainability agenda, in collaboration with the IFMC project of DAE. BATB availed existing facilities and support from DAE to train leaf managers on IFMC from 2016, and a total of 80 people have been trained in three batches on IFMC till 2018. Improving soil fertility and water conservation comprise integral elements of good agricultural practices. The Company provides the technical know-how to install compost pits in farmer homesteads. 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 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 with Company policies. These principles symbolise our commitment to market our products appropriately and only to adult users, in compliance with local laws and regulations. We have successfully complied with the local regulations regarding the Graphical Health Warning (GHW) on our cigarette packets. We believe that GHW must be implemented on all tobacco products to ensure a level playing field. However, we also believe that regulations pertaining to GHWs should not be disproportionate, otherwise it will not deliver the intended results and will significantly erode our Intellectual Property Rights.

The Company has an economic impact both in terms of revenue generation for the Government as well as employment generation, as it employs around 1,500 employees directly, while also supporting indirect employment for as many as 50,000, comprising farmers, distributors and suppliers, and over 13 lakh retailers. Hence, the Company seeks that the Government takes an inclusive and participative approach on tobacco regulations so that regulatory policies reflect the views of all relevant stakeholders and are practical and enforceable.

MANUFACTURING CAPACITY IMPROVEMENT

The company from time to time had to go for capital investment to increase the manufacturing and warehouse capacity in the different locations of the country keeping in mind the quality expectation of consumer and customer. These initiatives had been found to be extremely useful relating to productivity improvements, efficiency and helped the company to export the finished products and to meet the local market demand.

Further this process is highly appreciated by the govt. to diversify the export basket and earn much needed foreign exchange for the country.

WINNING ORGANISATION

The outstanding performance of BAT Bangladesh in 2018 can be credited to our committed and talented people, and the efficiency of our teams. BATB's people resources 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 energising workplace environment and involving employees within the core business strategies. Our constant resilience to tackle challenges with the right spirit has transformed BATB into an organisation that is vibrant and dynamic.

BATB focuses on providing learning and growth opportunities to its people with the aim of developing leadership capabilities to assist them to realise their full potential. This is done by providing them with the right opportunities to learn from their leaders and through applying BAT's globally-recognised learning and development platforms. Today, the organisation continues to provide people with an environment that is open to their questions and is highly responsive to talent development. BATB focuses on building functional skills and also provides hands-on experience to groom individuals as leaders. With the aim of sustaining the present agenda for talent, 138 employees were hired, 110 employees were transferred to other roles and 110 were promoted. International assignments were given to 20 Bangladeshi managers, taking the total count of Bangladeshi managers posted internationally to 34 across countries like Australia, Hong Kong, Indonesia, Singapore and the UK. Additionally, 281 employees were provided with leadership and functional skills training. BATB's factory employees went to Poland, Singapore, Fiji to give hands on training to there employees.

The 15th edition of 'Battle of Minds' (BoM), the Company's flagship talent promotion program, was launched for universities all across Bangladesh. The program aims to augment and develop the capabilities of fresh graduates to a high degree of proficiency to prepare them as business professionals. Inspired by the success of Battle of Minds in Bangladesh, in 2018, the platform was adopted by BAT Group as its first global corporate talent platform and launched simultaneously across 40 markets. Aligned with the innovative challenges offered every year, this time the participants were given a glimpse of the social start-up infrastructure of the country and invited to propose fresh solutions for a socially sustainable business environment in Bangladesh, aligning with the fulfilment of Sustainable Development Goals (SDGs). The students were also given a unique opportunity to collaborate in a session with Access to Information (a2i), the premier innovation hub of the Government of Bangladesh, in an exciting workshop and sessions hosted in the Prime Minister's Office. Before that, BoM alumni, with several BATB employees, visited some of the top universities of the country with roadshows, taking the stage to enlighten students about the competition and its various rounds. With comprehensive online campaigns, BoM reached out to an audience

of 1.3 million via extensive social media outreach. Through this, the number of participants exceeded a record 3,300 students across 42 universities in 2018, with BATB determined to leave an imprint in nation-building with the help of its Battle of Minds, and the success stories of its employees. Furthermore, the champion team from Bangladesh consisting of three students from the Institute of Business Administration, University of Dhaka, triumphed over the Asia Pacific and Middle East regional championships, to win the Global Final hosted at the BAT headquarters in London, raising the Bangladesh flag with pride to become the first ever global champion of Battle of Minds.

BATB takes on multiple initiatives in order to create a workforce that is highly engaged and strives to bring people together in achieving unified 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.

ENVIRONMENT, HEALTH AND SAFETY

BATB is fully committed to ensure safety and health of its people who come our premises, as well as minimise impact on the environment. To raise awareness among employees, the Company carried out various kinds of communication and awareness programs for managers, employees and contractors throughout the year. A week-long campaign titled 'EHS Awareness Week' was arranged focusing on safe work practices on the production floor, in warehouses and in offices.

THE BOARD OF DIRECTORS

The Board of Directors of BATB comprises a group of corporate specialists, highly qualified Senior Government officials and ex-Government officials. It is a combination of nine professionals of whom seven are Non-Executive Directors, including two Independent Directors and most of whom are Fellow Chartered Account with high public standings. Ex-Senior Government officials. The Board members are responsible for setting the direction in attaining the Company's business objectives, while also safeguarding the interests of shareholders and numerous other stakeholders. Mr. Md. Azizur Rahman FCS, Head of Public Affairs & Company Secretary, functions as the Secretary to the Board Committees. 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. Mohammad Moinuddin Abdullah**

Non-Executive Director

(w.e.f 11 March 2019)

- ▶ **Mr. A.K.M Aftab Ul Islam**

Independent Director

(Appointed w.e.f 11 March 2019)

- ▶ **Mr. Abdul Halim**

Non-Executive Director

(Appointed w.e.f 6 September 2018)

- ▶ **Mr. Mikail Shipar**

Independent Director

(Resigned w.e.f 11 March 2019)

- ▶ **Mr. Kazi Sanaul Hoq**

Non-Executive Director

- ▶ **Mr. K. H. Masud Siddiqui**

Independent Director

(w.e.f. 17 October 2018)

- ▶ **Ms. Tahmina Begum**

Non-Executive Director

- ▶ **Mr. William Pegel**

Finance Director

Mr. Jalal Ahmed and Mr. Muhammad Abdullah resigned from the Board with effect from 15th April 2018 & 6th September 2018 respectively. The Board of Directors would like to place on record the excellent contributions of Mr. Muhammad Abdullah and Mr. Jalal Ahmed towards improvement of the Company and in taking keen initiatives in different issues during their tenure as a Director of the Board.

DIRECTORS PROPOSED FOR RE-ELECTION

Out of the 9 (nine) directors in the Board, Mr. Masud Siddiqui and Mr. Aftab Ul Islam being appointed as Independent Directors, they will not retire by rotation. However, their appointment as independent director shall be confirmed at the ensuing Annual General Meeting as required by under the BSEC Code. Mr. Moinuddin Abdullah and Mr. Abdul Halim were appointed in the Board as non-executive directors after the last Annual General Meeting and, accordingly, they will retire in the ensuing AGM. Both Mr. Sanaul Hoq and Ms. Tahmina Begum were re-elected by rotation



at the last Annual General Meeting. Of them Mr. Sanaul Hoq being senior will retire by rotation at the ensuing AGM. All the retiring directors being eligible, they offer themselves for re-election at this meeting.

In accordance with Article 99A of the Articles of Association of the Company, Mr. Golam Mainuddin, having reached the age above 65 years, shall retire at the upcoming Annual 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 47th Annual General Meeting to be held in 2020.

BOARD COMMITTEES

There are currently three functional Committees of the Board, namely: Board Audit Committee, Board Nomination & Remuneration Committee and Board CSR Committee, the details of which are as follows:

Audit Committee

The Board has constituted an Audit Committee as per the Bangladesh Securities & Exchange Commission directives. As required, the Report of the Audit Committee is included in this Annual Report. In 2018, the Committee comprised of Mr. Mohammad Moinuddin Abdullah (Chairman of the Committee effective from 3rd January 2018), Mr. Golam Mainuddin, Mr. K. H. Masud Siddiqui and Mr. Kazi Sanaul Hoq. All the members of the Committee are Non-Executive Directors and the Chairman of Audit Committee is an Independent Director. The Audit Committee met four times during the year 2018. Mr. Md. Azizur Rahman, Company Secretary, served as the Secretary to the Audit Committee. Our Internal Audit & Compliance Manager, Mr. Md. Zahidul Islam, 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 discussed the audit findings and risk assessment.
- ▶ Recommend 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 the Management and monitored the status of implementation of the recommendations thereon.
- ▶ Reviewed and considered the report on matters as required under the BSEC Guidelines.
- ▶ Reviewed the loss and write-off report.
- ▶ Reviewed the laws of the country in relation to business operations.

Board Nomination & Remuneration Committee

The Board has constituted a Nomination & Remuneration Committee as per the Bangladesh Securities & Exchange Commission directives. As required, the Report of the Nomination & Remuneration Committee is included in this Annual Report. In 2018, Mr. K. H. Masud Siddiqui served as the Chairman of the Committee. Currently, the Committee comprises of Mr. K. H. Masud Siddiqui (Chairman of the Committee), Mr. Golam Mainuddin and Mr. Kazi Sanaul Hoq. All the members of the Committee are Non-Executive Directors, and the Chairman of the Nomination & Remuneration Committee is an Independent Director. The Nomination & Remuneration Committee met one times during the year 2018. Mr. Md. Azizur Rahman, Company Secretary, served as the Secretary to the Nomination & Remuneration Committee.

CSR Committee

The Board Corporate Social Responsibility (CSR) Committee comprises of five Directors, of which, an Independent Director is the Chairman. The constituents of the Committee are Mr. Mikail Shipar (Chairman of the CSR Committee effective from 3rd January 2018), Mr. Mohammad Moinuddin Abdullah, Mr. Md. Abdul Halim, Ms. Tahmina Begum and Mr. K.H. Masud Siddiqui and Mr. Shehzad Munim. The purpose of the Board CSR Committee is to ensure long-term sustainability of the Company's aspirations and the management of the Company's CSR initiatives. The initiatives are managed in a way that secures business stability and sustains the positive image and reputation of the Company, while also establishing the Company's commitment to the nation at large. The CSR Committee met two times in 2018. The initiatives are aligned with the SDGs, and we are contributing to fulfil the Government's commitment and for BATB's shareholders 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

As there is always a degree of uncertainty in our operations, 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. The Company then 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 ON THE 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:

GOVERNANCE

- ▶ The financial statements, prepared by the Management of the Company which was scrutinised by the external auditors, 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 therefrom has been adequately disclosed;
- ▶ The system of internal control is sound in design and has been effectively implemented and monitored; and
- ▶ 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 code of conduct.

RETROSPECTIVE TAX DEMAND BY LTU- NBR

BATB is the highest tax contributing company in Bangladesh and ensuring compliance with the law is its highest prerogative. Nevertheless, on 23rd November 2013, Large Tax Unit (LTU) of National Board of Revenue (NBR) served a retrospective VAT and SD demand for BDT 1,924 crore upon BATB for selling its products Bristol and Pilot in the low segment instead of medium segment. The claim was initiated based on a Competitor's complaint.

The company had closely monitored the case with utmost care with the per view of the law and you will be happy to know the Highest Court of Bangladesh has confirmed that allegations against BATB was unfounded.

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.i 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 40 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' in the financial statements. Accordingly, 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 2018.
- ▶ During the year, the Company paid a total amount of BDT 77,000 as Board meeting attendance fees. The remuneration of Directors has been mentioned in Note 40 of the Financial Statements.
- ▶ All significant deviations from the previous year in the 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 and stock dividend for the year 2018.
- ▶ During 2018, a total of 9 (nine) 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 pattern of the Company as on 31 December 2018 are shown in Annexure-1 to this report.
- ▶ Directors' profiles have been included in the Annual Report as per BSEC Guidelines.
- ▶ Rights and interests of the minority shareholders have been duly protected by means of transparent operation and disclosure of material information of the company.
- ▶ No bonus of stock dividend has been declared as interim dividend during the year.

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

BATB believes that a nurtured governance regime is essential to success and sustainability. Accordingly, the Board of Directors and Management are pledge-bound to continue the implementation of the highest standards of governance at the Company through a culture of accountability, transparency, ethical business conduct and well-understood policies and procedures. The Board of Directors of BATB has always played a pivotal role in meeting all stakeholders' interests and is committed to upholding the same in the future as well. It is the responsibility of the Company Secretary, being the highest governance official in the Company, to



ensure effective compliance of rules and regulations and proper timely disclosures in this respect.

The Company's Corporate Governance framework is directed towards achieving its business objectives in a manner that is responsible and in accordance with the high standards of honesty, reliability, transparency and accountability. As part of its governance pursuits, the Company emphasises on stronger diligence to business, all operations being apparent and invites larger involvement of the stakeholders. The essential elements that define effective corporate governance at 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 at BATB. All 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 CG Notification No. BSEC/CMRRCD/2006-158/207/Admin/80 dated the 3rd June 2018. The Compliance Report along with the necessary remarks and disclosures is appended in this Annual Report for the year 2018. Further, a Certificate of Compliance required under the said CG codes, 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 A. Qasem & Co., Chartered Accountants, will retire at the 46th Annual General Meeting. They have expressed their willingness to be re-appointed for the year 2019. Based on suggestions of the Audit Committee, the Board recommends the re-appointment of A. Qasem & Co., Chartered Accountants as the statutory auditors of the Company for the year 2019 and continuation upto the next AGM at a fee of Tk. 950,000 (Taka Nine lacs fifty thousand) only and requests shareholders to approve the appointment. The shareholders are also requested to approve Al Muqtadir & Associates as Compliance Auditor.

BUSINESS COMMITMENTS

BATB values and continuously updates its corporate strategies and commitments. It was more than 108 years ago, when the Company established itself on this land of opportunities and possibilities - Bangladesh. Since independence of Bangladesh, 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 taken BATB to great heights. BATB in Bangladesh is listed on both Dhaka and Chittagong stock exchanges and is currently the highest taxpayer. In this year alone, we have contributed Taka 19,133 crore to 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 2018 has led us to achieve some prestigious awards from different credible organisations locally and internationally. In 2018, the Company was awarded with the following recognitions:

1. Highest Tax Payer Recognition by National Board of Revenue (NBR)
 2. 18th ICAB National award for best presented Annual Report
 3. Life Time Achievement Award by Asia's Best Leadership Awards to Mr. Golam Mainuddin
 4. ICMAB Best Corporate Award 2017
 5. ICSB National Award for Corporate Governance Excellence
 6. SAFA Awards 2017 for Corporate Governance
 7. Asia Responsible Entrepreneurship Awards for Green Leadership – Deepto
 8. Bangladesh Supply Chain Excellence Award 2018 in 'Excellence in Supply Chain Talent Development'
 9. CMO Asia Award in 'Community Development' Category – Deepto
 10. CMO Asia Award for Best CSR Practices'
 11. Top Employer Award from Top Employers Institute
 12. Innovation Award for SDG Inclusion by BBF and Mastercard – Probaho
 13. Dream Employer to work for 2018
 14. Best HR event of the Year 2018
 15. Mubina Asaf, Head of Legal and External Affairs - Corporate Excellence Award for her Leadership by CMO Asia
 16. Diversity Impact Award 2018
 17. 23 Local Government awards for Afforestation in different districts
- (Details of these awards are mentioned in the achievements section of this Annual Report)

MANAGEMENT DISCLAIMER FOR IT SECURITY

BAT Bangladesh has been using some applications software packages for its day to day activities. To the best of knowledages these software packages are fully immune and tested against any external hacking. The Cyber Security platform is being periodically checked by inhouse Information & Technology Specialist Team.

ACKNOWLEDGEMENTS

The performance of BATB in 2018, even with many challenges confronted, demonstrates the determination of the Board, Management and the people in the Company. The outstanding achievement of the year is more than a tribute to the countless brand users of the Company

GOVERNANCE

and its numerous stakeholders. And it is with this conviction that 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 the Company's 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 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, Bangladesh Investment Development Authority, Bangladesh Securities and Exchange Commission, Stock Exchanges and other numerous stakeholders. The Board would also like to appreciate

the support from BATB's bankers, Bangladesh Bank insurers and financial institutions, vendors, the press and media, business partners and all our employees. The Board offers its utmost gratitude to them.

We also extend our warmest thanks to the management and employees for being an essential part of BATB during the year. It was their unrelenting commitment, dedication and diligence throughout the year that led the Company to achieving results, awards and accolades in 2018.

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 in Bangladesh's business community.

On behalf of the Board of Directors,

11th March 2019

Sd/-
Golam Mainuddin
CHAIRMAN

Sd/-
Shehzad Munim
MANAGING DIRECTOR



MANAGEMENT DISCUSSION & ANALYSIS

(a) Accounting policies and estimation for preparation of financial statements;

The financial statements have been prepared in accordance with the (International Financial Reporting Standards (IFRS), the Companies Act, 1994, the Securities and Exchange Rules, 1987, and other applicable laws and regulations in Bangladesh. Cash flows from operating activities are prepared under direct method as prescribed by the Securities and Exchange Rules, 1987.

The financial statements have been prepared on a historical cost basis, except for debt and equity financial assets and contingent consideration that have been measured at fair value. The financial statements provide comparative information in respect of the previous period.

In January 2018, the Institute of Chartered Accountants of Bangladesh (ICAB) has adopted International Financial Reporting Standards issued by the International Accounting Standards Board as IFRSs. As the ICAB previously adopted such standards as Bangladesh Financial Reporting Standards without any modification, this recent adoption will not have any impact on the financial statements of the Company going forward.

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. However, the Company has not early applied the following new standards in preparing these financial statements.

The detail of the significant accounting policies are available in note 6 of the financial statement.

(b) Changes in accounting policies and estimation

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

The financial effect of adopting IFRS 15 and IFRS 9 as at 1 January 2018 is depicted in Note 6T(i) & 6 T (ii) of the financial statement respectively.

(c) Comparative analysis of financial performance and operational performance

Financial Results (in cr.)	2018	2017	2016	2015	2014
Gross Turnover	23,312	20,414	16,563	14,371	12,673
Supplementary duty, VAT, HDSC	(17,848)	(15,218)	(12,188)	(10,382)	(9,116)
Net Turnover	5,464	5,196	4,375	3,990	3,556
Cost of Goods Sold	(2,710)	(2,718)	(2,389)	(2,121)	(1,979)
Gross Profit	2,754	2,478	1,986	1,868	1,577
Financial Cost and Other Exp	(672)	(698)	(594)	(548)	(423)
Operating Profit	2,082	1,780	1,393	1,320	1,153
Profit before Tax	1,931	1,676	1,317	1,246	1,087
Tax	(930)	(893)	(559)	(659)	(458)
Profit after Tax	1,001	783	758	587	628
EPS in BDT	166.87	130.50	126.37	97.90	104.70

Operational results	2018	2017	2016	2015	2014
Share Capital (BDT cr.)	60	60	60	60	60
No. of Employees	1,453	1,459	1,476	1,400	1,353
Total Contribution to the National Exchequer (BDT cr.)	19,133	16,427	13,631	11,051	10,007

The Company's gross turnover for the year 2018 increased by 14.2% to BDT 23,312 crore. This growth was principally driven by product mix improvement and price increase in the low-segment. The profit before tax, which increased by 15.2% to BDT 1,931 crore, reflects the impact of product mix improvement and price increases, coupled with cost savings initiatives such as productivity improvement, machine utilization and operational loss reduction. Despite the higher tax expenditure, your Company was able to deliver a 27.9% growth in profit after tax to BDT 1,001 crore during the year.

Though volumes dropped in the low segments principally on account of the Government price hike and with the growth in the top-3 segments, BATB was able to retain profit growth. Both operating and gross margins have improved, driven by better mix, productivity gains and effective cost control. Consistent growth in revenue and effectively translation of growth into profit have delivered good results over the years.

Cash flow Movement (BDT crore)

Cashflow Movement	2018	2017	2016	2015	2014
Cash generated from operating activities	1,789	1,518	1,089	1,409	879
Income tax paid	(843)	(526)	(662)	(486)	(387)

Cashflow Movement	2018	2017	2016	2015	2014
Interest paid	(45)	(19)	(3)	(13)	(16)
Net cash flows from operating activities	901	973	424	910	476
Net cash flows used in investing activities	(688)	(799)	(352)	(264)	(437)
Net cash flows used in financing activities	78	(510)	(180)	(549)	(92)
Net Increase in cash and cash equivalents	291	(335)	(108)	96	(53)
Cash and cash equivalents at 01 January	(208)	128	236	139	192
Cash and cash equivalents at 31 December	83	(208)	128	236	139

BATB has been generating cashflow from its operating activities translating the profit growth in the last 5 years. However, to support the growth momentum, and meet the consumer expectation, BATB has been investing in capital expenditure over the years.

Dividend

In view of the performance of the Company and considering the current liquidity position, the Board of Directors has recommended a cash dividend BDT 50 per share and a 1:2 bonus share as Stock Dividend amounting to BDT 3000 million for the year ended 31 December 2018, to be approved at the ensuing 46th Annual General Meeting. With this recommendation of proposed cash and stock dividend, the summary of the total dividend in 2018 is represented below:

Operational results	2018	2017	2016	2015	2014
Profit After Tax (BDT Cr)	1,001	783	758	587	628
Earnings Per Share	166.87	130.50	126.37	97.90	104.70
Final Cash Dividend (BDT Cr.)	300	360	360	330	270
Stock Dividend Ratio	1:2	-	-	-	-
Number of Shares	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Cash Dividend per Share	50	60	60	55	55
P/E Ratio (as of 04 April 2019)	27.4				
Dividend Yield (as of 04 April 2019)	1.1%				

(d) Comparison of financial performance with the peer industry scenario

BATB is the only listed tobacco company in Bangladesh. Also, the nature of the tobacco business is different from the other industries and hence it is not possible to compare the financial position and cash flow with peer companies.

(e) Financial and economic scenario of the country and the globe

Global Economy

Global economic growth is expected to ease in 2019, from 3.8% in 2018. Some of the macro-trends impacting global growth include the protracted trade dispute between the US and China, uncertainty over the exit of the United Kingdom from the EU grouping, recalibration of economic growth in China and continued volatility in oil prices. US, the world's biggest economy is expected to have a moderate growth. However, consumer spending is expected to continue to remain robust. Expected downside risks from a more pronounced global growth slowdown than currently forecast, and associated declines in commodity prices would negatively affect US producers. US-China tensions are the foremost foreign policy concern. Europe will likely to have a slower growth than 2018. It is expected that the economy will start showing signs of stabilization supported by robust consumer spending and improving business investment

Bangladesh Economy

Bangladesh's GDP growth for financial Year 2019 is line with the Government projection, driven by strong domestic demand – particularly private consumption – and a recovery in exports, albeit mild. GDP growth in Financial Year 2018 was 7.8%. A strong turnaround in remittances after a two-year decline should support private consumption. Agricultural output is recovering after weather-related disruptions in Financial Year 2018, which should also boost consumption; industry and services remain strong.

Import growth is likely to be moderate in Financial Year 2019, after having surged to 25.2% in Financial Year 2018 on higher demand for capital goods, export-related intermediate goods and food grains. While capital-goods imports are likely to remain high, it is expected imports of intermediate goods to moderate after substantial inventory build-up last year. Export growth picked up to in H1- Financial Year 2019 driven by higher garment exports.

Remittance growth is likely to remain strong in FY19, driven by rising crude oil prices and Bangladeshi taka (BDT) depreciation and effective action against illegal money transfers.

(f) Risks and concerns issues related to the financial statements

The Company has a series of policies, practices and controls in place in relation to the financial reporting and consolidation process, which are



designed to address key financial reporting risks, including risks arising from changes in the business or accounting standards. The Finance Director is required to confirm annually that all information relevant to the Company audit has been provided to the Board of Directors through the Audit Committee and that reasonable steps have been taken to ensure full disclosure in response to requests for information from the external auditor.

In addition, it is standard practice for the Finance Director to fully review account reconciliations on a bi-annual basis. The effectiveness of the Company's financial reporting controls is assessed through self-certification as part of the Control Navigator exercise described earlier. The integrity of the Company's public financial reporting is further supported by a number of processes and steps to provide assurance over the completeness and accuracy of the content including review and recommendation by the

Audit Committee and review and approval by the Board.

(g) Future plan or projection or forecast

BATB has an ambition to provide consumers' preferred quality products to its numerous customers/brand users. Looking ahead in 2019 and beyond, BATB wishes to continue with the same zeal that it had started 108 years ago, to be the number one locally listed Company in turnover, in partnering with the national exchequer and to operate as a socially-responsible Company. Moreover, the Company's social responsibility initiatives in 2019 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 green cover preservation and extending sustainable modern energy in off-grid areas.

Sd/-
Golam Mainuddin
CHAIRMAN

Sd/-
Shehzad Munim
MANAGING DIRECTOR