

DIRECTORS' REPORT 2019

Dear Shareholders,

It is a pleasure and a privilege on behalf 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 or the Company), for the year ended 31st December 2019.

During the earlier part of the year 2019, we continued to steward our business towards enhanced sustainability by striving to meet the expectations of our diverse stakeholders, by engaging with them in meaningful and constructive dialogue, and by furthering our own aspirations to closely align our organisational outcomes with the developmental goals of Bangladesh.

Strategic pillars of our business

Anchored on the foundations of sustainability, BATB delivered yet another successful year, characterised by a resilient performance in 2019. We achieved steady progress across multiple facets of our business, despite persistent macro-economic challenges, exacerbated by a regulatory overhang. The business context remained extremely challenging, as the consumer markets remained deeply polarised on account of the continued growth of the illicit cigarette market in Bangladesh. However, as a responsible corporate citizen, the Company amplified consumers and regulatory advocacy in the interests of public health, urging the government to pursue balanced and evidence-based sensible regulations. We remain confident that positive results will emerge out of our actions and will set the platform for us to generate even higher stakeholder value, including for the national exchequer.

INDUSTRY & COMPANY PERFORMANCE

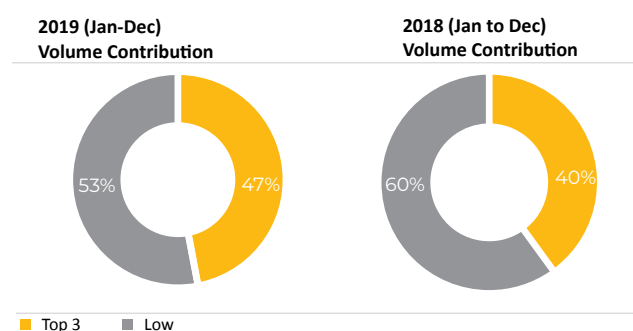
Economic & Industry Overview

In 2019, the overall legal cigarette industry volume declined by 5% vs. last year. In fact, the low segment cigarettes continued to register a decline from July 2018 onwards, due to an unprecedented price increase causing consumers to shift to cheaper illicit cigarettes and leading to sharp volume decline across this product category. This situation continued in the first half of 2019, which resulted in low segment product volume declining sharply by 17% year-on-year (YoY). In the second half of 2019, in order to prevent revenue loss, the industry introduced brands in the low segment with higher price. As a result, down trading from mid segment to low segment was significantly halted, which was reflected in the Government's revenue collection as well. Moreover, in the second half of 2019, due to favourable price index between different price segments and focused brand activations, we saw growth in the top-3 segments. It must be mentioned that any price hike can turn counterproductive as instead of quitting smoking, consumers can simply choose duty evaded cheaper illicit cigarettes.

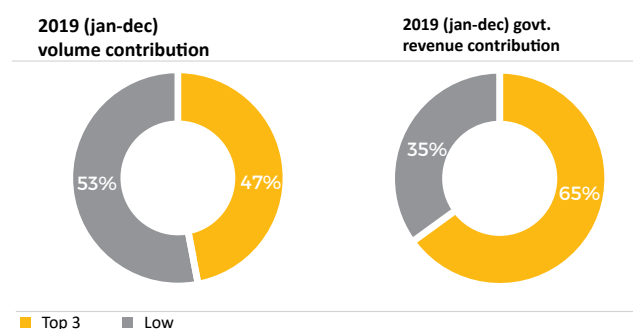
This surge remains a cause of concern and a clear threat to the sustainability of the legally-established industry, and can weaken its ability to sustain contributions to government revenues. This

has been duly highlighted to the government. It is heartening to note that the government has positively responded to the industry by continuing with successful enforcements against trade of illegal cigarettes from the fourth quarter of 2018 onwards. We believe that to ensure sustainability of the legitimate industry, government interventions should continue with respect to enforcing Factory Manufactured Cigarette floor price, along with continuation of initiatives against the illicit trade manufacturers.

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



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



In 2019, Government revenue growth from the legal industry was +16% (Jan-Dec 2019) YoY. Historically, government revenue from the legitimate cigarette and tobacco industry has been growing at 15-17% per annum, where the lower segment contributed to the bulk of the revenue. The significant increase in illicit cigarettes can be a cause of concern not only to the viability of the legitimate industry, but also potentially lowering government revenue collections from this segment.

Company Performance

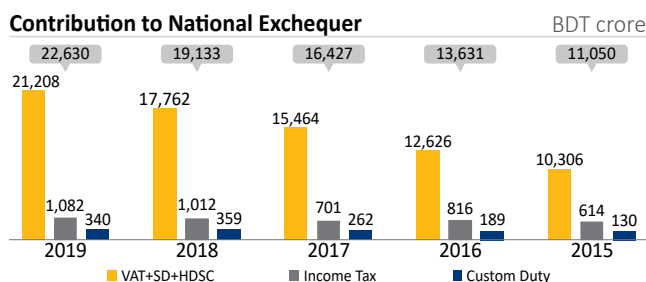
In 2019, our top-3 segment brands experienced growth over the previous years, facilitated by a focused and harmonised business strategy that received unified support from our people from across all business functions. Our brand portfolio was reinforced to deliver quality products along with consumer-relevant innovations. The focus throughout the year was to match consumers' expectations with the right offers across all product segments.

A performance review of each of our cigarette segments is as follows:

- Benson & Hedges:** Addressing the price increase (17%) impact by introducing consumer-relevant innovations, Benson & Hedges has been able to prevent any volume loss vs. last year. With the brand also being available in duty-free shops, any future price calibration is required to be done carefully and judiciously to avoid the influx of non-duty paid cigarettes into the country.
- John Player Gold Leaf:** John Player Gold Leaf has registered 12% volume growth in 2019 vs. last year, riding on successful brand and range activations. BATB is committed to continue with its investments in marketing initiatives to sustain the growth of this core product category.
- STAR:** In June 2018, the government effected a 7% price hike in the mid price product segment, and BATB complied with the price revision. STAR experienced significant volume growth in the Jan-Jun 2019 period, which was somewhat halted in the Jul-Dec 2019 period due to a 31% price hike. In 2019, aligned with the industry growth in the medium segment, overall volume growth for STAR increased vs. last year.
- Low product segment:** BATB's low segment remained under pressure in 2019 as well, due to continued surge of illegal cigarettes into the market. However, the Company remained committed to maintaining consumers' preferred quality and needs across its low segment brands. BATB supports government interventions and activations against illegal cigarettes by presenting evidence-based market information, while also continuously highlighting the risks of potential revenue and profit loss for both the government and other legal industry operators.

BATB's Contribution to the National Exchequer

In 2019, the Company contributed BDT 22,630 crore 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 3,497 crore over the last year. Going forward, the Company aims 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 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 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, there is a higher tax rate applicable for listed cigarette companies. We strongly feel that by targetting 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 remove the disproportionate corporate tax rates applicable on cigarettes in the upcoming National Budget. Cigarette is already highly taxed (in the form of Supplementary Duty, VAT and Corporate Tax), and there is no instance of discriminatory corporate tax rates anywhere in the world for listed tobacco companies. We continue to appeal to the NBR for reducing the Corporate Tax rate in the upcoming National Budget.

Productivity

The cigarette industry is evolving at a rapid pace with the ever-changing demands and needs arising from consumers every day. Over the years, our Company's manufacturing capacity has been scaled up and also modified to cater to the diverse needs and demands for different packs, formats, etc. To mobilise the required investments for meeting the growing demands of this diverse market, 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. The Company's Green Leaf Threshing Plant (GLTP) is one of the best GLTPs in the world. In 2019, BATB received the 'Integrated Work Structure System-1' accreditation, representing a global recognition endorsed by the BAT group for benchmark practices in efficiency and productivity. The year 2019 was also a landmark one for our leaf division, which delivered various productivity initiatives, including increased hybrid production, mechanisation to increase return on investment amongst farmers, while simultaneously ensuring the right quality. We also enhanced the capacity of our Green Leaf Threshing Plant to process green tobacco within the required timeframe to ensure desired quality of the processed green leaf.

Cost of Goods Sold and Profit Margins

Overall, volumes decreased in 2019. Low segment volumes suffered a significant dip due to the high price increase announced in the 2018 national budget, which was mostly offset by mix improvement in the top-3 segments. This mix upside in top-3 segments (+13% growth vs. 2018), coupled with incremental material cost (led by inflation and higher product costs globally) and adverse international foreign exchange impact led to increased cost of goods sold during the year. Gross profit margin declined due to increase in cost of goods sold; however, we focused on offsetting this through various productivity savings initiatives activated across different areas.

SUSTAINABILITY

Environmental preservation, 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 further accentuated, considering 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 builds sustainable 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 an enduring positive impact in communities around which we operate and in the extended environment.

Our afforestation program, 'Bonayan', took root in 1980 in collaboration with the Forest Department of Bangladesh Government and, since then, the Company has distributed 105 million saplings free of cost in and around our operational areas, including 5 million saplings in 2019. Today, BATB's afforestation platform is the largest private sector-driven afforestation program of the country which this year will celebrate 40 years of its inception. The Company is committed to continue with this program to support the Government's national targets to increase forest coverage, as well as to increase the tree covered (green) area. Over the years, the Company has received several national and international awards and accolades, including the prestigious Prime Minister's Award for five times, 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 named 'Probaho' in arsenic-prone rural communities, supplying more than 450,000 litres of potable water every day, free of arsenic and other contaminants. This program is aligned with the Government's targets to support the Sustainable Development Goals (SDGs) of clean water and sanitation. So far, 87 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 220,000 people every day.

To complement Bangladesh Government's efforts in the renewable energy sector, BATB has undertaken a project to install solar home systems through the 'Deepto' project in villages that are located in remote, off-grid areas of the Chittagong Hill Tracts. Under Deepto, BATB has supplied as many as 2,590 units of solar home systems in remote villages to enhance community lifestyle and empower people in Bandarban, Khagrachari and Rangamati districts, giving more than 13,000 rural people have their first access to electricity at home.

Furthering our initiatives in sustainability beyond our flagship projects, BATB has forged an effective partnership with farmers in some parts of Bangladesh through its various sustainability programs aligned with good agricultural practices and other national and global standards. The Company's leaf function commences with the relentless work of around 38,000 registered farmers within 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. Till date, we have distributed 2,985 MT of Dhaincha seeds amongst our registered farmers.

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 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 farm communities. Moreover, to uplift the knowledge and image, the Company is establishing Farmers' Community Club (Shikor). The Company has been awarded with the Asia Responsible Entrepreneurship Award 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 farmers' 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 Company managers on IFMC since 2016, and around 80 people have been trained in three batches till 2019. Improving soil fertility and water conservation comprises integral elements of good agricultural practices. The Company provides technical know-how to install compost pits in farmer homesteads. It also supports sensible tobacco regulations that balances the interests of consumers with those of the society, and enables the business to continue to compete and prosper. CPA waste disposal program, short duration crop popularisation, biodiversity conservation, alternate fuel for curing, women empowerment, Bondhusheba, Shikor, etc., are some of the programs that ensure environmental and agricultural sustainability as well as farmers' livelihood enhancement. The Company conducts all its activities in line with the relevant laws and regulations. We have successfully complied with 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, ensuring Tax Stamp visibility, otherwise it will not deliver the intended results, including Government revenue expectation 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 1,426 employees directly, while also supporting indirect employment for as many as 50,000, comprising farmers, distributors and suppliers, and over 1.3 million 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

BATB has made investments from time to time to increase manufacturing and warehouse capacity across its different locations in the country, keeping in mind the quality expectation of consumers and customers. These initiatives had been found to be extremely useful relating to productivity and efficiency improvements and has also helped the Company to export cigarettes and to meet demand from domestic markets. Further, this process can find government favour to diversify the export basket and earn much needed foreign exchange for the country.

WINNING ORGANISATION

The outstanding performance of BATB in 2019 can be credited to our committed and talented people, and the efficiency of our teams. BATB's people resources are determined 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 by providing employees with an energising work environment and involving employees across core business strategies. Our constant resilience to tackle challenges with the right spirit has transformed BATB into an organisation that is vibrant and dynamic.

The Company 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. The Company also focuses on building functional skills and 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, Japan, Hong Kong, Indonesia, Singapore and the UK. Additionally, 281 employees were provided with leadership and functional skills training. **BATB's factory employees also went to Poland, Singapore, Japan, Fiji and PNG to give hands on training to their employees.**

The Company also continued its legacy of developing youth talent across the nation with Battle of Minds (BoM), Bangladesh's pioneering youth talent platform, which stepped into its 16th glorious edition in 2019. Following the massive success of BoM in Bangladesh ever since its inception in 2004 in effectively grooming thousands of young leaders who have left a trail of success stories in the country and all across the globe, BoM saw its inaugural global launch in 2018 becoming BAT Group's international talent platform involving thousands of young change-makers worldwide. Over 4,000 participants signed up for the local rounds this year, involving a series of complex and innovative exercises around the theme of Digital Bangladesh, the core of this

year's challenge. 180 top participants thereafter participated in the challenge. The finalists of BoM 2019 eventually presented a case to revamp the Union Digital Centers across Bangladesh to amplify rural digital inclusion, a journey which had the participants travelling to all corners of the country to carry out community awareness and education drives, creating a huge buzz nationwide.

BAT Bangladesh has remained steadfast as a champion of employee wellbeing. Recognising that anxiety and stress are some of the key issues that employees in challenging roles face worldwide, BAT Bangladesh has commenced a partnership with LifeSpring Bangladesh, a leading organisation that specializes in mental wellbeing consultancy services, including round-the-clock online and telephonic counselling, face to face counselling with a team of experts as well as focused, educative sessions on aspects of mental wellbeing and mindfulness. Such initiatives will set in course an important dialogue in sustaining best practices in employee wellbeing, one that is critical for the long-time success of any organisation.

At the same time, BATB continues its legacy of hosting a wide variety of employee engagement events for members across the organisation. Not only do these events give an opportunity for our families to enjoy by being part of a collective festive spirit that is a signature of our culture, but it also helps us form deeper, more meaningful bonds with each other, which enable us to collectively strive and aspire for a better tomorrow.

ENVIRONMENT, HEALTH AND SAFETY

BATB is fully committed to ensure safety and health of its people who come to 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. Moreover, a week-long campaign titled 'EH&S Awareness Week' was arranged, focusing on safe work practices on the production floor, in warehouses and in offices.

THE BOARD OF DIRECTORS

BATB's Board of Directors comprise a group of corporate specialists, highly qualified senior government officials and ex-government officials. It constitutes a unitary group of nine professionals, among whom seven are Non-Executive Directors, including two Independent Directors, most of whom are 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 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. All our Directors have followed all regulatory compliances necessary for their Directorship, qualifying their membership on our Company's Board.

The composition of BATB's Board is as follows:

Mr. Golam Mainuddin

Chairman, Board of Directors

Mr. Shehzad Munim

Managing Director

Mr. Mohammad Moinuddin Abdullah

Non-Executive Director

Mr. A.K.M Aftab Ul Islam FCA

Independent Director

Mr. K. H. Masud Siddiqui

Independent Director

Mr. Abdul Halim

Non-Executive Director

Mr. Md. Abul Hossain

Non-Executive Director

(Joined on 27 October 2019)

Mr. Kazi Sanaul Hoq

Non-Executive Director

(Resigned on 27 October 2019)

Ms. Tahmina Begum

Non-Executive Director

Mr. Stephan Matthiesen

Finance Director

(Joined on 1 May 2019)

Mr. Kazi Sanaul Hoq resigned from the Board with effect from 27th October 2019. The Board of Directors would like to place on record the excellent contributions of Mr. Hoq towards the improvement of the Company and in taking keen initiatives in different issues during his tenure as a Director on the Board.

DIRECTORS PROPOSED FOR RE-ELECTION

Out of the 9 (nine) directors on the Board, Mr. Masud Siddiqui and Mr. Aftab Ul Islam FCA being appointed as Independent Directors and already confirmed at the AGM, would not retire by rotation. Mr. Stephan Matthiesen and Mr. Md. Abul Hossain who were appointed to the Board as Finance Director and Non-Executive Director, respectively, after the last Annual General Meeting will retire in the forthcoming AGM. Ms. Tahmina Begum, Non-Executive Director will retire by rotation at the ensuing AGM. All the retiring Directors, being eligible, offer themselves for re-election at the upcoming meeting.

In accordance with Article 99A of the Articles of Association of the Company, Mr. Golam Mainuddin, having reached the age of over 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 48th Annual General Meeting to be held in 2021.

Board Committees

There are currently three functional Committees of the Board, namely:

- Board Audit Committee;
- Board Nomination & Remuneration Committee; and
- Board CSR Committee.

The detailed functions of the committees are mentioned in the respective committees' reports.

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 with other co-existing entities, the BAT business is also exposed to diverse risks that arise both from internal as well as external fronts. And because 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:

- 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 accounts 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; 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 ADDITIONAL TAX DEMAND BY LTU- NBR

BATB is the highest tax payer in Bangladesh and ensuring compliance with the law is its highest priority. 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 demand from LTU of NBR has been declared illegal as per the judgment of the Appellate Division of the Supreme Court of Bangladesh. Therefore, at present, there is no claim against BAT Bangladesh.

OTHER REGULATORY DISCLOSURES:

Pursuant to the BSEC Notification on 'Codes of Corporate Governance' dated 3rd June 2018, the Directors of BATB also report that :

- The Company is aware of its various risks and concerns. The financial risk management has been disclosed under note 39.B.i of the financial statements;
- All transactions with related parties have been made on a commercial basis and the details of related party and transactions have been disclosed under note 40 of the financial statements;
- Proper books of account of the Company have been maintained;
- Appropriate accounting policies have been followed in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment;
- The financial statements are prepared in accordance with IAS/IFRS and any departure therefrom has been adequately disclosed;
- 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;
- No extraordinary gain or loss has been recognised in the financial statements of the Company;
- No significant variations have occurred between quarterly and final financial results of the Company during 2019;
- During the year, the Company has paid a total amount of BDT 87,000 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 dividend for the year 2019;
- During 2019, a total of 8 (eight) 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;
- Rights and interests of minority shareholders have been duly protected by means of transparent operations and proper disclosure of material information of the Company;
- No bonus or stock dividend has been declared as interim dividend during the year;
- A statement of 'Management Discussion and Analysis' has been presented in this Report;
- Shareholding pattern of the Company as on 31 December 2019 is shown in Annexure-1 to this report; and
- Directors' profiles have been included in the Annual Report as per BSEC Guidelines.

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

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 broader involvement of 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 directives 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 2019. 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.

STATUTORY AUDITOR

As per requirements of law, the current statutory auditors, A. Qasem & Co., Chartered Accountants, will retire at the 47th Annual General Meeting. They have expressed their willingness to be re-appointed for the year 2020. 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 2020 and continuation upto the next AGM at a fee of Tk. 11,00,000 (Taka eleven lac) only and requests shareholders to approve the appointment.

COMPLIANCE AUDITOR

Pursuant to code 9.2 of the codes of corporate governance issued by BSEC, shareholders at the 46th Annual General Meeting (AGM) had appointed M/s. Al-Muqtadir Associates, Chartered Secretaries, as the Compliance Auditor of the Company for the year 2019. The Compliance Auditor is eligible for re-appointment. As proposed by the Audit Committee and recommended by the Board of Directors, the matter of appointment of M/s. Al-Muqtadir Associates, Chartered Secretaries, as Compliance Auditor of the Company for the year 2020 would be placed before the shareholders at the 47th AGM of the Company for approval.

BUSINESS COMMITMENTS

The Board of Directors firmly believe that BATB has the necessary strengths, resources and commitments to further propel the Company to newer heights and thereby grow and augment its contribution to the nation. With these aspirations, the Board 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. 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 the Dhaka and Chittagong stock exchanges and is currently the highest corporate taxpayer. In this year alone, we have contributed Taka 22,630 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 remarkable performance and flawless management in the year 2019 has led us to achieve some prestigious awards from different credible organisations locally and internationally. In 2019, the Company was awarded with the following recognitions:

1. President Industrial Development Award;
2. Top Employer Award from Top Employers Institute;
3. Highest Tax Payer Recognition by National Board of Revenue (NBR);
4. 19th ICAB National award for best presented Annual Report;
5. 19th ICAB National award for Corporate Governance Disclosure;
6. SAFA Awards 2019 in Manufacturing Sector;
7. ICMAB Best Corporate Award 2019;
8. ICSB National Award for Corporate Governance Excellence;
9. Regional Award 2019, Asia Pacific Middle East;
10. Bangladesh Supply Chain Excellence Award 2019 in 'Excellence in Manufacturing Excellence';
11. Bangladesh Supply Chain Excellence Award 2019 in 'Excellence in Supply Chain Talent Development';
12. National Productivity and Quality Excellence Award 2018; and

Sd/-
Golam Mainuddin
Chairman
22nd February 2020

13. Sixteen Local Government awards for Afforestation in different districts.

(Details of these awards are mentioned in the achievements section of this Annual Report).

EXPECTATIONS IN 2020 AND BEYOND

BATB has always been a people oriented and socially responsive entity. Being a commoners' company, it nurtures an ambition to provide consumers' preferred quality products to its numerous customers/brand users. Looking ahead in 2020 and beyond, BATB thus desires to go ahead with the same zeal that it had started with almost a 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 initiatives for 2020 will bring about a positive change across the nation with various initiatives directed towards poverty alleviation, gender equality, human development and welfare, partnership in green cultivation practices, prevention of arsenic contamination, forest preservation and extending sustainable modern energy to off-grid areas.

MANAGEMENT DISCLAIMER FOR IT SECURITY

BAT Bangladesh has been using some applications software packages for its day to day activities. To the best of knowledges 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 Company's on-going progress would not have been the same without the continued and loyal support of our valued customers. At the same time, the Board also believes that the performance in 2019 is a collective result of the pledge, promise, energy and hard work of our Directors, Management and employees together. But that was derived indeed from the persistent support and guidance from shareholders and numerous other stakeholders of the Company. And keeping those in mind the Board would like to place on record its unstinted gratitude and appreciation to 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, Bangladesh Investment Development Authority, Bangladesh Securities and Exchange Commission, the Stock Exchanges, Central Depository Bangladesh Ltd., RJSC and other numerous valuable stakeholders, the Company's vendors and other business partners during 2019.

The Board would also like to extend its 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 2019.

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,

Sd/-
Shehzad Munim
Managing Director
22nd February 2020

MANAGEMENT DISCUSSION AND ANALYSIS- 2019

(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 flow from operating activities are prepared under direct method, as prescribed by the Securities and Exchange Rules, 1987.

Financial statements have been prepared on a historical cost basis, except for debt and equity financial assets and contingent considerations 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) adopted the 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 material impact on the financial statements of the company, going forward.

Details of the significant accounting policies are available in Note 6 of the financial statements.

(b) Changes in accounting policies and estimation

The company applied IFRS 16 for the first time in 2019. The nature and effect of the changes as a result of the adoption of the new accounting standard is provided in Note 6T(i) of the financial statements.

Several other amendments and interpretations apply for the first time in 2019, 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.

(c) Comparative analysis of financial performance and operational performance

Financial Results (BDT cr.)	2019	2018	2017	2016	2015
Gross Turnover	26,985	23,312	20,414	16,563	14,371
Supplementary duty, VAT, HDSC	(21,303)	(17,848)	(15,218)	(12,188)	(10,382)
Net Turnover	5,682	5,464	5,196	4,375	3,990
Cost of Goods Sold)	(2,997)	(2,710)	(2,718)	(2,389)	(2,121)
Gross Profit	2,685	2,754	2,478	1,986	1,868
Financial Cost and Other Exp	(808)	(672)	(698)	(594)	(548)
Operating Profit	1,877	2,082	1,780	1,393	1,320
Profit before Tax	1,740	1,931	1,676	1,317	1,246
Tax	(816)	(930)	(893)	(559)	(659)
Profit after Tax	925	1,001	783	758	587

Financial Results (BDT cr.)	2019	2018	2017	2016	2015
EPS in BDT*	51.37	55.62	43.50	42.12	32.63

Operational results (BDT crore)	2019	2018	2017	2016	2015
Share capital	180	60	60	60	60
No. of employees	1,426	1,453	1,459	1,476	1,400
Contribution to the national exchequer	22,630	19,133	16,427	13,631	11,051

* EPS before 2019 is revised as per new share capital

The Company's gross turnover for the year 2019 increased by 15.8% to BDT 26,985 crore. The growth was primarily driven by mix improvement & price increase in top segments. Low segment volume however decreased by 14% due to the continued increase in illicit since the 30% price increase in June 2018. The Supplementary duty and VAT contribution from BATB increased by 19.4% for the year 2019, thus resulting in only 1% increase in net turnover from cigarettes for the year. The leaf export performance improved significantly, especially in H2'19 fueled by the 10% export duty withdrawal in June.

The mix improvement in top 3 segments, along with an incremental material cost globally & adverse international FX impact have led to an increased cost of goods sold for the year. The company also invested considerably behind product improvements and trade marketing capabilities to ensure long term sustainability against new competition and growing illicit problems. The profit after tax for the year is BDT 925 crore, 7.6% decline which is in line with overall profit evolution in 2019.

Cash flow Movement (BDT crore)

Cashflow Movement	2019	2018	2017	2016	2015
Cash generated from operating activities	2,482	1,789	1,518	1,089	1,409
Income tax paid	(892)	(843)	(526)	(662)	(486)
Interest paid	(31)	(45)	(19)	(3)	(13)
Net cash flow from operating activities	1,559	901	973	424	910
Net cash flow used in investing activities	(319)	(688)	(799)	(352)	(264)
Net cash flow used in financing activities	(786)	78	(510)	(180)	(549)
Net increase in cash and cash equivalents	455	291	(335)	(108)	96
Cash and cash equivalents at 1 January 2019	83	(208)	128	236	139
Cash and cash equivalents at 31 December 2019	539	83	(208)	128	236

BATB had a better cash position for the year 2019 due to strict cost control measures. Rising consumer demand from across diverse markets was met through a series of structured initiatives that resulted in improved machine efficiency and productivity.

Dividend

In view of the performance of the company and considering the current liquidity position, the Board of Directors has recommended a cash dividend of BDT 40 per share for the year ended 31 December 2019, to be approved at the ensuing 47th Annual General Meeting. With this recommendation of proposed cash dividend, the summary of the total dividend in 2019 is represented below:

Operational results	2019	2018	2017	2016	2015
Profit after tax (BDT crore)	925	1,001	783	758	587
Earnings per share (BDT)	51.37	55.62	43.50	42.12	32.63
Final cash dividend (BDT crore)	720	300	360	360	330
Stock dividend ratio	-	1:02	-	-	-
No. of shares (000)	180,000	60,000	60,000	60,000	60,000
Cash dividend per share (BDT)	40	50	60	60	55
P/E ratio (as of 15th March)	17.7	-	-	-	-
Dividend yield (as of 15th March)	4.4%	-	-	-	-

(d) Comparison of financial performance with peer industry

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 and cash flow position with peer companies.

(e) Financial and economic scenario of the country and the global economy

Global Economy

Global economic growth eased to 3.6% in 2019, from 3.8% in 2018 (Global Research, Standard Chartered). A multitude of factors played a role in this global economic slowdown, including the US-China trade war, unstable and undefined terms of exit of the UK from the EU i.e Brexit, and volatility in oil prices. The economic slowdown is likely to intensify in 2020 with the Covid-19 pandemic now having a significant economic impact too, with initial signs being highly concerning. The virulent outbreak continues to worry investors, especially given the already significant disruption of a wide range of global industries, including manufacturing, automobiles, technology, pharma, apparel, transportation, retail and tourism. The damage to the Chinese economy might take some time to repair and, as the spread continues outside China and around the world, uncertainty on account of economic dislocation looms large.

Bangladesh Economy

Bangladesh's GDP growth for financial year 2019 was strong, despite initial uncertainty regarding the post-election environment. GDP growth for the year stood at 7.2%, driven by strong domestic demand – particularly private consumption – and recovery in exports, albeit mild. A strong turnaround in remittance after a two-year's decline stimulated private consumption. Agricultural output also recovered after weather-related disruptions in FY 2018, which gave an additional boost to consumption.

Sd/-
Golam Mainuddin
Chairman

The biggest challenge going into 2020 would be to sustain export earnings amidst lower consumer demand globally, along with increased competition from emerging countries like Vietnam and Ethiopia. Private investment is likely to remain weak as the private sector searches for growth capital. The banking sector faces issues related to stressed assets too, and higher government borrowing from banks is restricting the flow of financial resources.

Remittance growth remained strong at 18% YoY in July-October 2019, on the back of 2% cash incentive provided by the government, but this is likely to slow in H2'20 due to lower migrant numbers. Overall, the growth outlook for the year is moderate, with persistent challenges due to lowering consumption and investments.

(f) Risks and concern 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 several 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. BATB also integrated Sarbanes-Oxley Act (SOX) controls into its business operations for the first time in 2019 financial year and completed all requirements without any significant observations.

(g) Future plans or projections or forecasts

BATB continues to pursue its ambition of providing the best quality products to the consumers through its numerous customers/brand users. Looking ahead, BATB is committed to continue with the same passion that it had started 108 years ago, to continue in partnering with the national exchequer and to operate as a socially responsible Company. Moreover, the Company's social responsibility initiatives in 2020 will bring about a positive change across the nation with various initiatives directed towards achieving the sustainable development goals related to 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.

(h) Related party transactions

Details of related party transactions, along with the nature of the transactions, is provided in Note 40 (Related Party Disclosures) of the financial statements.

Sd/-
Shehzad Munim
Managing Director