

# DIRECTORS' REPORT 2015

It is a pleasure and privilege on the part of the Board of Directors to present herewith the Directors' Report and Auditors' Report together with the audited financial statements of British American Tobacco Bangladesh Company Limited (BATB) for the year ended 31 December 2015.

## Key Strategic Pillars of Business

2015 was a prolific business year for BATB. Despite cut-throat competition and political turmoil associated with various other market and regulatory uncertainties, the Company continued to enhance the value for its shareholders' investments. Continuing with previous practice, the Company was governed under the strategic pillars of Growth, Productivity, Sustainability and Winning Organisation as the main driving force for its outstanding attainments. The notable achievements of the business under each pillar, together with the salient features of such performance are described and depicted in the succeeding parts of this report.

## GROWTH

### Economic & Industry Outlook

The year 2015 registered a modest turn around and performance revival in most sectors after the nationwide blockade in first quarter of 2015. The overall cigarette industry recovered from the turmoil in first quarter of 2015 and started growing in the later part of 2015; however, on a full year basis, the industry had a marginal growth over same period last year. The growth dynamics of the industry varied across the 4 price segments. Low segment experienced the highest growth in 2015 while Medium and High segment has declined driven by the abnormal price increase dictated in the National Budget in June 2015. The Premium segment also remained under pressure as the declining trend of the last few years continued in 2015. Under the current market dynamics due to pricing policies, the industry growth will be driven by Low segment.

### Company Performance

Amidst the external and competitive challenges in 2015, BATB has achieved growth in volume, market share and turnover. However profit after

tax and EPS was down due to increased corporate tax. This growth was achieved through a focused business strategy that was supported and implemented by our dedicated people across all business functions. Our brand portfolio was strengthened through consumer relevant initiatives and excellence in retail level executions. The focus throughout the year was to match consumer expectations with the right offers across all segments. The entry of Japan Tobacco International in the market coupled with Phillip Morris International entering High segment has further intensified the competitive landscape of the industry.

Sales volume increased by 9% with higher growth in the low segment offsetting the decline in the upper three segments. The price indexing gap between the low segment and the upper segments has further widened which is causing down trading to the low segment. This trend continues to be a matter of concern as it negatively impacts not only BATB but also Government's revenue earning capacity from the cigarette industry. Therefore, we continue to engage with policy makers to ensure that balanced taxation policies are implemented and the down trading is reduced for the sustainability of the industry. A review on the performance of each of the cigarette segments follows:

### Premium Segment:

Once again Benson & Hedges faced tough challenges in the market with high price increases in 2013, 2014 and 2015 resulting in a gradual volume decline. The Company continues to focus on building the equity of Benson & Hedges and has made consumer-centric investments which have strengthened the brand. This segment is facing competition due to the increased availability of the smuggled cigarette in the market due to the price differentiation between local cigarettes and duty free foreign cigarettes. We are closely watching the activities of the global players of this segment in order to maintain sustainability of our brand.

John Player Gold Leaf delivered a good performance in first half of 2015 driven by the launch of the new variant John Player Gold Leaf Special. However, the brand suffered sharp decline in volume after price increase was

imposed in this segment during the national budget in June 2015. Consistent investment and consumer-relevant innovation has continued behind this brand to hold the strong brand equity and to retain its leading brand status within this segment. An innovative 12's pack was introduced to optimize the pricing benefit to consumers, but the brand still struggles to regain its pre-budget base.

**High Segment:**

The current High segment has declined in volume as consumers are moving down to Low segment brands. Despite the decline in volume, Star Filter has performed well to strengthen its position in the segment. We have continued regular market investment behind this segment's brands by consistently improving quality to meet consumer preference.

**Medium Segment:**

Due to change in pricing structure dictated by National Budget in June 2015, our previously Medium segment brand Star Filter has been placed at High

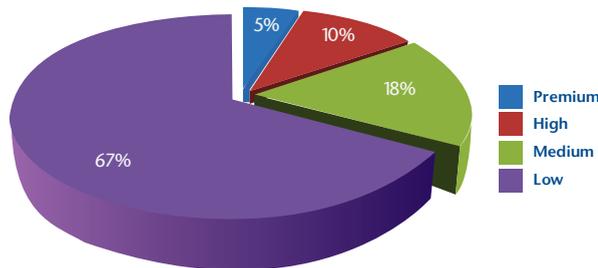
Segment and we are paying higher taxes for the brand Star Filter despite being a medium segment brand to the consumers.

**Low Segment:**

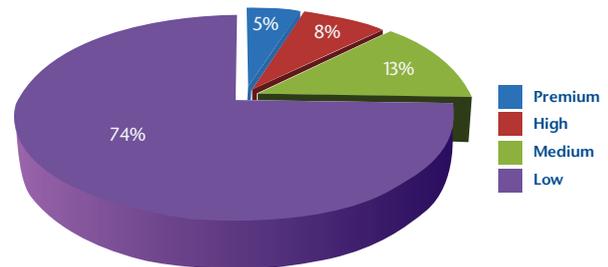
The Industry share in this segment has increased from 67% to 74% (on calendar year basis). If we look at the first half of the current fiscal year (2015-2016), low segment share has reached almost 80% level, We believe that the growth of this segment is driven by the lack of proportionate price increases in low segment while the other segments continued to experience consistent price increase. The massive growth in this segment is a major concern for BATB and we believe that government revenue is also lagging due to the down trading to this segment. Government should find the right pricing strategy to maximize their revenue by minimizing the down trading. The pricing strategy need to be worked out in the next national budget to facilitate a stable revenue growth of the government and profitability of the manufacturer.

Segment share (Volume) of the cigarette industry for the full year is shown below:

**2014 (Jan to Dec)**



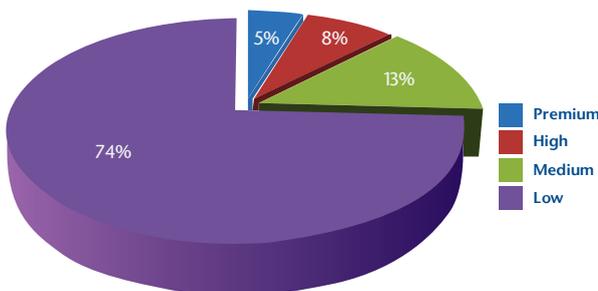
**2015 (Jan to Dec)**



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

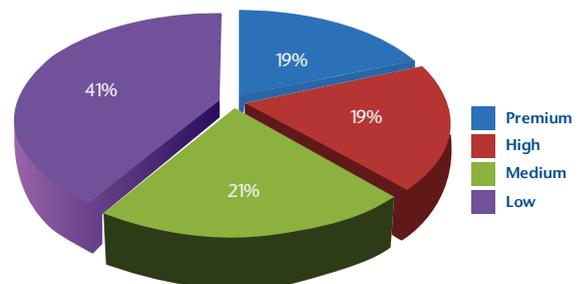
**Volume contribution**

**2015 (Jan to Dec)**



**Govt. Revenue contribution**

**2015 (Jan to Dec)**

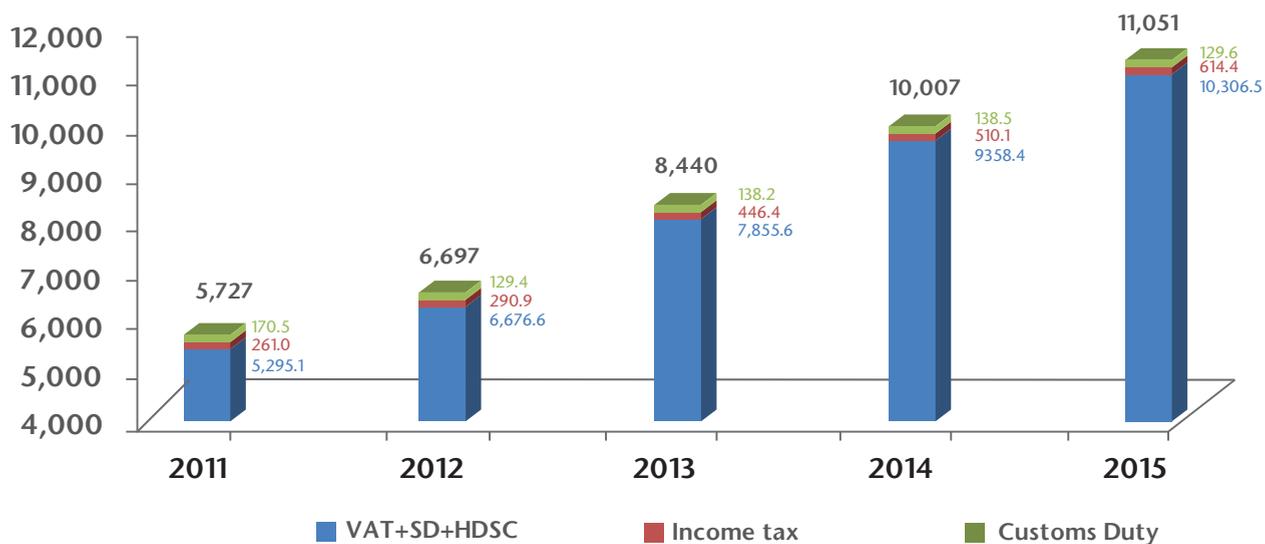


It is very clear from the above chart that while low segment contributes 74% of the total volume, this segment contributes only 41% of the total revenue of the govt. from the cigarette industry. Thus, govt. has a huge opportunity to increase the revenue from cigarette industry by just correcting the pricing and tax structure of low segment.

### BATB's Contribution to National Exchequer

In 2015, the Company contributed BDT 11,051 crores as Value added tax, Supplementary Duty, Health Development Surcharge (HDSC), Income Tax & Customs duty. This represents an increase of BDT 1,044 crores. BATB contributed 68% of the total VAT, SD & HDSC collected from the Cigarette industry. The Company will continue to support Government proposals that help to establish a sustainable level of tax contribution to the National Exchequer while ensuring a sustainable growth for the industry and promoting a level playing field among market players. Since this is a matured industry, it must not be stretched too far without considering the market segment dynamics and its ability to absorb price increases.

The Company recognizes 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 of all other industries enjoy a privileged corporate tax rate, the same privilege has been withdrawn by the Govt. for listed Cigarette companies. Company strongly feels that by targeting the corporate tax structure of a listed cigarette manufacturer, it significantly impacts the shareholders' return (which includes the Government of Bangladesh as well as the local shareholders) and also takes away the incentives for other tobacco companies to get listed and thus boost up the capital market. The Company believes that the Government will reinstate investment-friendly corporate tax rate structures while considering the upcoming National Budget. Cigarettes are already highly taxed (in the form of Supplementary duty) and there is no instance of discriminated corporate tax anywhere in the world for Tobacco Company despite being listed. We will apprise the regulators to correct the position in the next national budget.



## Financial Results

BATB's gross turnover for the year was BDT 14,371 crores, up by BDT 1,699 crores from the previous year. This increase was driven by volume growth and Government led price increase offset by massive downtrading. The higher profit before tax reflects higher volumes and increased prices, coupled with cost savings and productivity initiatives driven across the Company. However, due to removal of 5% concessional corporate tax rate (40% to 45%) on a retrospective basis, Profit after Tax has reduced by 6.8%, from BDT 628 crores in last year to BDT 585 crores in 2015.

## PRODUCTIVITY

In line with 9% growth in sales volume, the overall supply chain has been challenged to deliver on-time in full production. As a result, manufacturing capacity was scaled up and also modified to cater to different pack formats. This required significant investment and meticulous planning so that the growing diverse market demand could be met with minimum disruption in the manufacturing process. A series of productivity initiatives were undertaken not only to improve machine efficiency but compensating for the disruption in production while scaling up the factory. The year 2015 also marks the highest ever buying and processing of green leaf. Our leaf growing area was also revamped through various productivity initiatives to process this incremental leaf volume while not increasing the land area used.

## Cost of Goods Sold and Profit Margins

In spite of various challenges beyond company control, which threatened to disrupt our supply chain in the year, we could manage logistics and other involved contingencies, which ensured that our ability to manufacture and supply cigarettes to the market was not compromised. These eventualities increased the costs of production and sales resulting in upward pressure on our cost base. However, your Company was able to mitigate this through delivering a number of cost control initiatives that resulted in minimisation of cost of goods sold per unit in 2015.

Furthermore, your Company continued its company-wide smart cost management program and analysed and explored all opportunities to reduce costs structures. This program has helped to optimize the operating expenses of the Company and focused resources on areas that were required to fuel growth and sustainability.

As a result of all these efforts, the Company's operating margin has marginally improved from 32% in 2014 to 33% in 2015.

## SUSTAINABILITY

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

The flagship activity of the Company, the Afforestation Program, began in 1980. So far, your Company has distributed approximately 9 crores free saplings in and around our operational areas including 4 million saplings alone in 2015. This continued effort makes the program the largest private sector driven afforestation programs in the country. The Company is committed to continue this program to support the Government initiative to combat the adverse effects of climate change. Over the years, the Company received a number of national and international awards and accolades for the afforestation drive across the country. Your Company received Asia's top rank business award 'Asia Responsible Entrepreneurship Award for Green Leadership' from Enterprise Asia for the largest afforestation project in the private sector of Bangladesh.

Millions of people in Bangladesh face scarcity of safe drinking water due to arsenic contamination. Responding to this need BATB has taken up a project that provides approximately 350,000 liters of arsenic and other impurities free safe drinking water to arsenic-prone rural communities every day. This program is aligned with the Government's aim to achieve the Sustainable Development Goals of securing access to safe drinking water. So far, 65 water filtration plants have been installed, using government approved water filtration technology in Jhenaidah, Chuadanga, Meherpur, Kushtia, Tangail, Manikganj, Satkhira, Gopalganj, Lalmonirhat, Kurigram, Jamalpur, Madaripur and Natore ensuring pure drinking water for nearly 170,000 people every day.

To complement Bangladesh Government's efforts in the renewable energy sector, BATB has

undertaken a project to install solar home systems in village homes that are in remote, off-grid areas of Chittagong Hill Tracts. The solar home system initiative of BATB supplied 135 units of solar home systems in 2015 (which totals to 1,801 units since inception of this program) in remote villages in Bandarban and Khagrachari districts, giving about 11,000 rural people their first access to electricity at home.

BATB has had a fruitful partnership with farmers across the country through its various programs dedicated to improving agricultural practices and standards. The Company's Leaf function starts with the hard works of around 35,000 registered farmers within the village community. BATB's contract farming model has been a proven and renowned model for years. The Company ensures that the sources are sustainable by proactively setting high standards of agricultural practices. The initiatives include green manuring with Dhaincha (*Sesbania Aculeata*) - an effective approach to enrich soil health and fertility. Dhaincha is also promoted as an alternate fuel in leaf growing areas. In 2015, the Company distributed nearly 250 metric tons of free Dhaincha seeds amongst farmers. Moreover, Integrated Pest Management Clubs have also been expanded in collaboration with the Department of Agricultural Extension to educate the farmers about the adoption of good agricultural practices. As a result of this continuous education program farmers became more cautious and conscious about the use of chemical pesticide in farming and adopted the use of neem in different forms as an alternative to chemical pesticide.

Improving soil fertility and conserving water are integral elements of good agricultural practices. The Company provides the know-how and bears the full cost to install compost pits in the homesteads of our registered farmers. This significantly reduces dependence on the use of chemical fertilizers and also reduces the cost of production and increase the organic matter content in the soil resulting improved fertility in the cultivation area. As a water management program, proper irrigation systems have been introduced which ensures that, only the required level of water is used and there is no wastage. The Company acknowledges its impact as well as dependence on biodiversity, through the business operations and use of eco-system services, such as forest products, soil and water. So far, 64 biodiversity corners including 8 new corners have been established in 2015 with the help of the registered farmers in order to make

farming communities aware of the importance of different elements in nature and their contribution in the eco-system. The biodiversity corners are located in Kushtia, Meherpur, Chuadanga, Jhenaidah, Rangpur, Manikganj, Bandarban, Khagrachari and Cox's Bazar districts. The Company supports sensible tobacco regulations that balances the preferences of consumers with the interests of society and enables the business to continue to compete and prosper. The Company is conducting all its activities in line with the amended Smoking and Tobacco Products Usage (Control) Act, 2013. All of the marketing activities are governed by the Smoking and Tobacco Usage (Control) Act, 2005 and Amendment Act, 2013 and their subsequent rules along with the BAT Group's own International Marketing Principles. A collaboration of the Tobacco Laws and International Marketing Principles combines the Company's Marketing Communications Guideline. These principles symbolize the commitment to marketing the company products appropriately and only to adult users in compliance with local laws and regulations. Therefore, BATB is fully conscious of its standpoints and responsibilities.

The tobacco industry has an economic impact both in terms of revenue generation for the Government and employment generation by employing 1,400 direct employees, and 52,000 indirect employees in the form of farmers, distributors and suppliers and over 1.3 million retailers. The Company therefore, seeks that the Government takes an inclusive and participative approach about tobacco regulations, so that the regulatory policies reflect the views of all relevant stakeholders and are practical and enforceable.

## WINNING ORGANISATION

The year-end attainments of the Company in 2015, even with so many challenges confronted, demonstrates the resolves and determination of the Board, Management and overall the peoples of BATB. The outstanding performance of the year is the ultimate achievement of its hardworking people and the efficiency of the teams. The people of BATB are ever committed in driving the business with passion to win in an ever-changing business environment. The rapid success and growth of the company is powered through providing employees with an amazing work environment and involving the employees within the core business strategies. Peoples' constant resilience to tackle all the challenges has transformed BATB into an organisation that is energetic and catapults it to success.

BATB focuses on the learning and growth of its people with the aim of developing leadership abilities to assist the people realize their full potential. This is done by supplying the right opportunities to learn from their leaders and applying BAT's globally recognized learning and development platforms. The organisation continues to provide the people with an environment that listens to their queries and that nurtures the talent. More than 240 managers have been trained through programs that helped them unleash their full potential. BATB focuses on building functional skills and also provides hands-on experiences to develop individuals as leaders. With the aim of sustaining the present agenda for talent, 101 employees were transferred to other roles and 71 were promoted. International assignments were given to 18 Bangladeshi managers in countries such as UK, Singapore, Cambodia, Poland, Japan, Korea and Pakistan. On top of that, 450 employees were provided with leadership and functional skills training.

The vigorous assessment tools and techniques that BATB implements help bring in the best talent that add to the sustainable performance of the Company. The 12th edition of "Battle of Minds", the flagship talent promoting program of the Company was launched for universities all over Bangladesh. Battle of minds provides students with fantastic exposure and a platform to showcase their talent. Every year Battle of Minds comes up with new ways to be more challenging as was the case this time around. Battle of Minds 2015 was bigger than ever before

and posed even tougher challenges for the participants. The talent brand that celebrates the endeavours of the employees was launched alongside Battle of Minds. The total number of participants exceeded over 2500 this year as BATB is determined to leave a footprint in the nation-building process with the help of its Battle of Minds and the success stories of its employees through the talent brand.

The people of BAT are the reason for its success and BATB tries continuously to provide a work environment and culture that motivates people and helps them achieve their full potential. BATB takes on multiple initiatives in order to create a workforce that is highly engaged and strives to bring the people together in achieving the organisational objective. We work constantly in involving people to make sure that they corroborate with the mission and vision of the company as well as their individual missions and vision. We also work to ensure that they believe in what they are doing will take BATB toward growth.

In order to ensure that the values of the organisation touch the employees' lives, the Company organizes events such as Family Day; Kid's Carnival and encourages its people to take part in various sports and games that make up the events. All in all, BATB remained steadfast and ready to face the constant challenges that came in our way in 2015 and at the same time meet the goals of the Company and deliver results for our shareholders.

## KEY OPERATING & FINANCIAL INFORMATION

The key operating and financial information for the year 2015 along with the preceding four years are presented below:

Financial & Operational Performance Summary	2015	2014	2013	2012	2011
<b>Operational Results</b>	<b>(financials in million BDT)</b>				
Gross Turnover	143,712	126,725	109,582	90,174	75,357
Net Turnover	39,895	35,562	31,225	27,471	23,269
Profit before Tax	12,460	10,866	9,104	6,501	4,914
Profit After Tax	5,846	6,282	4,924	3,942	2,551
Share Capital	600	600	600	600	600
EPS in BDT	97.43	104.70	81.14	65.59	42.51
No of Employees	1,400	1,353	1,251	1,119	1,146
Total Contribution to National Exchequer in million BDT	110,505	100,070	84,402	66,969	57,266

## DIVIDEND

In view of the performance of the Company and the current liquidity position, the Board recommends a final cash Dividend of BDT 55 per share i.e. amounting to BDT 3,300,000,000 for the year 2015, translating into 56.45% of Profit after Tax, to be approved in the 43rd Annual General Meeting of the Company.

After approval of the above mentioned proposed final dividend, the summary of the total dividend paid in 2015 is represented below:

Amount in Million BDT	2015	2014	2013	2012
<b>Profit after Tax</b>	5,846	6,282	4,924	3,942
Interim Cash Dividend	-	600	600	600
Final Cash Dividend @ Tk 55 per share	3,300	2,700	3,120	3,120
Retained Profit for Reinvestment	2,546	2,982	1,204	942

## Board of Directors

The Board of Directors of the Company consists of nine Directors. Out of the nine members in the Board, seven are non-executive Directors including three independent Directors and most of whom are also senior officials of the Bangladesh Government. The composition of the Board during 2015 was as follows:

- **Mr. Golam Mainuddin**  
Chairman, Board of Directors
- **Mr. Shehzad Munim**  
Managing Director
- **Mr. Kamrul Hasan**  
Non-Executive Director & Chairman CSR Committee  
(Resigned w.e.f. 8 September 2015)
- **Mr. Md. Mosharraf Hossain Bhuiyan ndc**  
Independent Director & Chairman, Audit Committee
- **Mr. K. H. Masud Siddiqui**  
Non-Executive Director
- **Mr. Mohammad Moinuddin Abdullah**  
Independent Director
- **Mr. Mikail Shipar**  
Independent Director  
(Appointed w.e.f. 15 March 2016)
- **Mr. Jalal Ahmed**  
Non-Executive Director
- **Mr. Md. Fayekuzzaman**  
Non-Executive Director  
(Resigned w.e.f. 22 February 2016)
- **Mr. Md. Iftikhar-Uz-Zaman**  
(Appointed w.e.f. 22 February 2016)
- **Mr. William Francis Pegel**  
Finance Director
- **Mr. Md. Azizur Rahman FCS**  
Company Secretary

Mr. Kamrul Hasan and Mr. Md. Fayekuzzaman resigned from the Board with effect from 8 September 2015 and 22 February 2016 respectively. The Board of Directors would like to put on record the excellent contributions towards the continuous improvement of the Company by them during their tenure as Non-Executive Directors and wish them every success in the future.

## DIRECTORS PROPOSED FOR RE-ELECTION

K. H. Masud Siddiqui and Mr. Md. Iftikhar-Uz-Zaman who were appointed to the Board after the last Annual General Meeting shall retire in the ensuing meeting. Mr. Jalal Ahmed shall also retire from the Board by rotation at the 43rd Annual General Meeting. All the retiring Directors, being eligible, are proposed for re-election at the 43rd Annual General Meeting.

In accordance with the Articles of Association of the Company, Mr. Golam Mainuddin having reached the age above 65 years shall retire at the upcoming General Meeting. However, being eligible, he is also proposed for re-election at the Meeting for one year i.e. until the conclusion of the 44th Annual General Meeting.

## Appointment of Independent Directors

Mr. Mohammad Moinuddin Abdullah was re-appointed as Independent Director and Mr. Mikail Shipar was also appointed as an Independent Director by the Board of Directors in its meeting dated 15 March 2016. As per the notification of BSEC the appointment of Mr. Mohammad Moinuddin Abdullah and Mr. Shipar would be placed for approval at the 43rd Annual General Meeting.

## Board Subcommittees:

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

## BOARD AUDIT COMMITTEE

As per stipulations of the Bangladesh Securities and Exchange Commission (BSEC) Guidelines, the Board has constituted an Audit Committee which is mentioned in the Compliance Report enclosed herewith. The Committee comprises of Mr. Md. Mosharraf Hossain Bhuiyan ndc (Independent Director & Chairman of Audit Committee), Mr. K. H. Masud Siddiqui, Mr. Md. Fayekuzzaman and Mr. Golam Mainuddin. However, effective 22nd February 2016, Mr. Md. Fayekuzzaman has been replaced by Mr. Iftikhar Uz Zaman. All the members of the Committee are non-executives Directors

and the Chairman of Audit Committee is an Independent Director. The Audit Committee met four times during the year 2015. All the members were present in all meetings of the Committee. Mr. Md. Azizur Rahman, Company Secretary served as the Secretary to the Audit Committee. Our Internal Audit Manager, Mr. Towhid Akbar, had presented the audit findings to the Audit Committee in the meetings. The key performances of the Audit Committee during the year were as follows:

- Reviewed and recommended to the Board the quarterly and annual financial statements.
- Considered and recommended to the Board the appointment and remuneration of the Statutory Auditors and Compliance Auditor of the Company.
- Reviewed and appraised the performance of the internal control system.
- Reviewed and recommended to the Board the Internal Audit Plan and monitored the progress about the same.
- Discussed the Internal and External Audit Report and findings therein with the auditors, members of Management and monitored the status of implementation of recommendations therein.
- Reviewed and considered the report on matters as required under the BSEC Guidelines.
- Reviewed the Loss and write-off report.

## BOARD COMPENSATION COMMITTEE

The Board Compensation Committee makes recommendations to the Board on terms of employment of the members of the Executive Committee, managers and employees. This Committee met two times in 2015, and is headed by a Non-Executive Director. The other members include the Managing Director and the Finance Director. The Head of Human Resources functions as the Secretary to the Board Compensation Committee.

## BOARD CSR COMMITTEE

The Board Corporate Social Responsibility (CSR) Committee is comprised of four Directors, of which, an Independent Director is the Chairman. The constituents of the Committee are Mr. Mohammad Moinuddin Abdullah (Chairman of CSR Committee), Mr. Mikail Shipar, Mr. Jalal Ahmed and Mr. Shehzad Munim. The purpose of the Board CSR Committee is to ensure long term sustainability of Company aspirations and management of the Company's CSR initiatives. The initiatives are managed in a way that secures business stability and creates positive image and reputation of the Company amongst the stakeholders and establishes the Company's commitment to the nation at large. The CSR committee met 1 (one) time in 2015.

## GOING CONCERN

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

## THE SYSTEM OF INTERNAL CONTROL

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

## DIRECTORS' DECLARATION AS TO FINANCIAL STATEMENTS

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

- The financial statements, prepared by the Management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- Proper books of account of the Company have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment;
- The International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure therefrom has been adequately disclosed;
- The system of internal control is sound in design and has been effectively implemented and monitored;
- There is no doubt, whatsoever, upon the Company's ability to continue as a going concern;

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

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

## RETROSPECTIVE TAX DEMAND BY LTU- NBR

On November 2013, the Large Taxpayers' Unit-Value Added Tax (LTU-VAT) authority of National Board of Revenue (NBR) claimed BDT 1,924 crores, as retrospective tax demand from the Company for the sale of the Company brands Bristol and Pilot during the years 2009 to 2013. The Company immediately protested the said claim to the Commissioner LTU-VAT as well as the NBR and also engaged with the senior relevant officials of the Government. The Company also filed two writ petitions before the High Court challenging the retrospective Tax demand by the NBR. Accordingly, the High Court stayed the retrospective tax demand along with a Rule upon the concerned VAT Authorities. However, the VAT Authorities appealed against the stay orders and after several hearings at the Appellate Division as well as the High Court, the matter was sent back to the Commissioner, LTU-VAT for adjudicating the same on merit taking into consideration the Company's objections raised in the writ petitions. Subsequently, the NBR authority, the Honourable Finance Minister and the Honourable Law Minister had a meeting together to redress our grievances. As an outcome of the meeting, the Law Ministry was entrusted to give their opinion within the purview of the VAT Law. The Law Ministry gave a clear opinion by which it was confirmed that the VAT authorities' retrospective VAT demand from the Company was not within the purview of law, hence illegal. Despite the Law Ministry's clear opinion, the Commissioner, LTU-VAT finalized the demand against the Company without taking into consideration the said opinion. BATB challenged the demand in the High Court which is currently pending. In the meantime the Company continues to engage with the relevant stakeholders to try and reach an out of court resolution.

The Company always obtained price approvals of Bristol and Pilot from the LTU-VAT authority of NBR on the prescribed price declaration form every year just after the national budget declaration. As such it is totally unjustified and against the principles of natural justice to put the blame of wrong declaration and demand of such huge claim on the Company and to ask to pay the amount.

On the other hand, the Company sold Bristol and Pilot to millions of consumers in different parts of the country at the approved price of LTU-VAT and duly paid taxes to the Government Exchequer as per the rate of taxes in each respective year. Furthermore, the principle of VAT is to collect taxes from the consumers on the basis of

consumption and it will now be impossible to realise the additional taxes from them. Moreover, LTU-VAT authority has not alleged or shown any evidence to the effect that the Company had collected price differential of Low and Medium segments from the customers. As such, the Company strongly believes that the demand to pay the taxes is devoid of logic and fairness and against the VAT law. This has also been confirmed by the Ministry of Law's opinion on this issue.

## OTHER REGULATORY DISCLOSURES:

- The Company is aware of its various risks and concerns, mainly from the policy and regulatory fronts, and is prepared to meet those by systematic control. Financial risk management has been disclosed under note 33 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 34 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 2015.
- During the year, the Company has paid a total amount of BDT 80,250 as Board meeting attendance fees. The remuneration of Directors has been mentioned in Note 34 of the Financial Statements.
- All significant deviations from the previous year in operating results of the Company have been highlighted and reasons thereof have been explained.
- The key operating and financial data for the last five years have been disclosed in the Directors' Report.
- The Company has proposed both interim and final dividends for the year 2015.
- During 2015, a total of 12 (twelve) Board meetings were held, which met the regulatory requirements in this respect. The attendance records of the Directors are shown in Annexure-1 to this report.
- Shareholding patterns of the Company as on 31 December 2015 are shown in Annexure-1 to this report.
- The Directors' profiles have been included in the Annual Report as per BSEC Guidelines.

## CORPORATE GOVERNANCE COMPLIANCE STATEMENT

BATB believes that enriched corporate governance contributes to the long term success of a company and creates trust and engagement between the company and its stakeholders. Accordingly, the Board of Directors and Management are committed to continuously strive for the highest standards in governance to ensure that the business and its affairs are in strict adherence to the doctrine and principles of proper governance such as integrity, transparency, accountability and responsible business conduct to safeguard the interests of its shareholders and stakeholders. It is the responsibility of the Company Secretary, being a governance official in the Company, to ensure effective compliance of rules and regulations in this respect.

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

In this respect, we have the pleasure to confirm that the Company has, complied with all the necessary guidelines under BSEC Notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated 7 August 2012. The Compliance Report along with the necessary remarks and disclosures is appended in this Annual Report for the year 2015. Further, a Certificate of Compliance required under the said Guidelines, as provided by M/s. Al-Muqtadir Associates, Chartered Secretaries, is also annexed to this report.

### AUDITORS

As per requirements of law, the current statutory auditors KPMG Rahman Rahman Huq, Chartered Accountants, will retire at the 43rd Annual General Meeting. They have expressed their willingness to be re-appointed for the year 2016 at the same fees. Based on suggestions of the Audit Committee, the Board recommends the re-appointment of KPMG Rahman Rahman Huq, Chartered Accountants as the

statutory auditors of the Company for the year 2016 and for continuation up to the next AGM at a fee of Tk. 8,00,000 (Taka Eight lac) only and requests the Shareholders to approve the appointment.

### BUSINESS COMMITMENT

As always, the Board of Directors of the Company stands firm in its commitment towards discharging its patrician responsibilities towards the innumerable stakeholders. And the Board has been quite alert on this from the very inception. Tracing back to origin, it was more than 100 years ago, when the Company established itself on this land of opportunities and possibilities - Bangladesh. Since independence, BATB has demonstrated an unwavering dedication to the country and its people and this commitment is what sets the distinction that takes BATB apart from any other business entity. This uniqueness is reflected through the passion and dedication of its employees and business partners that has brought of BATB across the country and to its today's height. BATB is listed on both Dhaka and Chittagong Stock Exchanges and is currently the highest taxpayer. In this year alone we have contributed Taka 11,051 crores to the Government exchequer in the form of supplementary duty & value added tax and other levies. We aspire to continue to be the highest taxpayer in Bangladesh in the coming years too. 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.

### RESPONSIBLE TOBACCO CULTIVATION

In order to meet both of our domestic and export requirement around 35,000 registered BATB farmers are involved in production and supply of high quality tobacco. Our partnership with these farmers has been a win win situation. The farmers grow a portfolio of crops round the year and tobacco crop takes only 3-4 months in the main field during winter season. It helps in crop rotation which is one of the best practices for improving soil health and crop productivity. Moreover, farmers have been replicating the Good Agricultural Practices into the other crops which they commonly used for tobacco cultivation; hence they could improve their overall farm productivity. Tobacco is a high value crop and grown mostly on demand through contract growing system. Hence the farmers have a guaranteed market with no middlemen in the system. Tobacco sales proceeds is transferred to farmers' bank account directly. The cash flow from tobacco crop is a good source of funds for buying the crop inputs - seeds, fertilizer, etc, for the other crops and hence the farmers can avoid the high interest borrowing from the conventional rural credit system. Sustainability is the key area of focus for improving

the livelihood of the farming community while we work together with our farmers. It is worth mentioning that average yield of tobacco crop has been improved from 700 kg/ha (1980) to 2200 kg/ha (2015). Hence, our farmers are catering our demand of quality tobacco by using relatively less land than any time before. Currently, tobacco cultivation occupies around 0.61% only of the total cultivable land in Bangladesh. Tobacco is the crop that belongs to the family Solanaceae (like Potato, etc) and required a normal dose of fertilisers. In fact, fertiliser requirement to tobacco crop significantly lower than Potato, Sugarcane and Maize which are commonly grown crops in Bangladesh. Tobacco farmers use balance dose of fertilisers for the better production maintaining soil health. Moreover, tobacco farmers implemented soil health management best practices like Green Manuring through Dhaincha (*Sesbania* sp) cultivation and use of farm manure & compost. In every year, the Company purchased Dhaincha seeds to distribute among the farmers at free of cost. In the year 2015, the Company brought over US \$ 26 million in the country from tobacco leaf export which supports government export drive. In conclusion, the Company is highly committed to ensure social responsibilities in tobacco leaf cultivation.

#### AWARDS & ACHIEVEMENTS

Our stupendous performance and management, in the year 2015 has led us achieve some prestigious awards from different credible organisations. In 2015 the Company was awarded with the following recognitions:

- ICSB Corporate Governance Excellence Award
- Most Female Friendly Organisation Award
- Asia Responsible Entrepreneurship Awards for water filtration Project- Probaho
- National Productivity and Quality Excellence award from Government
- Best Employer Award
- 19 Local Government Awards (1st Prize) for Afforestation in different districts

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

#### EXPECTATIONS IN 2016

British American Tobacco Bangladesh had an ambition to provide to its countless brand users with quality products, to its numerous stakeholders of trusted business relationship and to the Bangladesh society at large with sustainable

support in whatever form that it could. This recognizes the Company's utmost urge and aspirations to be at the service and utility of the people and society where it operates. Now, looking ahead in 2016 and far beyond, BATB cherishes to go ahead with the same zeal that it had started even 100 years ago, to be the number one Company in turnover, in partnering with the national exchequer and in assisting the people in success, so as to operate as a social responsible Company.

#### ACKNOWLEDGEMENTS

The Board of Directors firmly believes that BATB has the necessary strengths, resources and commitments to further propel the Company to newer heights. The performance in 2015 is indeed a tribute to the pledge, promise, energy and hard works of our Directors, Management and employees together. And keeping that in mind, the Members of the Board would like to place on record their high appreciation to the valued Shareholders and all other Stakeholders of the Company for their persistent support and guidance. The Board would also like to thank each and every customer for their continued support and for making Company brands their preferred choices. The Board also recognises that its journey to accomplishments during the year was possible because of the cooperation, positive support, and guidance that it had received from the Government of Bangladesh, particularly the Ministry of Finance, Ministry of Commerce, Ministry of Agriculture, Ministry of Forest & Environment and Ministry of Housing & Public Works, National Board of Revenue, Board of Investment, Bangladesh Securities and Exchange Commission, Stock Exchanges and other stakeholders. The Board would like to appreciate the support from BATB's bankers, insurers & financial institutions, vendors, the Press & Media, business partners and all of our employees. Accordingly, the Board offers its utmost gratitude to them.

We also extend to the management and employees our warmest thanks for being the essential part of BATB during the year. It was their unrelenting commitment, dedication and diligence throughout the year that led to the Company achieving the results, awards and accolades in 2015.

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

On behalf of the Board of Directors,



**Golam Mainuddin**  
Chairman

22 February 2016



**Shehzad Munim**  
Managing Director