

DIRECTORS' REPORT 2020

Dear Shareholders,

It is a pleasure and privilege on the part of the Board of Directors to present the Directors' and Auditor's Report, together with the audited financial statements, of British American Tobacco Bangladesh Company Limited (BAT Bangladesh or BAT Bangladesh or the Company), for the year ended 31st December 2020.

Strategic pillars of our business

We had started the year 2020 on a high note, but as the days progressed, the path became tougher and increasingly challenging when the country was impacted by the COVID-19 pandemic and went into a virtually complete lockdown, threatening business continuity. However, we have converted these challenges into opportunities and established that BAT Bangladesh is more than just a business entity. We looked after our employees, management, field-force, retailers and farmers through benchmark measures and practices and supported the community by distributing hand sanitisers and masks. On the business front, sales and distribution was extremely challenging during the lockdown period, yet we explored alternative distribution models to ensure product availability, wherever possible. The challenging economic conditions and business environment gradually started to rebound from September 2020 onwards. With Government and other regulatory support, we capitalised on the opportunity to drive business performance for a better tomorrow and eventually ended the year with the desired performance. We believe that the resilient and optimistic character that we have built in 2020 will pave the way for a better tomorrow, enabling us to remain on the path of sustainable value creation for our stakeholders and for the national exchequer. Despite the onset of the COVID-19 pandemic in 2020, the Company performed up to our expectations.

COMPANY PERFORMANCE

BAT Bangladesh sustained expected level of sales volume in 2020, despite challenging operating conditions. A focused sales and distribution drive during COVID-19 the lockdown months through alternative distribution models brought results for the Company.

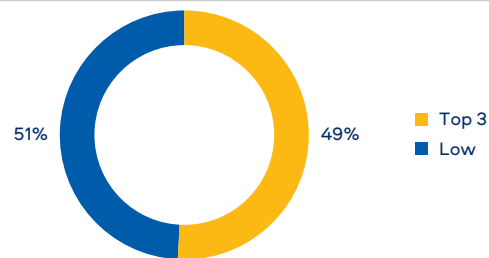
Due to the unprecedented affordability stretch from the COVID-19 induced financial pressures, we observed accelerated down-trading, or consumption contraction, in the top-3 segments as consumers looked to managed their expenses more efficiently. As a result, the top-3 segments witnessed a decline of 38% in 2020 vs. 2019, while that of the low segment growth was facilitated by accelerated down-trading from the top-3 to low segment brands and more convenient price points.

From our previous 2 years' experience, it is important to mention that price increase in low segment always triggers consumers to switch to cheaper/duty-evaded illicit cigarettes, rather than reducing consumption. However, despite low segment price increases post the 2020 budget, estimated illicit cigarette sales did not grow further mainly due to the pandemic-induced supply chain issues and also

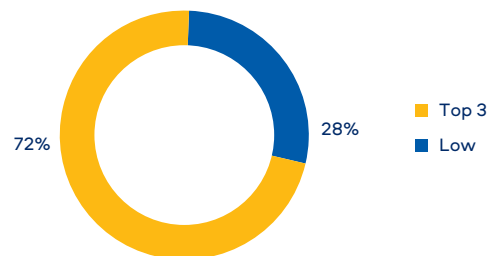
for the continued initiatives against illicit trade from the Government's law enforcement agencies. The anti-illicit trade initiatives from Government bodies need to be continued with strict enforcement to sustain the performance of the legal tobacco industries and reduce any potential revenue loss for the Government and most importantly restraining people from consuming illicit cheaper cigarettes.

BAT Bangladesh's Segment wise volume contribution is given below:

2019 [Jan-Dec Volume Contribution]

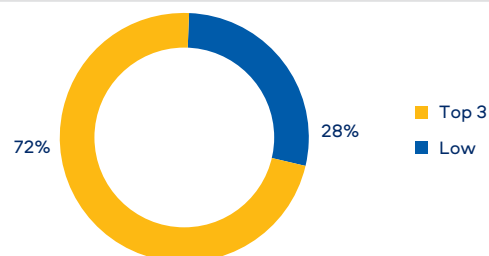


2020 [Jan-Dec Volume Contribution]

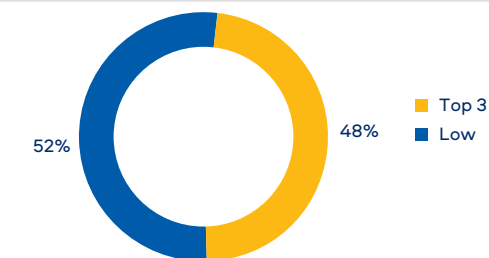


The following chart also shows BAT Bangladesh's segment wise volume contribution and corresponding government revenue contributions in 2020:

2020 [Jan-Dec Volume Contribution]



2020 [Jan-Dec Govt. Revenue Contribution]



BAT Bangladesh delivered 7% higher Government revenue in 2020 vs. 2019. In the full year of 2020, Government revenue from top-3 segments declined by 19% vs. 2019, while that of the low segment grew by 64%. The year 2020 has been a greatly challenging one for the tobacco industry. With early signs of an economic rebound and accelerated pace of infrastructure development, the year 2021 should witness a turnaround in performance in terms of Government revenues. The industry and Government need to continue on its focus on driving enforcement against Illicit cigarettes as well as smuggling to prevent any potential revenue loss in 2021.

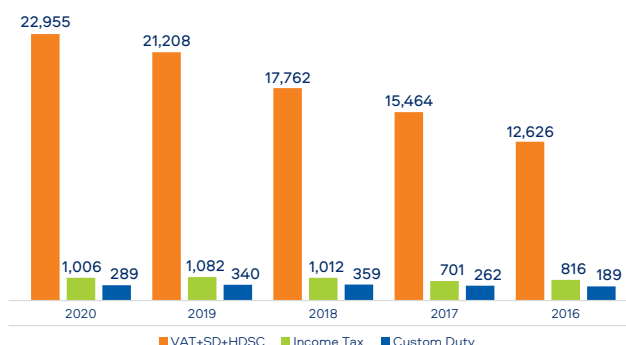
BAT Bangladesh's segment-wise performance overview is provided below:

- Benson & Hedges:** The brand declined by 20% in H1'20 vs. H1'19 mainly driven by price increase post the 2019 budget, and the situation was compounded due to the accelerated down-trading from COVID-19 induced financial pressures. However, with our continued focus on the segment and with the economic rebound witnessed in H2'20, B&H registered 1% growth in H2'20 vs. H2'19, an encouraging sign for the future.
- John Player Gold Leaf:** John Player Gold Leaf variants launched in Q1'20 were able to garner an encouraging response from consumers. With this exciting launch and with sustained focus on the brand, John Player Gold Leaf family registered 5% growth in 2020 vs. 2019.
- Star:** The brand experienced a substantive growth momentum and registered a 21% growth in 2019. Yet, the stretch on affordability and price positioning accelerated down-trading to the low segment to the extent of 66%.
- Low brands segment:** We have ensured continued focus on low segment brands through the right sales and distribution strategy across the country during the entire COVID-19 period. Product availability in all retail outlets was ensured during COVID-19 the lockdown months and the post lockdown period too, maintaining product quality integrity at all times.

BAT Bangladesh's Contribution to the National Exchequer

In 2020, BAT Bangladesh contributed BDT 24,250 crore to the Government exchequer as value added tax (VAT), supplementary duty (SD), health development surcharge (HDSC), corporate tax and custom duty. This represents an increase of BDT 1,620 crore over the previous 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 tobacco is a matured industry, it must not be stretched too far without considering the market dynamics and the consumers' ability to absorb price elasticity, and avoid growth of illicit and smuggled cigarettes.

Contribution to National Exchequer



The Company recognises the Government's revenue growth targets, and the industry has been working with the National Board of Revenue (NBR) over the years to ensure sustainable revenue growth from the cigarette industry.

While listed companies in all other sectors enjoy a preferential corporate tax rate, there is a higher tax rate applicable for cigarette companies. We strongly feel that by targeting the corporate tax structure of a listed manufacturer, it will appear to be disincentive for the other cigarette manufacturers to join in the capital markets. The Company believes that the Government will discontinue with 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 in the upcoming National Budget.

Productivity

The year 2020 had been an exceptional one for BAT Bangladesh, as it experienced an unexpected volume demand from consumers. The year started on strong product demand due to non-availability of other company's products.

On the factory front, 'Integrated Working System (IWS) Phase-1' was accredited, with the main goal of operations comprising the journey to "Integrated Working System Phase-2" and deliver even amidst the ever-changing demands and needs of consumers. To cater to this goal, the Company took a structured approach in factory planning, ensuring multiple productivity initiatives, pre-planned machine maintenance and investment in enhancing asset efficiency. The focus of the business operations was geared towards ensuring the health and safety of all frontline employees without compromising business needs. Several measures were undertaken, such as providing care packages, transportation, work area sanitisation, social distancing and 24/7 doctor support for all employees. Employees were kept engaged to keep up morale, and all these measures not only ensured productivity, but also turned 2020 as one of the best

years yet. BAT Bangladesh became a benchmark for the BAT group, demonstrating best practices of working in the new normal and was also awarded the prestigious “A Better Tomorrow Award 2020”.

To keep up with the ever-changing demands of consumers, BAT Bangladesh made some capital investments in adapting to the new ways of working- both in terms of manufacturing and employee capability development. Key investment was made in terms of new product growth and many of the capability development projects required support from our experienced personnel. Due to travel restrictions, it was difficult to arrange overseas expert support. This challenge was circumvented by adapting to the new normal and utilising remote platforms, like Dynamics 365 Remote Assist, and local teams were guided by skilled foreign personnel to ensure timely completion of projects.

Cost of Goods Sold and Profit Margins

The overall cost of goods sold increased during the year, mainly due to higher production, higher product cost and COVID-19 specific costs to keep manufacture running abiding the health guidelines recommended by the Government. However, despite the increase in costs by 3%, we managed to increase the year-on-year gross profit margin by 1% by taking various efficiency measures and cost savings initiatives across a wide array of spectrums.

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’ which indicate that Bangladesh will remain a vulnerable country to the impact of climate change in the decades ahead. In this context, BAT Bangladesh 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 pioneer in corporate social responsibility initiatives in Bangladesh and is continuing with its three flagship initiatives, viz. afforestation programme (Bonayan), Solar energy programme in off-gride areas (Deepto) and safe drinking water programme in arsenic areas (Probaho), to create an enduring positive impact in communities around which we operate and in the extended environment.

Our afforestation programme, ‘Bonayan’, took root in 1980 in collaboration with the Forest Department of Bangladesh Government and, since then, the Company has distributed 110 million saplings free of cost in and around our operational areas, including 5 million saplings in 2020 which is 25% more than that of 2019. Today, BAT Bangladesh’s afforestation platform is the largest private sector-driven afforestation programme of the country.

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 four 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, BAT Bangladesh has taken up a project named ‘Probaho’ in arsenic-prone rural communities, supplying more than 550,000 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 Goal (SDG) of clean water and sanitation. So far, 107 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 270,000 people every day.

To complement Bangladesh Government’s efforts in the renewable energy sector, BAT Bangladesh has undertaken a project to install solar home systems through the ‘Deepto’ project in villages that are in remote, off-grid areas of the Chittagong Hill Tracts. Under Deepto, BAT Bangladesh 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 15,000 rural people their first access to electricity at home.

Also, successful initiative is in place to convert the landfill waste from operations into Briquettes as alternate source of fuel.

In addition to the flagship CSR projects, BAT Bangladesh has built an effective partnership with its farmers for agricultural sustainability through implementation of good agricultural practices of national & global standards. Company’s Leaf Department relentlessly working with around 33,000 contracted farmers of rural areas for their sustainability and better livelihood. BAT Bangladesh’s contract farming system has been established as a proven model, and the Company proactively sets high standards in agricultural best practices. Green manuring, Integrated Pest Management (IPM), Alternate Furrow Irrigation (AFI) are a few among many initiatives driven by the Leaf Department of BAT Bangladesh for agricultural sustainability.

Supporting farmers for Green manuring by Dhaincha (*Sesbania spp*) is an effective approach to enrich soil fertility. Dhaincha stick is also promoted as an alternate fuel in leaf growing areas. Till date, we have distributed 2,985 MT of Dhaincha seeds free of cost among our contracted farmers. Moreover, the Company provides technical know-how & other supports to establish low cost compost pits to produce farm yard manure for enriching soil fertility. .

In 2005, BAT Bangladesh 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 protection practices. For the past couple of years, BAT Bangladesh has established 75 IPM clubs across tobacco-growing areas with the aim of driving farmers' awareness on non-chemical pest management, and also safe use of agrochemicals. The primary objective of IPM clubs is to reinforce Government's initiatives to reduce farmers' dependency & use of agrochemicals. As a result of these ongoing awareness programs, farmers have become more conscious and cautious about the use of chemical pesticides in farming and have adopted the use of sustainable alternatives. The Company has been awarded with the Asia Responsible Entrepreneurship Award 2018 in the 'Social Empowerment' category by Enterprise Asia for its IPM Club initiatives.

For most judicious use of Irrigation water BAT Bangladesh contracted farmers being encouraged to use Alternate Furrow Irrigation for winter crops that grown in rows and it saves almost 20% water. The practice of Alternate Furrow Irrigation has been recommended by Bangladesh Agricultural Research Institute (BARI) for most of the crops grown in rows.

Supporting farmers for Affordable mechanisation in farming in alignment with Govt initiative, safe disposal program of empty CPA (Crop Protection Agent) containers, popularizing short duration rice varieties among farmers to accommodate three crops in a year, biodiversity conservation, alternate of wood fuel for tobacco curing, Bondhusheba - digital messaging platform for fast communication with contracted farmers, etc., are other programs and initiatives driven by Leaf Department to ensure environment and agricultural sustainability as well as improving farmers' livelihood.

BAT Bangladesh, as a responsible corporate, embraced the opportunities to work for uplifting farmers' livelihood and thereby fulfilling the agricultural sustainability agenda, in collaboration with the Integrated Farm Management Components (IFMC) project of DAE. The Project authority has been kind to extend their support over the years to train the Field Technicians & Leaf Management of BAT Bangladesh on Integrated Farm Management Components.

Since 2016 IFMC experts of DAE trained 135 management & staffs of BAT Bangladesh on IFMC. As part of our drive for capability building and farm women empowerment, 30 progressive farm women in Khagrachari has been trained on IFMC who are now earning additional income through production of mushroom.

During the onset of the COVID-19 Pandemic, farmers in rural areas were struggling to transport and sell their farm produce. Under such situation the Leaf management took the lead to arrange all required safety measures for the farmers and employees, show cased that to the local government authority securing permission to buy tobacco

from the farmers despite lockdown and thus the farmers could sell their produce on time to fund their immediate next crop. BAT Bangladesh believes in enhancing the standard of living of farmers and recognises their huge contribution in achieving BAT Bangladesh performance. The contribution of our hardworking farmers who are supplying raw materials during this pandemic period held achieving this exemplary achievement we want to put on record their participation in our journey.

Even at the face of global pandemic, the company has ensured fulfilment/shipment of export orders for leaf to the customers across 17 overseas destinations covering most of the continents i.e Asia, Africa, Europe, America & Russia. In addition to Leaf Export, the Company has broaden its customer base through export of high-quality cigarettes to increase forex earning.

The Company has an economic impact both in terms of revenue generation for the Government as well as employment generation, as it employs more than 1,500 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. COVID-19.

MANUFACTURING CAPACITY IMPROVEMENT

BAT Bangladesh has made capital investments from time to time to increase manufacturing and warehouse capacity across its different locations in the country to explore export opportunities of cigarettes from Bangladesh. In 2020, the Company made further investments in existing warehouses to make optimal use of capacity. Proper storage of finished goods is a key measure to ensure meeting the quality expectations of local consumers and also for export opportunities. These initiatives were found to be extremely useful relating to productivity and efficiency improvements and to meet demand from domestic markets and export opportunities, especially during the pandemic. The distribution of finished goods was a big challenge, yet the supply chain ensured 100% on-time supply even during the peak COVID-19 period, without any additional cost.

WINNING ORGANISATION

The exemplary performance of BAT Bangladesh in 2020 can be credited to our committed and talented people, and the efficiency of our teams. BAT Bangladesh'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

BAT Bangladesh into an organisation that is ever vibrant and dynamic.

The Company focuses on providing learning and growth opportunities to its people with the aim of developing leadership capabilities to facilitate them to realise their full potential. This is executed by providing them with the right opportunities to learn from their leaders and mentors and through applying BAT’s globally-recognised learning and development platforms. 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, 84 employees were hired, 75 employees were transferred to other roles and 50 were promoted. International assignments were given to 10 Bangladeshi managers, taking the total count of Bangladeshi managers posted internationally to across 34 countries like Japan, Hong Kong, Singapore, Indonesia, Poland, Australia and the UK. Additionally, 180 employees were provided with leadership and functional skills training.

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 17th glorious edition in 2020. BoM has witnessed massive success in Bangladesh, ever since its inception in 2004, in effectively grooming thousands of young leaders who have left a trail of success in the country and all across the globe. Battle of Minds witnessed its inaugural global launch in 2018, becoming BAT Group’s international talent platform involving thousands of young change makers the world over.

This time, faced with the challenges of the pandemic, the Battle of Minds (BoM) team superbly navigated across uncertainties and designed a 360-degree digital experience for all, including virtual lobbies for University roadshows and boot camp, leadership symposium, Masterclass on skill development with multiple SMEs and cross-industry and cross-country alumni connect. Leading the digital integration, the project team achieved the highest-ever registrations of 2,800+, with as many as 1,400 students connected through campus engagements, overall reach of 9 million and 103,500 social media engagements, eventually resulting in over 150 students being in the talent pipeline.

At the same time, BAT Bangladesh 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 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 and more meaningful bonds with each other, which enables us to collectively strive and aspire for a better tomorrow.

ENVIRONMENT, HEALTH AND SAFETY

BAT Bangladesh 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 communications and awareness programs for managers, employees and contractors throughout the year. Moreover, a week-long campaign titled ‘EHS Awareness Week’ was arranged focusing on safe work practices on the production floor, in warehouses and in offices.

WORK FROM HOME INITIATIVES

Employee safety emerged as our top priority during the COVID-19 pandemic. Keeping our employees safe, productive and engaged, while also ensuring continuity of business, was a balance that we strived to achieve during the challenging period of the lockdown months. One of the effective ways in which we did so was by activating work-from-home (WFH), providing all our employees who could stay at home to do their work with robust and secure technology tools with activation of virtual platforms so that they could collaborate with each other, keep the lines of communication open and complete assigned tasks on time. Thus, through this crucial re-pivot of the workplace, we were able to ensure a “business as usual” approach as much as possible, while providing job security to all our employees.

THE BOARD OF DIRECTORS

BAT Bangladesh’s Board of Directors comprises a group of corporate specialists, professionals, highly qualified senior Government officials (nominated by the Government) and ex-Government officials. It comprises 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 and the three sub-committees of the Board (Audit, NRC, CSR Committee).

We believe that the Company’s Board includes all the core competencies considered relevant in the context of BAT Bangladesh. All our Directors have followed all regulatory compliances necessary for their Directorship, qualifying their membership on our Company’s Board. The composition of BAT Bangladesh’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. KM Ali Azam**, Non-Executive Director
- **Mr. Md. Abul Hossain**, Non-Executive Director

- **Ms. Mahmuda Khatun**, Non-Executive Director
- **Mr. Stephan Matthiesen**, Finance Director

Mr. Abdul Halim and Ms. Tahmina Begum resigned from the Board with effect from 21st June 2020. The Board of Directors would like to place on record their excellent contribution and support towards the improvement of the Company's business, good governance and in taking keen initiatives in different challenges during their tenure as Directors on the Board.

In compliance with the requirement of the Companies Act, 1994, the Board of Directors has re-appointed Mr. Shehzad Munim as Managing Director of the Company for another five years. The re-appointment of the Managing Director of the Company shall be placed before the 48th Annual General Meeting for the shareholders' vetting, as per the provisions of the Companies Act, 1994.

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. KM Ali Azam and Ms. Mahmuda Khatun, who were appointed to the Board as Non-Executive Directors nominated by the Government after the last Annual General Meeting, will retire at the forthcoming AGM. Mr. Mohammad Moinuddin Abdullah, Non-Executive Director, will retire by rotation at the ensuing AGM. All the retiring Directors being eligible, they offer themselves for re-election at the ensuing AGM.

In accordance with Article 99A of the Articles of Association of the Company, Mr. Golam Mainuddin, Chairman, having reached the age above 65 years, shall retire at the upcoming Annual General Meeting. However, being eligible, he is also proposed for re-election at the meeting for one year, i.e. until the conclusion of the 49th Annual General Meeting to be held in 2022.

Board Committees

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

Board Audit Committee

The Company has established an Audit Committee as per code 5.1(a) of the Codes of Corporate Governance (CGC) of BSEC. As required, the Report of the Audit Committee is included in this Annual Report. In 2020, the Committee comprised of Mr. A.K.M Aftab Ul Islam FCA, (Chairman of the Committee), Mr. Mohammad Moinuddin Abdullah, Mr. Md. KH Ali Azam, Ms. Mahmuda Khatun and Mr. Abul Hossain. All the members of the Committee are Non-Executive Directors and the Chairman of Audit Committee is an Independent Director. The Audit Committee met four times during the year 2020. Mr. Md. Azizur Rahman, Company Secretary, served as the Secretary to the Audit

Committee. The Company's Internal Audit Manager, Mr. Md. Zahidul Islam, presented the audit findings to the Audit Committee in the meetings. The key performance initiatives of the Audit Committee during the year were as follows:

- Reviewed and discussed the audit findings and risk assessment.
- Recommend to the Board the quarterly and annual financial statements.
- Considered and recommended to the Board the appointment and remuneration of the statutory and compliance auditors of the Company.
- Reviewed and appraised the performance of the internal control system.
- Approved the internal Audit Plan and monitored the progress along with actions implementation.
- Reviewed business continuity plan and internal control system.
- Discussed the internal and external Audit Report and findings therein with the auditors, members of the Management and monitored the status of implementation of the recommendations therein.
- Reviewed the related party transactions and codes of conduct of the Company.
- Reviewed and considered the report on matters, as required under the BSEC CGC.
- Reviewed the loss report, incident report, Speak-Up matters and write-off report.
- Reviewed the laws of the country in relation to business operations.

Board Nomination & Remuneration Committee

The Board has constituted a Nomination & Remuneration Committee (NRC) pursuant to code 6.1(a) of the Codes of Corporate Governance of Bangladesh Securities & Exchange Commission (BSEC). As required, the Report of the Nomination & Remuneration Committee is included in this Annual Report. Mr. K. H. Masud Siddiqui served as the Chairman of the Committee during 2020. Other members of NRC are Mr. Golam Mainuddin and Mr. Mohammad Moinuddin Abdullah. All members of the Committee are Non-Executive Directors and the Chairman of NRC is an Independent Director. The Nomination & Remuneration Committee met five times during the year 2020. Mr. Md. Azizur Rahman, Company Secretary, served as the Secretary to the Nomination & Remuneration Committee as per the BSEC CGC.

Board CSR Committee

The Board Corporate Social Responsibility (CSR) Committee comprises of six Directors, of which, a Non-Executive Director is the Chairman. The constituents of the Committee are Mr. Mohammad Moiunddin Abdullah (Chairman), Mr. A.K.M Aftab Ul Islam FCA, Mr. KH Ali Azam, Ms. Mahmuda Khatun, Mr. K.H. Masud Siddiqui and Mr. Abul Hossain. The CSR initiatives are part of the sustainability agenda of the Company. The purpose of the Board CSR Committee is to ensure long-term sustainability of the Company's aspirations and management of the

Company's CSR initiatives. These are managed in a way that secures business stability and sustains the positive image and reputation of the Company, while also establishing the Company's commitment to the nation at large. The CSR Committee met two times in 2020. The initiatives are aligned with the SDGs, and we are contributing to fulfil the Government's commitment to socio-economic development. Moreover, in 2020 the Committee took a number of sustainability initiatives, focusing on Environment, Social and Governance (ESG) principles while considering BAT Bangladesh's stakeholders' aspirations at large.

Key Performance of last 5 years

Operational results	2020	2019	2018	2017	2016
Profit after tax (BDT Cr)	1,089	925	1,001	783	758
Earnings per share (BDT)	60.48	51.37	55.62	43.50	42.12
Final cash dividend (BDT Cr)	1,080	720	300	360	360
Stock dividend ratio	1:2		1:2		
Number of shares	540,000,000*	180,000,000*	60,000,000	60,000,000	60,000,000
Cash dividend per share	60	40	50	60	60
P/E Ratio (as of 3rd March 2021)	25.69	-	-	-	-
Dividend Yield (as of 3rd March 2021)	3.9%	-	-	-	-

*Note: The number of shares include the bonus stocks, as per declaration in 2018 and 2020.

Dividend:

In view of the performance of the Company and considering the current liquidity position, the Board of Directors has recommended 200% stock dividend and 300% (BDT 30 per share) final cash dividend for the year ended 31st December 2020, to be approved at the ensuing 48th Annual General Meeting. The Board of Directors declared interim dividend 300% (BDT 30 per share) on 21st October 2020, based on audited third quarter financial statements as on 30th September 2020. With this recommendation of proposed cash and stock dividend.

Going Concern

The Directors are of the opinion that the Company is a going concern. This is recognised through appropriate enquiries and analysis, which establish that the resources are adequate to support the operations and that sufficient business opportunities do exist to justify the Company as a going concern, the Directors analyse the financial statements as such to ensure that status. Accordingly, the Financial Statements are prepared on a going concern basis and there is no doubt, whatsoever, upon the Company's ability to continue as a going concern.

Business Risks and System Of Internal Control

As with other co-existing entities, the BAT Bangladesh business is also exposed to diverse risks that arise both from internal as well as the 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 all material and financial risks that may hamper business results. The Company then systematically reviews those risks considering the changing internal and external environment to assess that controls that are in place are adequate to address those risks that are likely to impact the Company's business activities, operations, liquidity and financial position for future performance.

Looking ahead, in view of the pandemic uncertainties, BAT Bangladesh may also adjust its business strategies in future to adapt to global realities. This report further encloses a detailed discussion on the internal control framework under the Statement of Internal Control.

Related Party Transactions

Transactions with related parties are made on commercial basis on the principle of arm's length and are done in the ordinary course of business. Details of related parties and related party transactions are described in note 38 of the Financial Statements in this Annual Report as per requirements of relevant International Financial Reporting Standards (IFRS).

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 for the year ended 31st December 2020 of British American Tobacco Bangladesh Company Limited, the Directors confirm, to the best of their knowledge that:

- The financial statements, prepared by the Management of the Company, which was duly scrutinised by the external auditors, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- Proper books of account of the Company have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of the Financial Statements and that the accounting estimates are based on reasonable and prudent judgments;
- The International Accounting Standards (IAS) and/or IFRS 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 CGC, the Directors further confirm that:

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

during the year which are fraudulent, illegal or in violation of the Company's code of conduct.

Retrospective Tax Demand By LTU- NBR

BAT Bangladesh is the highest tax contributing Company in Bangladesh and ensuring compliance with the law is its highest prerogative. Nevertheless, on 23rd November 2013, Large Taxpayer Unit (LTU) of National Board of Revenue (NBR) served a retrospective VAT and SD demand for BDT 1,924 crore upon BAT Bangladesh 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.

On 25th July 2018, the Appellate Division of the Supreme Court of Bangladesh confirmed that allegations against BAT Bangladesh were unfounded and therefore the demands stand unlawful. Against the judgment of the Appellate Division of the Supreme Court of Bangladesh, the government filed a Civil Review Petition in March of last year. The hearing is yet to take place.

Writ Petition on Low Segment Price Tk 27/35

On the 1st of July, 2017, NBR issued a Special Order (SO) whereby it introduced discriminatory pack price and SD for local and international brands (BDT 27 per 10 stick pack at the rate of 52% SD for local brands and BDT 35 per 10 stick pack at the rate of 55% SD for international brands in low segment). Since the SO mentioned that it was not possible to legally replace the Government notification circulated in 2017 (exempting cigarettes from paying SD altogether) and considering the shortfall in Government revenue, cigarette manufacturers started selling low segment cigarettes at BDT 27 and paid 52% SD. On the other hand, BAT Bangladesh submitted the price declaration (VAT-1) at BDT 27 to the LTU-VAT which was neither questioned nor challenged in court by NBR. Moreover, NBR by another SO dated 7th June 2018, repealed the earlier SO dated 1st July 2017, with retrospective effect from 1st June 2017 to remove the discrimination in pricing and SD rates between local and international brands.

In January 2019, a competitor filed a Writ Petition by which it challenged the failure of the Government to implement the closing budget speech of the Hon'ble Finance Minister dated 27th June 2018 and reserving low segment for local brands and further challenged the legality of the 2018 SO of NBR. Upon hearing on multiple occasions, on 21st September 2020, the High Court (HC) passed the judgment in the matter. It did not find any merit in the argument of the competitor in relation to reintroducing discriminatory rates and therefore the HC discharged the rule. However, the HC declared the retrospective application of the SO dated 7th June 2018 illegal and held that any shortfall of revenue under the 2017 SO may be recovered from any party or manufacturer during the period of 1st June 2017 to 6th June 2018.

Subsequently, the LTU-VAT issued a Show Cause Notice dated 24th September 2020 following the HC judgment claiming unpaid VAT & SD of BDT 2,437 crore from 1st June 2017 to 6th June 2018. Being aggrieved, BAT Bangladesh moved a Civil Miscellaneous Petition (CMP) on 4th October 2020 and obtained stay on HC judgment. Since HC judgment is stayed, the Show Cause Notice proceedings shall also be deemed to have been stayed. Subsequently, BAT Bangladesh filed Civil Petition (CP) in the Appellate Division of the Supreme Court on 17th December 2020. The order of stay on HC judgment has been extended.

Other Regulatory Disclosures:

Pursuant to the BSEC Notification on ‘Code of Corporate Governance’ dated 3rd June 2018, the Directors of BAT Bangladesh also report that:

- The Company is aware of its various risks and concerns. The financial risk management has been disclosed under note section 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 38 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 2020;
- During the year, the Company has paid a total amount of BDT 99,000 as Board meeting attendance fees. The remuneration of Directors has been mentioned in Note 38 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 2020;
- During 2020, 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 the 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 31st December 2020 are shown in Annexure-1;
- Directors’ profiles have been included in the Annual Report as per BSEC Guidelines.

Corporate Governance Compliance Statement

The Board of Directors of BAT Bangladesh acknowledges that the Company, being a listed business entity, has a role to play in upholding the interests of all its stakeholders. Improved and enhanced governance practices are indispensable components for achieving sustainable performance. The Company believes that a well-nurtured governance culture is essential to success and sustainability. Accordingly, the Board of Directors and Management are pledge-bound to continue the implementation of the highest standards of governance at the Company through a culture of accountability, transparency, ethical business conduct and well-articulated policies and procedures. The Board of Directors of BAT Bangladesh has always played a pivotal role in meeting all stakeholders’ interests and is committed to upholding the same in the future as well. It is the responsibility of the Company Secretary, being the highest governance official in the Company, to ensure effective compliance to rules and regulations and ensuring proper timely disclosures in this respect.

The Company’s corporate governance framework is directed towards achieving its business objectives in a manner that is responsible and in accordance with the highest 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 greater involvement of stakeholders. The essential elements that define effective corporate governance of 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 BAT Bangladesh. 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 2020. Further, a Certificate of Compliance required under the said CGC, as provided by M/s Al-Muqtadir Associates, Chartered Secretaries, is also annexed to this report.

Financial Statements

The Board of Directors of British American Tobacco Bangladesh Company Limited would like to inform that the Financial Statements containing the audited accounts for the year ended 31st December 2020 are in conformance with the requirements of the Companies Act, 1994, IAS and IFRS as adopted and applicable, Securities & Exchange Rules, 1987 and the Listing Regulations of the Dhaka and Chittagong Stock Exchanges, and they believe that the financial statements reflect fairly the form and substance of all transactions carried out during the year under review and reasonably accurately present the Company's financial condition and results of its operations.

Statutory Auditor

As per the Companies Act, 1994 and the Articles of Association of the Company, the statutory auditors of BAT Bangladesh, Qasem & Co, Chartered Accountants, shall retire at the forthcoming AGM. Based on BSEC Order No. SEC/CMRRCD/2009-193/104/Admin dated 27 July, 2011, an audit firm cannot be engaged for more than three consecutive years as statutory auditors of the same company. The existing auditors, Qasem & Co. has been the statutory auditors of the Company for the past three years from 2017. Accordingly, in compliance with the BSEC order, we are required to appoint new statutory auditors for the Company. Rahman Rahman Huq, Chartered Accountants, has offered their willingness to be appointed as statutory auditors of the Company. On the suggestion of the Audit Committee, the Board has recommended their appointment for the year 2021, and continuation till the next AGM.

Compliance Auditor

Pursuant to code 9.2 of the Codes of Corporate Governance issued by BSEC, shareholders at the 47th Annual General Meeting (AGM) had appointed M/s Al-Muqtadir Associates, Chartered Secretaries, as the Compliance Auditor of the Company for the year 2020. 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 2021 would be placed before the shareholders at the 48th AGM of the Company for approval.

Business Commitments

The Board of Directors firmly believes that BAT Bangladesh 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 110 years ago, when the Company established itself on this land of opportunities and possibilities. Since independence of Bangladesh, BAT Bangladesh has demonstrated an unwavering dedication to the country and its people, and this commitment is what sets BAT Bangladesh apart from any other business entity. This uniqueness is reflected through the passion and dedication of its employees and business partners that has taken BAT Bangladesh to great heights. BAT Bangladesh is listed on both the Dhaka and Chittagong Stock Exchanges and is currently the highest corporate tax-payer in the country. In this year alone, we contributed BDT 24,250 crore to the Government exchequer in the form of SD, value added tax, income tax, customs duty and other levies. BAT Bangladesh has always cherished and shall continue to value its treasured relationship with the Government of Bangladesh, esteemed shareholders and other stakeholders of the Company.

Management Disclaimer for IDT Security

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

Awards & Achievements

Our remarkable performance and effective management capabilities in the year 2020 led us to achieve a number of prestigious awards from various credible organisations locally and internationally. In 2020, the Company was awarded with the following recognitions:

1. President Award for industrial development from the Government
2. Top Employer Award from the Top Employers Institute for three consecutive years
3. Highest Taxpayer Recognition by National Board of Revenue (NBR)
4. A Better Tomorrow Award from BAT Group
5. 20th ICAB National Awards for Best Presented

Annual Report & Governance

6. SAFA Award for Best Presented Annual Report
7. ICMAB Best Corporate Award
8. Bangladesh Supply Chain Excellence Award
9. Excellence in Supply Chain Professional of the Year

Details of these awards are mentioned in the achievements section of this Annual Report. These awards are constantly reminding us to enhance our level of performance to a greater height.

Expectations in 2021 and beyond

BAT Bangladesh has always been a people-oriented and socially-responsive entity. Being a public-facing Company, it aspires to provide consumers' preferred quality products to its numerous customers/brand users. Looking ahead in 2021 and beyond, BAT Bangladesh will move forward with the same zeal that it had started with almost a 110 years ago, to be the number one locally listed Company in turnover, in partnering with the national exchequer and in operating as a socially-responsible Company.

As a Company rooted in responsibility, we are committed to sound Environmental, Social and Governance ("ESG") practices. As we embraced the paradigm shift brought forth by COVID-19, we pivoted our business to the 'new normal' through resolute and forward-looking actions, channelling the intrinsic capabilities of our human capital to make rapid strides even in the face of evolving challenges. Moreover, the Company's initiatives for 2021 will bring about a positive change across the nation with various initiatives directed towards poverty alleviation, gender equality, human development and welfare, partnerships in green cultivation practices, prevention of arsenic contamination in water, forest preservation and extending sustainable modern energy to off-grid areas, which will facilitate a better tomorrow.

Acknowledgements

The year-end performance of BAT Bangladesh in 2020, despite many challenges, demonstrates the resolve and determination of the Board, the Management and the

people of the Company. At the same time, the Board also believes that the performance in 2020 is a collective result of the commitment, energy and hard work of our Directors, Management and employees together that have yielded positive results. In no small way was this derived from the relentless support and guidance from shareholders and numerous other stakeholders of the Company. Keeping these in mind, the Board would like to place on record their sincere 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 stakeholders, the Company's vendors and other business partners.

The Board would also like to extend its warmest gratitude to the management and employees for being an essential part of BAT Bangladesh during the year. It was their unrelenting commitment, dedication and diligence throughout the year that led the Company to re-pivot the business in continuing to achieve results and performance in 2020, with several awards and accolades bestowed upon the Company being a visible reflection of this commitment.

We are proud of you and look forward to your continued support, as we march ahead to take BAT Bangladesh forward as a leading partner in Bangladesh's business community.

On behalf of the Board of Directors,

10th February 2021



Golam Mainuddin
Chairman



Shehzad Munim
Managing Director