BRITISH AMERICAN TOBACCO KENYA

2015 Annual Report

Delivering Today Investing In Tomorrow

We are a strong company with over 10 brands sold in the Kenyan market. Our factory is one of the BAT Group's strategic manufacturing hubs for the Eastern Europe, Middle East and Africa region. We employ more than 470 people and we make cigarettes chosen by many of Kenya's adult smokers.

BAT Kenya's diverse strengths - Our strong heritage, our strong brands, our new product innovations and our talented people – are the foundations of our continuing progress.

We are a forward-looking company with a proven strategy that is delivering value for our shareholders. We are confident that our investments in the Kenyan market will ensure we continue to achieve sustainable growth in the future.

British American Tobacco Kenya Ltd Annual Report 2015

This is the Annual Report of British American Tobacco Kenya, comprising the Strategic Report, Directors' Report and the audited Financial Statements, for the year ended 31 December 2015. It has been drawn up and is presented in accordance with, and reliance upon, applicable Kenyan company law. The liabilities of the Directors in connection with this Report shall be subject to the limitations and restrictions provided by such law. A printed copy of the Annual Report is mailed to shareholders on the Kenyan main register who have elected to receive it. The Report is also emailed to those shareholders that have at any previous time indicated their email address.

Cautionary statement

The Strategic Report and certain other sections of the Annual Report contain forward-looking statements that are subject to risk factors associated with, among other things, the economic and business factors circumstances occurring from time to time in this market. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated

British American Tobacco
KENYA

What you will find in this report

The strength of our brands, continued focus on distribution excellence and the quality of our people have delivered yet another year of excellent performance in the domestic market.

Keith Gretton
Managing Director

Read our Managing Director's review on page 11

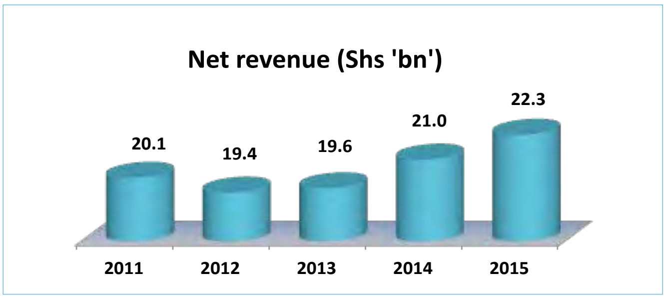
STRATEGIC REVIEW

GOVERNANCE

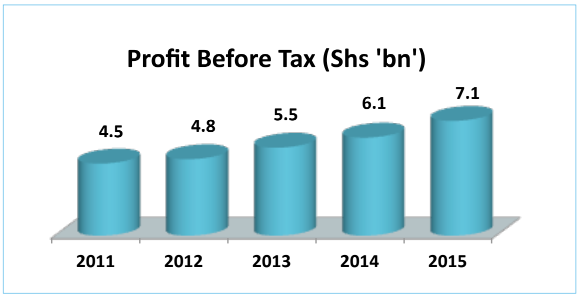
FINANCIAL STATEMENTS

OTHER INFRORMATION

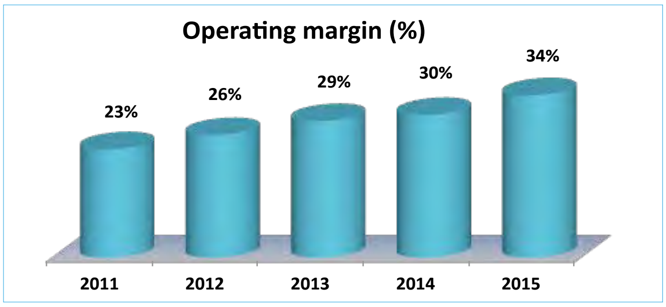
Comprehensive Growth



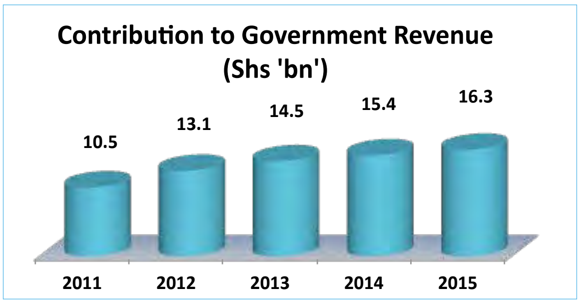
Net revenue was Shs 22.3 billion, an increase of 6% compared to 2014.



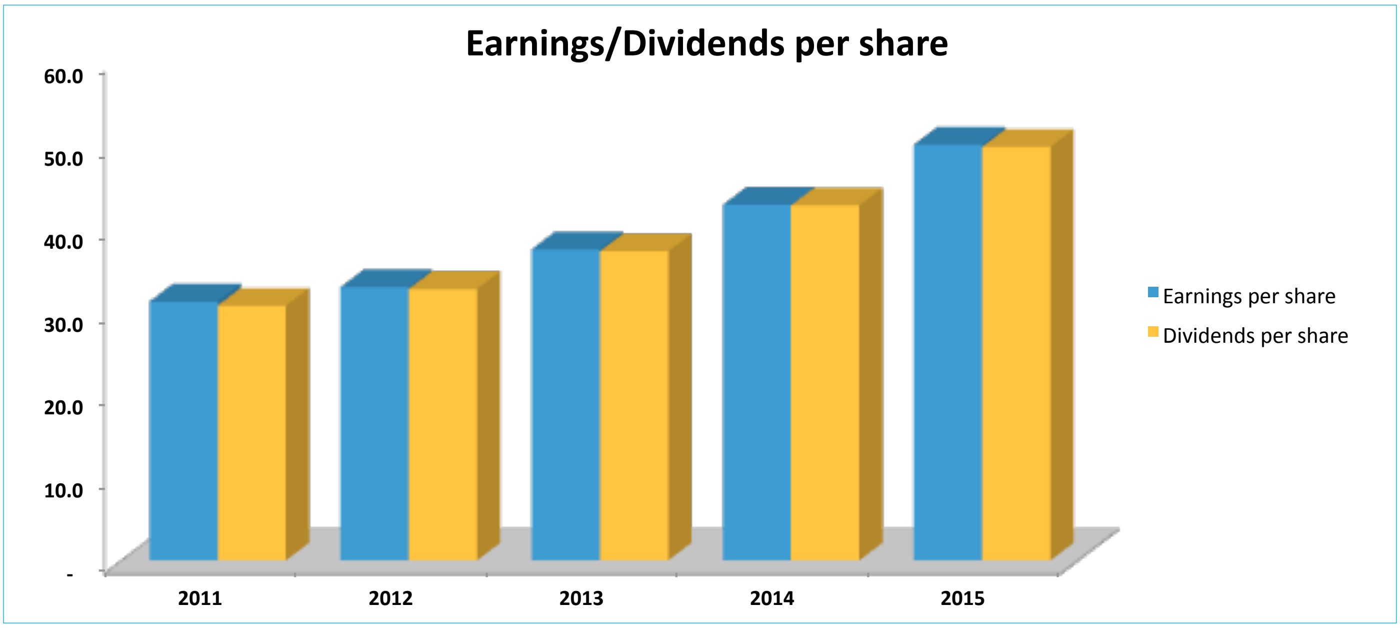
Profit before Income Tax was Shs 7.1 billion, an increase of 17% compared to 2014.



Operating margin was 34.5%, an increase of 4.2 percentage points compared to 2014.



Contribution to Government Revenue was Shs 16.3 billion, an increase of Shs 0.9bn compared to 2014.



Dividend per share increased by Shs 7.00 to Shs 49.60 compared to 2014.

Notice of the 2016 Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixty-Fourth Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ball Room, Hotel Intercontinental, Nairobi, on 12 May 2016, at 11:00 a.m. for the following purposes:-

Ordinary Business

1. To receive, consider and if approved, adopt the Company's audited financial statements for the year ended 31 December 2015, together with the reports of the Chairman, Directors and Auditors thereon.

2. To confirm the interim dividend of Shs 3.50 per ordinary share paid on 25 September 2015 and to declare a final dividend of Shs 46 per ordinary share payable, net of Withholding Tax, on 12 May 2016 to Shareholders on the Register at the close of business on 28 March 2016.

3. To elect Directors:

(i) Mr. K. Gretton retires and being eligible offers himself for re-election in accordance with Article 95 of the Articles of Association.

(ii) Mr. G. Maina, Mr. P. Lopokoiyit and Ms. C. Musyoka retire by rotation and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.

(iii) Mr. G. May having attained the age of 70 in March 2013 retires in terms of Article 98 of the Company's Articles of Association and being eligible offers himself for re-election.

4. To re-appoint KPMG Kenya as External Auditors of the Company and to authorise the Directors to fix the remuneration of the Auditors, so appointed.

Special Business

5. To consider and if appropriate, pass the following Special Resolution:

"That the name of the Company be changed from British American Tobacco Kenya Limited to British American Tobacco Kenya plc"

6. To consider and if appropriate, pass the following Special Resolution:

"That in compliance with provisions of the new Companies Act 2015, the existing Articles of Association of the Company be deleted in their entirety and replaced with the new amended Articles of Association set out in as Annexure 1 to this resolution."

By Order of the Board

R. T. Ngobi (Ms.)
Company Secretary
P.O. Box 30000-00100
Likoni Road
Nairobi

25 February 2016

NOTES:

1. Any Member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his/her stead. Such proxy need not be a member of the Company.

2. A proxy form is provided with this report. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the form to Custody & Registrar Services Limited, Bruce House, 6th Floor, Standard Street, P. O. Box 8484-00100, Nairobi or alternatively to the Registered Office of the Company so as to arrive not later than 2:30 p.m. on 11 May 2016.

3. A summary of the principal changes introduced to the company's Articles of Association are attached as Annexure 1 to this Notice. A copy of the amended Articles of Association may be obtained from Custody & Registrar Services Limited at the address indicated above. The Articles are also available for download from the Company's website at www.batkenya.com

Corporate Information

Board of Directors

Mr. G. Maina*	(Chairman)
Mr. K. Gretton	(Managing Director)
Mr. P. Lopokoiyit	(Finance Director)
Mr. G.R. May*	
Ms. C. Musyoka*	
Dr. J. Ciano**	
Mr. M. Janmohamed*	
Mrs. T. Mapunda*	
Mr. P. Mwangi*	
Ms. R. Ngobi	(Company Secretary)

Audit Committee

Mr. G.R. May*	(Chairman)
Mrs. C. Musyoka*	
Mr. M. Janmohamed*	
Mr. G. Maina*	(By Invitation)
Mr. K. Gretton	(Permanent invitee)
Mr. P. Lopokoiyit	(Permanent invitee)
Mr. D. Eloff	(Permanent invitee)
Mr. S. Munjanganja	(Permanent invitee)
Mr. S. Nthama	(Secretary)

Nominations Committee

Mr. G. Maina*	(Chairman)
Mr. G. May*	
Dr. J. Ciano**	
Mr. K. Gretton	(Permanent Invitee)
Ms. R.T. Ngobi	(Secretary)

Remunerations Committee

Dr. J. Ciano**	(Chairman)
Mr. G. Maina*	
Mrs. T. Mapunda*	
Mr. K. Gretton	(Permanent invitee)
Mr. P. Lopokoiyit	(Permanent invitee)
Mr. P. Ciucci	(Permanent invitee)
Ms. R. Belath	(Secretary)

* Non-Executive Directors
** Dr. J. Ciano resigned as Non-Executive Director on 26 February 2016.

Auditor

KPMG Kenya
Certified Public Accountants of Kenya
ABC Towers, 8th Floor
ABC Place, Waiyaki Way
P O Box 40612 - 00100,
NAIROBI

Transfer Agents

Custody & Registrar Services Limited,
Bruce House, 6th Floor, Standard Street,
P. O. Box 8484 - 00100,
NAIROBI

Advocates

Kaplan & Stratton,
Williamson House,
4th Ngong Avenue,
P.O. Box 40111 – 00100,
NAIROBI

Bankers

Barclays Bank of Kenya Limited
Citibank NA
Commercial Bank of Africa Limited
Standard Chartered Bank Kenya Limited

Secretary and Registered Office

R.T. Ngobi (Ms.)
Likoni Road
P.O. Box 30000 – 00100,
NAIROBI

Chairman's Statement

Our impressive results were driven by revenue growth across each part of your business.

George Maina
Chairman

Dear Shareholder,

It gives me great pleasure to present the Annual Report on the Financial Year ended 31st December 2015. Our impressive results for the year were driven by domestic volume growth, revenue growth across each part of our business including export cigarettes and semi processed tobacco and an improved operating margin.

The Business Environment

Macro-Economic Environment

The economy grew 5.5% in 2015 (2014: 5.5%) driven by spending on major infrastructural activities including the standard gauge railway, roads and geothermal power generation. Inflation averaged at 6.6% in 2015 (2014: 6.9%) supported by lower prices of oil and electricity. However, the consumer price index steadily increased in 2015, in tandem with higher costs of food. Despite the impact this increase had on consumer purchasing power, our volumes grew during 2015. The year also saw the Kenyan Shilling record significant volatility against the major currencies, depreciating by 12.9% on the back of a global strengthening of the US Dollar. Predictably, our cost of imported raw materials increased while our export sales, which are denominated in US Dollars, benefited from a stronger US Dollar.

Socio-Political Environment

The Government's devolution agenda is to deepen implementation of devolution and strengthen governance institutions, while addressing other challenges including land reforms and security. As the implementation of devolution enters its third year, there have been encouraging results in many counties especially around infrastructure. Nevertheless, it is also evident that challenges remain as the Counties' roles evolve. We continue to work together with the County and National Governments in our joint quest for prosperity and a better future for Kenya.

Other developments

We continue to monitor developments within the East African Community (EAC) and welcome the entry of South Sudan into the EAC. We believe that further steps should be taken to eliminate existing Non-Tariff Barriers within the EAC in order to increase regional trade. We are similarly keen on the developments within the Common Market for East and Southern Africa particularly accession of Free Trade Agreements in order to eliminate tariff barriers and drive market access.

Sustainable Regulation

In December 2014, the Cabinet Secretary for Health gazetted the Tobacco Control Regulations 2014 which are intended to operationalize the Tobacco Control Act (in force since 2008).

We made a legal challenge against the Tobacco Control Regulations. Our challenge does not reflect an opposition to the regulation of our industry, which we support. Indeed, we support effective, evidence-based regulation that meets public health objectives, does not impede our ability to compete and respects our legal rights. Regulation that does not meet this criteria, or which could have unintended consequences such as stimulating illicit trade, we question. We are committed to engaging with the relevant stakeholders on regulatory issues while also working with the Government to fight the illegal tobacco trade. We have a long and proven track record of complying with laws and regulations while delivering on our performance objectives.

Strong Performance

Your Company delivered strong profit growth in 2015. Domestic cigarette volumes grew by 2% mainly attributable to Dunhill and Sportsman volumes. Net revenue from exports of cigarettes and semi-processed tobacco was up by 5%. Overall, net revenue increased by 6% to Shs 22.3bn while profit before tax was up by 17% to Shs 7.1bn (2014: Shs 6.1bn).

We continued to invest for the long term, further enhancing our capabilities and capacity. At the same time, our cost conscious approach delivered impressive productivity savings of Shs 524mn, which helped mitigate inflationary cost increases.

This success is reflected in earnings per share for 2015 rising to Shs 49.76 per share, an increase of 17.9% on last year.

The Company is in excellent shape and we remain confident that our strategy will continue to deliver superior shareholder returns.

Our financial highlights indicate how the business is delivering superior returns. You can read a full summary of our successful year on the pages following on from here.

Dividends

The Board of Directors has recommended a final dividend of Shs 46.00 per Shs 10 ordinary share to be approved at the Annual General Meeting to be held on 12 May 2016. The final dividend when added to the interim dividend already paid, gives a total dividend of Shs 49.50 per share. The dividend, which is subject to withholding tax, will be paid on 12 May 2016 to the shareholders on the register at the close of business on 28 March 2016.

Changes to the Board of Directors

Mr. Chris Burrell resigned as Managing Director and as a Director of the Board on 30 June 2015. I record my appreciation for his leadership and contribution to British American Tobacco Kenya.

Mr. Keith Gretton joined the Board of Directors as a Director of the Board and as Managing Director of British American Tobacco Kenya on 1 July 2015. Keith has considerable experience in general management. Prior to his current role, he was the Area Director of British American Tobacco's operations in North Africa, and before that he was responsible for the operations in West Africa.

Dr. Jonathan Ciano resigned from the Board of Directors on 26th February 2016. I take this opportunity to thank Dr. Ciano for his invaluable contribution to the Board, and wish him the best in his future endeavours.

On Track for Further Success

Reflecting on the success of 2015, let me thank my fellow Directors on the Board and all the staff working at British American Tobacco Kenya for an excellent performance and for their continued commitment to the success of our company.

Looking forward, I am confident that we have the right strategy and the right people to continue to deliver growth and value to all our stakeholders in the years ahead.

George Maina
Chairman

Taarifa Ya Mwenyekiti

"Matokeo yetu murwa yalitokana kwa kuongezeka kwa mapato katika kila sehemu ya biashara yako."

George Maina
Mwenyekiti

Kwa Mwenye hisa,

Nachukua fursa hii kutoa ripoti ya mwakani ya matumizi ya fedha uliokamilika tarehe 31 Desemba mwaka wa 2015. Matokeo yetu mazuri mwakani yalichochewa na kuongezeka kwa bidhaa na mapato katika biashara yetu ikiwemo biasharanje ya sigara na tumbaku na maendeleo katika ukingo wote wa utenda kazi.

Hali ya Biashara

Hali ya Kiuchumi

Uchumi uliimarika kwa asilimia 5.5 mwaka wa 2015 (2014: 5.5%). Hali hii ilitokana na matumizi ya fedha kwa shughuli za miundo msingi kama vile reli, barabara na uzalishaji wa umeme. Mfumuko wa bei ulikuwa na wastani kwa asilimia 6.6 mwaka wa 2015. (2014: 6.9) uliosababishwa na bei ya chini ya mafuta na umeme. Hata hivyo, bei ya matumizi iliongezeka mwaka wa 2015, sanjari na gharama kubwa za chakula. Licha ya athari ya ongezeko hili kwa nguvu za ununuzi ya wateja wetu, mapato yetu yaliongezeka huo mwaka. Shilingi ya Kenya iliirekodi tete sana mwaka wa 2015, ikilinganishwa na fedha kuu nyinginezo, aidha, ilishuka kwa asilimia 12.9 kutokana na nguvu ya dola ya Marekani. Bei ya malighafi iliongezeka, ilihali ile ya mauzo nje yetu ilinufaika kutokana na kuimarika kwa dola ya Marekani.

Mazingira Ya Jamii na Siasa

Lengo la serikali kuu katika suala la ugatuzi ni kuimarisha uongozi wa kila sekta mashinani huku ikishughulikia changamoto nyinginezo za taifa kama vile suala la ardhi na usalama. Tunapoanza mwaka wa tatu tangu uanzilishi wa serikali ya ugatuzi, tumeona maendeleo mazuri katika baadhi ya kaunti hasa kwa kitengo cha miundo msingi. Hata hivyo bado kuna changamoto zinazokumba kaunti hizi majukumu yanavyoendelea kuongezeka. Tunaendelea kufanya kazi na serikali kuu pamoja na kaunti hizi ili kuendeleza nchi ya Kenya.

Maendeleo mengine

Twazidi kuangazia maendeleo ya jamii la bara la Afrika Mashariki (EAC) tukiwakaribisha wenzetu wa Sudan Kusini kwa jamii. Tuna matumaini kuwa vizingiti vyote vitaondolewa ili kuwezesha na kuendeleza biashara ya kimaeneo.Umakini wetu pia upo kwa maendeleo ya biashara katika soko la eneo la mashariki na kusini Afrika. Hasa makubaliano ya kuendeleza biashara ya bure ili kuondoa vizingiti vinavyozuia kuendeleza biashara.

Kanuni

Mwaka wa 2014, waziri mkuu wa afya alichapisha kanuni za kuzuia matumizi ya tumbaku iliyonuiwa kuendeleza kanuni zilizowekwa kuanzia mwaka wa 2008.

Tulitoa changamoto ya kisheria dhidi ya kanuni za tumbaku. Changamoto letu sio upinzani dhidi ya kanuni za sekta yetu tunayoiunga mkono. Tunaunga mkono kanuni yenye ufanisi na ushahidi inayoambatana na malengo ya afya ya umma, na haitatanishi ushindani wetu na inaheshimu haki zetu za kisheria. Kanuni ambayo haifikii vigezo hivi ama inayoweza kusababisha matokeo kama biashara haramu tutatolea changamoto. Tutaendelea kushiriki na wadau husika katika maswala za kanuni na kuiunga serikali mkono dhidi ya kupambana na biashara haramu ya tumbaku. Tuna rekodi mrefu na wa kuthibitika wa kufuata sheria na kanuni tunapofikisha malengo yetu ya utendaji.

Utendakazi bora

Kampuni yenu ilipata faida nzuri mwaka wa 2015. Ongezeko la sigara iliyouzwa hapa nchini lilikuwa asilimia 2 na iliyonunuliwa nchi za nje ilikuwa asilimia 5.

Kwa jumla ongezeko la fedha iliimarika kwa asilimia 6 hadi bilioni 22.3 na faida kabla ya kuondolewa kwa ushuru iliimarika kwa asilimia 16 hadi bilioni 7.1 (2014: bilioni 6.1)

Twaendelea kuwekeza kwa huduma za muda mrefu, kuimarisha zaidi uwezo wetu . Wakati huo huo, kwa kuchunga gharama zetu za tija tuliweza kuweka akiba murwa ya Sh 524mn , ambayo imesaidia kupunguza athari za mfumuko wa bei.

Maendeleo yetu yanadhihirishwa na ongezeko katika pato la hisa mwaka wa 2015 la shilingi 49.76 kwa hisa. Hili ni ongezeko la asilimia 17.9 kutoka mwaka jana.

Kampuni yaendelea vizuri na tuna matumani kubwa kuwa tutaendelea kufanya kazi vyema na kuwahudumia wenyehisa wetu na pia ongezeko kwa mapato yetu kama inavyodhihirika katika ripoti yetu ya matumizi ya fedha. Waweza kupata habari zaidi katika kurasa zinazofuata.

Gawio

Halmashauri la wakurungezi limependekeza gawio la shilingi 46.00 kwa hisa ya shilingi 10. Hii itapitishwa kwenye mkutano mkuu wa mwaka utakaofanyika tarehe 12 Mei, 2016. Jumla la gawio likiongezwa kwenye gawio mpito ambayo tayari limelipwa litakuwa shilingi 49.50. Gawio bila ushuru italipwa tarehe 12 Mei 2016 kwa wenyehisa kwenye regista baada ya biashara kufungwa tarehe 28 Machi 2016.

Mabadiliko katika bodi la wakurungezi

Bw. Chris Burrell alijiuzulu kama mkurungenzi mkuu na mkurungenzi wa bodi tarehe 1 Julai 2015. Natoa shukrani zangu kwa uongozi na mchango wake.

Bw. Keith Gretton alijiunga na bodi ya wakurungenzi kama mkurungenzi na mkurungenzi mkuu tarehe 1 Julai 2015. Bwana Keith ana tajiriba tosha ya umeneja.

Bw. Jonathan Ciano alijiuzulu kutoka halmashauri ya wakurungenzi tarehe 26 Februari 2016. Nachukua fursa hii kumshukuru kwa mchango wake katika bodi na kumtakia mema.

Maelezo zaidi ya mafanikio yetu.

Kwa kuanganzia mafanikio yetu ya mwaka wa 2015, nawashukuru wakurungenzi wenzangu wa bodi na wafanyikazi wote wa kwa kazi nzuri na bidii yao iliyochangia kuwepo kwa mafanikio katika kampuni.

Kwa kuanganzia mbele nina imani kuwa tuna malengo mazuri na wafanyikazi watakaoendeleza ukuaji na huduma bora kwa wadau wetu kwa miaka ijayo.

George Maina
Mwenyekiti

Managing Director's Message

> Together we seek even greater success.

Keith Gretton
Managing Director

Dear Shareholder,

Your company continued its good performance in 2015 despite a challenging external environment with increased pressure on disposable incomes.

Growth

The strength of our brands, continued focus on distribution excellence and the quality of our people have delivered yet another year of excellent performance in the domestic market. Domestic volumes were up by 2% buoyed by a 23% growth in our Global Drive Brand, Dunhill. Sportsman continued its growth trajectory, growing volumes by 3% compared to 2014. 2015 saw your company mark another innovation milestone in the domestic tobacco industry with the launch of Dunhill Release, a mentholated convertible cigarette. In December 2015, Embassy Fresh, a differentiated menthol cigarette was launched.
Following the change in the excise taxation for cigarettes, we took up the prices of cigarettes across most of the brand portfolio.

In 2015, we also grew revenues from our export business. Our Nairobi factory is a well-established manufacturing hub for British American Tobacco and in 2015 we supplied 13 countries with cigarettes and cut rag tobacco.

Overall, net revenue was up by 6% to Shs 22.3bn (2014: shs 21bn) on the back of higher domestic volumes, incremental cut rag volumes and the benefit of a stronger foreign exchange rate on export revenues.

Government levies paid in the form of Excise Duty, Value Added Tax (VAT), Pay As You Earn (PAYE) and Corporation tax increased by shs 0.9bn to a record shs 16.3bn in 2015. Profit before tax improved by 17% during the year to shs 7.1bn (2014: shs 5.5bn), reflecting our revenue growth and stable cost base.

Productivity

During the year, your company continued to invest in the business. Shs 565mn of capital expenditure was made to further enhance the Nairobi factory capacity and capability. In partnership with over 5,000 farmers, your company grew and purchased 7,452 tonnes of tobacco, with gross payments to farmers amounting to Shs 1.24 billion. The leaf quality index rose by 10% driven by better crop planning and farmer performance, aided by our farmer cell extension programme.

Productivity initiatives supplemented the top line growth to deliver an increased operating margin of 34% in 2015, up from 30% in 2014. 2015 also saw the opening of a new warehouse with the capacity to handle 3,000 tonnes of semi-processed tobacco. The new warehouse will support our export business and ensure we are well placed for future growth.

Sustainability

Our focus on running a sustainable business in the interest of all stakeholders continues.

In 2015, British American Tobacco Kenya was the first company in Kenya to receive the Energy Compliance Certificate from the Energy Regulatory Commission. The certification recognizes our efforts to reduce energy consumption and advance the sustainability agenda in Kenya. As part of our sustainability agenda, we partnered with Sony Sugar Millers to manufacture briquettes from sugar cane waste. The briquettes will be provided to our farmers as a substitute for wood in tobacco curing barns.

Winning Teams

The backbone of any blue-chip benchmark organization is its people. We can only deliver such great results if we nurture and develop our people. At British American Tobacco Kenya, we pride ourselves on recruiting, developing, retaining and rewarding great talent to promote leadership at all levels within our multi-cultural Company. We are also proud of Kenyan talent currently lending their expertise to other British American Tobacco entities across the Group in senior management roles.

In 2015, your Company was recognized by the Nairobi Securities Exchange for having the overall best diversity practices, with respect to Board members' age, gender and nationality of all listed companies in Kenya.

May I take this opportunity to express my heartfelt gratitude to each and every one of my colleagues at British American Tobacco Kenya. Together, we seek even greater success.

Outlook

Despite tough market conditions, the strengths of our business and our people ensured we achieved another competitive set of results in 2015.

We expect the trading environment to become more difficult in 2016. However, we will remain focused and committed on our strategy to continue delivering growth to our shareholders. We will continue to develop our portfolio in 2016 to ensure that our brands remain relevant for Kenya's adult consumers.

We will also further embed our route to market model, working with our 66,000 trade partners to ensure the availability of our products. This is particularly important as prices have increased, consumers remain under financial pressure and we face competition from both legal and illegal brands in the market.

As a manufacturing hub for the region, we will continue to drive efficiency and cost saving initiatives to ensure that we remain competitive.

We continue to monitor the evolving regulatory environment, and will maintain diligent and transparent engagements with all relevant stakeholders.

I am confident that with our proven strategy, powerful brands, talented people and continued focus on efficiency we will deliver value to our shareholders in the short and long term.

On behalf of the management and staff of British American Tobacco Kenya, I sincerely thank the Board of Directors for their guidance and support in 2015. I also extend my gratitude to our shareholders, consumers and our business partners.

Keith Gretton
Managing Director

Taarifa Ya Mkurugenzi

> Pamoja tutatafuta mafanikio zaidi.

Keith Gretton
Mkurugenzi Mkuu

Kwa Mwenye Hisa,

Kampuni yako imeendelea kuwa na matokeo bora mwaka wa 2015 hata baada ya kuwepo na changamoto kutoka kwa mazingira ya nje kwa mapato.

Ukuaji

Nguvu za bidhaa zetu, kutia lengo katika usambazaji bora na ubora wa wafanyikazi wetu zimetupa mwaka mwingine wa utendakazi bora hasa kwa soko la nyumbani. Wingi wa soko la nyumbani iliongezeka kwa 2% iliyosababishwa kwa kuongezeka kwa 23% ya bidhaa yetu yenye ukuu ulimwenguni, Dunhill. Sportsman imeendeleza ukuaji wake kwa asilimia 3% ikilinganishwa na mwaka wa 2014. Mwezi wa Desemba 2015 Embassy Fresh aina tofauti ya sigara ilizinduliwa. Kutokana na mabadiliko kwenye utozi wa kodi ya sigara tuliongeza bei ya wingi ya bidhaa zetu.

Mwaka huo wa 2015 tulipata mapato kutokana na biasharanje. Kiwanda chetu cha Nairobi kimekuzwa vyema katika uzalishaji wa hebu ya kampuni ya kutengeneza sigara na mwaka wa 2015 tuliiuzia mataifa 13 sigara na tumbaku iliyokatwa.

Mapato ya kijumla ilikuwa asilimia 6 kwa shilingi bilioni 22.3 (2014: 21 bn) kwa juzuu za nchini, Na faida kwa mapato ya juzuu za biasharanje. Tuliongeza bei ya sigara kutokana na badiliko ya ongezeko la ushuru.

Tozo ya serikali inayolipwa kama kodi, kodi ya wafanyakazi na kodi ya kampuni iliongezeka kwa shilingi bilioni 0.9 ikilinganishwa na mwaka wa 2015 iliyokuwa bilioni 16.3. Faida kabla ya kodi kuondelewa iliimarika kwa asilimia 17 mwakani hadi bilioni 7.1 (2014: bilioni 5.5). hii ilionyesha ukuaji wa mapato yetu na imara gharama msingi.

Tija

Kampuni yako iliendelea kuwezeka katika biashara mwakani. Shilingi milioni 565 zilitumiwa kuendeleza kiwanda cha Nairobi, kwa ushirikiano na wakulima 5000, kampuni yako ilijiendeleza kwa kununua tani 7,452 ya tumbaku na kulipa wakulima bilioni 1.24. Iliimarisha matawi kwa asilimia 10 kutokana na mimea bora na kazi nzuri ya wakulima.

Mbinu za uendelezaji wa tija uliongezeka na asilimia 34 mwaka wa 2015 ikilinganishwa na mwaka wa 2014 ilipata asilimia 30. Mwaka wa 2015 kulifunguliwa kwa ghala mpya yenye uwekezaji wa tani 3000 ya tumbaku, pia ghala hii itatumika kuendeleza biasharanje ili kuhahakisha ukuaji wa miaka ijayo.

Uendelezaji

Nia yetu kuu ya kuhahakisha uendelezaji wa biashara yetu ni kwa manufaa ya wadau. Mwaka wa 2015, BAT ilikuwa kampuni ya kwanza nchini Kenya kupata cheti cha kuafikiana na tume ya udhibiti ya Umeme. Cheti hiki kinatambua juhudi zetu za kupunguza utumiaji wa umeme.

Twashirikiana na kampuni ya sukari ya Sony kutengeneza mkaa kutoka kwa taka ya miwa. Mkaa hii itatumika badala ya kuni kwa kutayarisha tumbaku.

Wafanyakazi Wenye Vipaji

Msingi wa shirika lolote lile ni wafanyikazi wake. Matokeo bora huwepo tu tunapowajenga na kuwakuza wafanyikazi wetu. Katika kampuni yetu ya kutengeneza sigara, tuna furaha ya kuwaajiri, kuwakuza, kuwapa mafunzo na kuwatuza wafanikazi wenye talanta ili kuendeleza uongozi wetu katika kila kitengo cha kampuni hii.

Tumefurahishwa pia na talanta za wakenya katika kampuni hii kwa vitengo vya majukumu ya mameneja. Mwaka wa 2015, kampuni yako ilitambulishwa katika Usalama wa Ubadilishaji wa Nairobi kwa kuwa na vitendo vya aina na heshima kwa umri, jinsia na uraia wa wanachama wa bodi ikilinganishwa na makampuni mengine.

Nachukua fursa hii kuwashukuru wafanyikazi wenzangu wa kampuni ya kutengeneza sigara. Pamajo twapata matokeo bora.

La kuangazia

Licha ya hali ngumu ya soko, nguvu ya biashara yetu na watu wetu ilihakikisha tumepata matokeo mazuri tena kutokana na ushindani uliokuwepo. Tunatarajia biashara kuwa ngumu zaidi mwaka wa 2016. Hata hivyo, malengo na nia ya mikakati yetu itasalia ili tuendelee kutoa huduma bora kwa wahisani wetu.

Tunazidi kukuza bidhaa zetu mwaka wa 2016 ili kuhakikisha kuwa zinasalia kuwa husika kwa watumizi ambao ni watu wazima nchini Kenya. Tutaendeleza njia zetu kwa kufanya kazi na washirika wa biashara 66,000 kuhakikisha kuwa bidhaa zetu zinapatikana. Suala hili ni muhimu kwa kuwa bei ya bidhaa imeongezeka na kuwafanya watumizi wetu kuwa na changamoto la shinikizo fedha, nasi kwa upande mwingine tunakumbwa na ushindani kutokana na bidhaa halili na haramu zilizoko kwenye soko.

Kama kitivo cha uzalishaji katika kanda, tunaendeleza ufanisi fedha huku tukihakikisha kuwa twabaki kuwa washindani.

Tunaendelea kutazama kanuni na kuzidi kufanya shughli zetu na wadau wote kwa bidii na uwazi.

Nina imani kuwa mikakati yetu, bidhaa zetu nzuri pamoja na wafanyakazi wetu wenye talanta na ufanisi tulionao tutatoa huduma kwa wahisani wetu kwa muda mfupi na hata mrefu.

Kwa niaba ya wasimamizi na wafanyakazi wa kampuni ya kutengeneza sigara, nashukuru halmashauri ya wakurugenzi kwa msaada na uongozi wao mwaka wa 2015. Nawashukuru pia wahisani, watumizi wa bidhaa na washirika wetu wa biashara.

Keith Gretton
Mkurugenzi Mkuu

Financial Review

Profit before tax grew by 17% to Shs 7.1 billion indicating the impact of growth in net revenue and a stable cost base notwithstanding inflationary cost increases.

Philip Lopokoiyit
Finance Director

BAT Kenya achieved another very good year in 2015. Key highlights in 2015 compared to 2014 include:

Net revenue

Net revenue increased by 6% to Shs 22.3 billion driven by the benefit of foreign exchange movements arising from export sales, improved performance in the domestic market as well as incremental exports of semi-processed leaf (cut rag).

Profit & operating margin

Profit before tax grew by 17% to Shs 7.1 billion indicating the impact of growth in net revenue and a stable cost base notwithstanding inflationary cost increases.

Operating margin improved by 4.2 percentage points to 34.5% in 2015 through stringent cost management and productivity savings as well as the improved net revenue. This was offset by an increase in finance costs principally due to higher foreign exchange related losses and interest expenses during the year.

Government revenues

Contribution to Government revenues in the form of Excise Duty, Value Added Tax (VAT), Pay As You Earn (PAYE) and Corporation Tax increased by Shs 0.9 billion to a record Shs 16.3 billion in 2015. This increase was mainly driven by higher Excise Duty and VAT from the domestic business as well as higher Corporation tax.

The Government gazetted the introduction of a single tier Excise regime effective 1 December 2015. The new regime will simplify tax collection and administration. These benefits, coupled with concerted efforts to mitigate illicit trade will lead to sustainable Government revenues and greater business certainty within the industry.

Investments

In 2015, the Company completed the roll out of a new instance of SAP, our Enterprise Resource Planning platform. This is in line with our strategy to simplify business structures and further integrate processes. Anticipated benefits include enhancing business information for decision making and providing opportunities for further cost savings.

We invested over Shs 565 million in the Nairobi factory in 2015. This is in line with our strategy to improve quality, productivity and drive cost competitiveness of the factory Nairobi manufacturing hub.

Earnings Per Share (EPS) and Dividend

Earnings per share increased by Shs 7.21 to Shs 49.76 and reflect our commitment to continue growing shareholder returns. The recommended final dividend of Shs 46.00 per share, when added to interim dividend already paid, gives a total dividend of Shs 49.50 per share. This is in line with the Company's policy to pay 100% of profit after tax as dividend.

Philip Lopokoiyit
Finance Director

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Our Vision and Strategy

Our strategy enables our business to deliver growth today, while ensuring we generate the funds to invest in our future. Tobacco remains at the core of our business and will continue to provide us with opportunites for growth.

Our vision

World's best at satisfying consumer moments in tobacco and beyond.

Satisfying consumer moments

We believe that by being the world's best at satisfying consumer moments, we will become the leader in our industry. Consumers are at the core of everything we do and our success depends on addressing their evolving concerns, needs and behaviours.

Tobacco and beyond

The second part of our vision – tobacco and beyond – recognises the strength of our traditional tobacco business and the opportunities we see in next-generation tobacco and nicotine products. There is a great potential business opportunity because consumers are looking for choices and product categories in which we are uniquely placed to succeed.

Our mission

Delivering our commitments to society, while championing informed consumer choice.

Champion informed consumer choice

We need to continue to ensure that our adult consumers are fully aware of the choices they are making when they purchase our products. We recognise that we have a responsibility to offer a range of products across the risk continuum, but we will also defend people's right to make an informed choice.

Deliver our commitments to society

As society changes and priorities and needs shift, we must be ready to meet new challenges and take advantage of new opportunities. We are a major international business and with this status comes responsibilities such as being open about the risks of our products, supporting rural communities and minimising our impact on the environment.

Strategic focus areas

The foundations upon which our strategy is built have been in place for many years, but we continue to refocus our activities in all four areas and constantly review our ways of working.

Growth page 20

Developing brands, innovations and new products to meet consumers' evolving needs.

Productivity page 22

Effectively deploying resources to increase profits and generate funds.

Winning organisation page 26

Great people, great teams, great place to work.

Sustainability page 31

Ensuring a sustainable business that meets stakeholders' expectations.

Guiding Principles

Our Guiding Principles provide clarity about what we stand for.
They form the core of our culture and guide how we deliver our strategy.

Enterprising Spirit

We value enterprise from all of our employees across the world, giving us a great breadth of ideas and viewpoints to enhance the way we do business. We have the confidence to passionately pursue growth and new opportunities while accepting the considered entrepreneurial risk that comes with it. We are bold and strive to overcome challenges. This is the cornerstone of our success.

Open Minded

Our corporate culture is a great strength of the business and one of the reasons we have been and will continue to be successful. We are forward-looking and anticipate consumer needs, winning with innovative, high-quality products. We listen to and genuinely consider other perspectives and changing social expectations. We are open to new ways of doing things.

Freedom Through Responsibility

We give our people the freedom to operate in their local environment, providing them with the benefits of our scale but the ability to succeed locally. We always strive to do the right thing, exercising our responsibility to society and other stakeholders. We use our freedom to take decisions and act in the best interest of consumers.

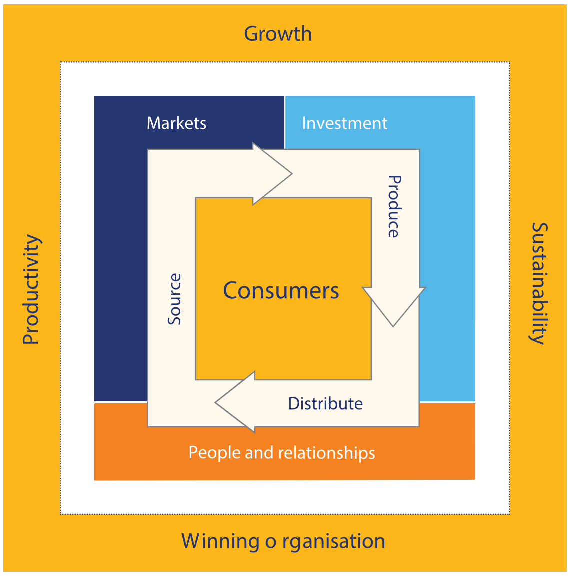
Strength from Diversity

Our management population comprises people from many nations giving us unique insights into local markets and enhancing our ability to compete across the world. We respect and celebrate each other's differences and enjoy working together. We harness diversity – of our people, cultures, viewpoints, brands, markets and ideas – to strengthen our business. We value what makes each of us unique.

STRATEGIC MANAGEMENT

Our business model

Our business model describes what we do and how we use our unique strengths and employ our resources and relationships to deliver sustainable value for our shareholders and stakeholders. It is built around meeting our consumers' evolving needs and is driven by our strategy to ensure that we are delivering great results today and investing in our long- term future.



What we do

We have been making and marketing cigarettes and other tobacco products for more than a century. Our sustainable approach to sourcing, production and distribution helps us to create value for a wide group of stakeholders from crop to consumer. These include farmers and their communities, other suppliers, retail and wholesale trade partners, NGOs, governments and regulators.

Source

We have a significant interest in tobacco growing and we have expert technicians out in the field who support over 5,500 directly contracted farmers. We manage our whole supply chain responsibly, including the sourcing of leaf and other materials, and work with suppliers to create a long-term shared understanding of our social, environmental and economic impacts.

Working with farmers: page 32

Without tobacco leaf and other raw materials we would have no products. We aim to secure our long-term supply chain and bring real benefits to local communities, from promoting good agricultural practices to investing in community projects.

Produce

Manufacturing tobacco products is a large-scale operation and we have state-of-the-art manufacturing facilities in Nairobi.
We work to ensure that our costs are globally competitive and that we use our resources as effectively as possible. Our production facilities are designed to meet the needs of an agile and flexible supply chain – providing a world-class operational base that is fit for the future.

Flexible supply chain: page 23

Ensuring leaf and products are in the right place at the right time in our manufacturing process is a major logistical exercise. The nature of our business allows us to pool resources on a global scale and maximise efficiency.

Distribute

Our well-developed distribution channels are critical enablers of our growth strategy, allowing us to roll out innovations on a national scale. We continuously review our route to market, including our relationships with wholesalers, distributors and logistics providers.
Most of our volume is sold by retailers supplied through our distributors

Raising standards: page 33

We are helping to raise standards by supporting effective and reasonable regulation of regular cigarettes and next-generation tobacco and nicotine products. It also means fighting the illegal tobacco market and supporting legitimate retailers and wholesalers.

Consumers

We place consumers at the heart of our business. We invest in world-class research to understand changing consumer needs and buying behaviour. This drives our supply chain, product development, innovations, brands and trade activities. We aim to satisfy consumers while addressing expectations about how we should market our products.

Our Brands: page 20

We are developing innovative solutions to evolve our portfolio with more differentiated tobacco products This supports our aim to champion consumer choice by providing a range of products across the risk continuum.

Growth

> Our brands delivered further growth in 2015 as we continued to invest in further opportunities.

We provide high quality tobacco products that meet consumer needs. We do this by being brand focused and excelling at bringing superior, differentiated offers to market. Understanding consumers is at the core of our strategy and our success depends on delivering high-quality tobacco products that meet their evolving needs.

We continued to deliver in 2015

In the domestic market our brands delivered further growth in 2015 as we continued to invest in further opportunities. In 2015, our domestic volume grew by 2.4% over the previous year. This exceptional performance was a result of continued good performance of the premium segment (+5.7% growth) mainly driven by the Dunhill brand family and growth of Sportsman. Throughout the year, our market share held steady indicating the continued strength of our portfolio and our strong commitment to maintaining market leadership in Kenya.

Excise tax changes

The Government gazetted the introduction of a single tier Excise regime effective 1 December 2015. The new regime will simplify tax collection and administration. These benefits, coupled with concerted efforts to mitigate illicit trade will lead to sustainable Government revenues and greater business certainty within the industry.

In the month of December, we took an excise driven price increase across most of our portfolio. The increase was significant due to the size of the excise increase.

We invested in our brand portfolio

Continued Innovation - Launch of Dunhill Release

Since 1907, Dunhill has been pioneering smoking developments to deliver tobacco experiences beyond the ordinary. Available in over 100 countries and launched in Kenya in 2005, Dunhill has continued to deliver year on year growth. This growth has been driven by significant distribution efforts, underpinned by innovation – the capsule offer. Capsules enable smokers to control their experience, giving them a choice to click when it suits their taste. They keep Dunhill competitive and relevant for today's consumers, whilst remaining true to Dunhill's past. Dunhill Switch was the first capsule offer in Kenya, launched in 2012, registering significant success and contributing to a 75% growth in Dunhill share.

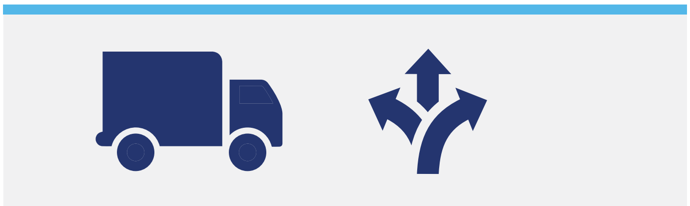
In February 2015, we launched Dunhill Release, adding to our repertoire in the capsule segment and allowing adult menthol consumers to crush the capsule to deliver even more menthol.

Evolving with our consumers - Embassy Pack Upgrade and Launch of Embassy Fresh

Embassy is our well-known local heritage brand that has been in Kenya since 1970. The product is manufactured from fine quality tobaccos made locally to international standards positioning Embassy as a superior product within the Kenyan market. In an even bolder step following our stick upgrade in 2014, we launched the new look Embassy in a modern pack in September 2015.

In December 2015, we added a new product to the Embassy family - Embassy Fresh. Embassy Fresh is a differentiated menthol offer. This will afford our adult consumers even more choice in menthol.

We expanded our distribution footprint and capabilities



We continued our focus on expanding the availability of key brands such as Dunhill. This year, we achieved a key milestone of 70% weighted distribution of the brand in key urban areas in Kenya. The distribution expansion continues to grow Dunhill's share of the premium segment in Kenya and drive the brand's volumes. Volume growth was also driven by renewed focus on sustainable distribution coverage in markets that were largely inaccessible due to infrastructure challenges. We also focused on exploring new markets opening up as the devolution system of government takes root in Kenya.

Equipping our people

In 2015, we rolled out various Trade Marketing and Distribution systems that have allowed our people to better execute market activities and track in-market performance for our various brands. This has led to better market insights as well as the ability to respond faster to consumer needs. We also kicked off a transformation program known as Project Angaza which is aimed at enhancing wholesale and retail channel coverage as well as building the capability among our people to build brand awareness with speed and scale. We have realized the benefits of this through the increased availability of our brand portfolio as well as better quality partnerships with our customers.

Investing in tomorrow

Our brands and our people remain the greatest assets of this company and as such we continue to focus on building and solidifying our brand portfolio, increasing consumer understanding and forming strong trade marketing and distribution capabilities.

Ready for more export growth

2015 also saw the opening of a new multi-million warehouse to support our export business. The new warehouse officially opened on 6 October 2015 can handle 3,000 tonnes of semi-processed tobacco, an equivalent of 280 40-foot containers of semi-processed tobacco. Such investments are crucial in ensuring we are ready for the growth that we anticipate in the future and are able to accommodate greater volumes within our premises.

BAT Kenya Chairman, George Maina, Managing Director, Keith Gretton and Cabinet Secretary in the Ministry of Industry, Investment and Trade, Adan Mohammed officially opened the Cut Rag Tobacco Store on 6 October 2015. The CS noted BAT's significant contribution to the economy through job creation.

Productivity

> We are becoming a more efficient and effective business, with global systems and ways of working, a responsive supply chain and a long-established approach to securing the highest quality tobacco leaf for our products.

By continually improving our productivity today, we are able to generate funds to invest in the growth of our business in the future and deliver sustainable returns to shareholders. In 2015, we continued to improve the company's operating margin, with an increase of 4.2 percentage points to 34.5%. This demonstrates that we are becoming a more efficient and effective business, focused on reducing costs and complexity while making the best possible use of all of our resources.

We are becoming a faster and more effective business

A new operating model

The BAT Group began a program to implement a new operating model, which includes standardized systems, data, structures and ways of working, underpinned by a global SAP system. These were implemented in phases throughout the global organization and in July 2015, BAT Kenya adopted the new system. For the company, the benefits of the new system will be a more efficient supply chain and better customer service, better insight which will lead to faster and smarter business decisions and ultimately, we will be able to make our resources work harder for the benefit of you, our shareholders and our business. So far, we are doing exceptionally well and are already starting to feel the benefits of this business transformation program. We feel confident that it is just what we need to continue sustaining and growing our existing business now and in the future.

An EPIC Migration

In 2015, following a review of our internal Information Technology (IT) operating model, a need was identified to migrate to a newer, faster and more efficient system that is both modern and sustainable into the future – thus the migration to EPIC. EPIC stands for Enhanced Productivity In the Cloud – this was BAT's IT solution to meet today's business demands for contemporary, agile, device agnostic and friendly productivity tools for employees. The purpose of the change of tools was not only to increase ease of connectivity, productivity and reliability for employees but to ensure that BAT Kenya is best placed to handle information in an effective manner.

More specifically, EPIC has delivered a great number of benefits such as the ability to collaborate (voice, video and email) from one product, cost reduction on licences and an easier to use tool set. We are proud of the impact and outcome from EPIC and look forward to realizing even greater benefits of this change going forward.

E·P·I·C
ENHANCED PRODUCTIVITY IN THE CLOUD

Continuing the BORESHA quality campaign

In line with our overall vision of satisfying consumer moments and ensuring that we give our consumers the best quality product at the right price and at the right time, we embarked on several quality initiatives under the banner BORESHA. The initiative which was launched back in 2012 has driven various improvements in product quality. In 2015, we achieved the following key milestones:

- Our factory achieved ISO9001:2008 certification in recognition of our efforts and achievements in creating consistency throughout our plant. This certification is one of many steps we are taking to ensure that we operate a world class facility that is fit to deliver shareholder value.

- We developed and adopted a program and series of tools to enhance understanding and response to several key consumer quality drivers. This included comprehensive training of factory staff, new tools to measure process consistency and an improved process to review consumer feedback.

Creating a culture of Safety First

In 2015, we launched a new program known as Pulsar which is focused on risk management and reducing the main causes of accidents and serious injuries. This Behavioral Based Safety (BBS) observation system is aimed at reducing unsafe behaviors and conditions.

We also rolled out a Field Force Safety Toolkit which focuses on specific Trade Marketing and Distribution risks such as vehicles, warehouses and office safety. Our goal of having zero accidents reflects our commitment to keeping our people as safe as possible at work.

We operate a globally integrated Supply Chain

BAT Kenya operates an integrated supply chain focused on the effective and efficient delivery of market-leading products and innovations to the market ensuring we satisfy consumers, drive share growth and create value for our business partners.

We have continued to explore further opportunities to invest in new machinery, equipment and systems to support future growth.

Adopting global planning systems and processes supports our strategic focus of delivering products 'on time and in full' to ensure we can capitalize on growth opportunities. Having a clear view of our plans means we can allocate resources in the right areas and improves our ability to react quickly in situations when speed to market will give us a competitive advantage.

Our factory in Nairobi supplies multiple markets and produces a wide range of products. In recent years, BAT has reduced its manufacturing footprint across the region by closing some factories and operations (most notably in DRC and Uganda) and directing the volume to the factory in Nairobi.

Increasing our productivity in the factory

We are continually looking to improve the efficiency of our factory. In 2015, we introduced Integrated Work Systems (IWS) in the running of our manufacturing plant – which is a reliability tool aimed at eliminating machine stops and increasing dependability in the way the factory is operated. The new program is designed to maximize productivity in our factories while also ensuring we maintain high standards of product quality. The factory successfully completed the pilot of this program in December 2015 with substantial benefits to the business. Following a restructuring of the manufacturing organization, we plan a full rollout of IWS in 2016. In 2015, we continued to drive cost savings in our supply chain in areas such as leaf and blends, wrapping materials, logistics, manufacturing and indirect procurement. For example, we optimized working capital by reducing wrapping material stocks by 17% in 2015. Savings such as these not only enhance our profitability but also release funds that we can invest in activities that will deliver sustainable growth and value to our shareholders.

We work with farmers to secure high quality leaf

Tobacco leaf is the most essential part of our products, so the farmers growing it are absolutely crucial to the success of our business. We do not own any farms or directly employ farmers. Instead we work with contracted farmers to ensure we have secure and sustainable sources of high-quality leaf that support our strategic focus on delivering superior products to our consumers. All our contracted farmers undergo a rigorous selection process prior to the start of each growing season. The farmers we work with are valued business partners. We fully sponsor and support them to ensure better quality, better yields and thus improved farmer incomes.

We have a long and proud history of working directly with farmers to advance good agricultural practices across the country. As a player in the tobacco industry, we want farmers to feel confident about their future, be self-sufficient and prosperous.

In 2015, in partnership with over 5,000 farmers, we delivered a volume of 7,453 tonnes of tobacco, the gross payout to farmers amounting to Shs 1.24 billion. Our Green Leaf Threshing plant in Thika processed 35 million kgs during the same period.

To continue to deliver on our stakeholder and shareholder expectations we have identified several productivity opportunities for implementation in 2016 targeting savings of approximately Sh 100m in our Thika Plant. These initiatives include optimization of outsourced services, energy saving, smart crewing patterns and expanding in line with demand.

Social Responsibility in Tobacco Production

We review all our leaf suppliers through our Social Responsibility in Tobacco Production (SRTP) program. SRTP sets out the minimum requirements we expect of our leaf suppliers and covers good agricultural practices and environmental management, such as soil and water conservation, sustainabile wood and fuel sourcing and protecting biodiversity.
See more on our Sustainability practices on page 31-36

We will continue to focus on improving our productivity

By continuing to improve our productivity in all areas of our supply chain, we can increase our profitability and continue to deliver returns to you, our shareholders. But productivity is not just about today; it also underpins our future. The more efficient and effective we become, the more we are able to generate funds to invest in catalysts for future growth; our products, our innovations, our people and our market

WARNING: SMOKING HARMS PEOPLE NEXT TO YOU
ONYO: UVUTAJI WA SIGARA HUDHURU WATU WALIO KARIBU NAWE

Winning Organisation

> A winning organization is one with high-performing leaders inspiring diverse teams of committed and engaged people in a fulfilling, rewarding and responsible work environment

The quality of our people is a major reason why BAT continues to perform well. They make us a winning organization by using their expertise and experience to respond to the challenges of the marketplace to deliver strong business results. The way our people operate is embodied in our four guiding principles: Enterprising Spirit, Freedom Through Responsibility, Open Minded and Strength From Diversity. These guiding principles underpin our culture and guide how we deliver our strategy.

See page 17 for more on our strategy.

Our aim is to maintain a high-performing organization that attracts, develops, rewards and retains talented people. We continue to invest in providing our people with a great place to work. We are proud that in 2015, we continued to be ranked among the best employers in Kenya!

Enhancing leadership capabilities

We are committed to ensuring that BAT Kenya continues to develop high-performing managers who will lead the delivery of our strategy now and in the future. Following the launch of new leadership capabilities by the BAT Group , last year we rolled out these capabilities that provide our people with clarity on what we believe defines good business and people management at BAT Kenya. The capabilities center around the expectation that our leaders are 'passionate owners, inspiring people to deliver outstanding results.' They are designed to guide all aspects of our talent development lifecycle, including the qualities we look for in people when we recruit, plus how we develop leaders' skills, assess their performance and manage succession planning.

We have online global talent resources and leadership trainings to help our people embrace this approach. We are keen to develop our leaders from within our business. We want to provide talented people with rewarding career progression and in doing so, retain valuable expertise and knowledge.

We are committed to diversity and it shows!

Diversity matters to BAT because it makes good commercial sense – having a diverse workforce means we are better able to understand and meet the needs of our consumers. It is also important in terms of our reputation because of societal expectations around diversity.

Our progress on diversity

In 2015, the proportion of women in all management roles in BAT Kenya grew by 4% compared to the previous year. The table below sets out the gender breakdown within BAT Kenya as at 31 December 2015, comparing numbers for all employees, our managers and the Leadership Team:

	Total	Male	Female	% Male	% Female
Leadership Team	6	4	2	67%	33%
Managers	93	66	27	71%	29%
Total Employees	474	390	84	82%	18%

We aim to provide equal opportunities to all employees. We do not discriminate when making decisions on hiring, promotion or retirement subject to the inherent requirements of the role to be performed. We are committed to providing our employees with a wide range of experiences and skills to develop to their full potential.

Best Practice in Board Diversity Award

In 2015, BAT Kenya was recognized as the most diverse company on the Nairobi Securities Exchange (NSE) after it emerged the overall winner in the Best Practice in Board Diversity Awards. This was part of the NSE Leadership and Diversity Dialogue series, an initiative of the NSE in keeping with its role of fostering best practices in corporate governance. This includes promoting aspects of diversity across the NSE-listed company boards. The prestigious award recognizes companies that have demonstrated the NSE priority diversity attributes namely Professional mix, Age Diversity and Gender Balance.

BAT Kenya Finance Director, Philip Lopokoiyit and Head of Human Resource, Razeeah Belath receive the Best Practice in Board Diversity Award on behalf of the BAT Kenya Board from Graca Machel and NSE representatives.

We Are Committed

to DIVERSITY *and it* SHOWS!

BRITISH AMERICAN TOBACCO
KENYA

Best overall NSE listed company 2015 at the **BEST PRACTICE in BOARD DIVERSITY AWARDS**

BAT KENYA BOARD of DIRECTORS:
Three out of ten Board members are female. Nationality mix of Kenyans, British and a Tanzanian with an average age of 56.

OUR LEADERSHIP TEAM:
Three out of seven heads of department are female. Nationality mix of Kenyans, Mauritian, Zimbabwean, British and a South African .

SENIOR MANAGEMENT:
23% of the total population of our senior managers are women.

INTERNATIONAL EXPOSURE:
Seven Kenyans are holding senior international roles.

GENDER RATIO:
4:1 male to female representation.

British American Tobacco is a great place to work, with great people and great teams who share this view. We respect and celebrate each others' differences and enjoy working together. We harness diversity – of our people, cultures, viewpoints, brands, markets and ideas – to strengthen our business. We value what makes each of us unique.

The Nairobi Securities Exchange (NSE) in conjunction with its role of fostering best practices in corporate governance coordinates the NSE Leadership and Diversity Dialogue series to promote aspects of diversity across the NSE-listed company boards. The Award recognises the companies that have demonstrated the NSE priority Diversity attributes namely Professional Mix, Age Diversity and Gender Balance.

BAT Kenya stood out for its clear commitment to promoting diversity and developing specific diversity plans, aligned to our business priorities and talent succession plans. It is evident that at BAT Kenya, progress on diversity starts from the top and is driven by our Board and our Leadership Team. The Board Diversity award further reiterated BAT's commitment to ensuring that the leadership and diversity agenda is driven at all levels of the organization.

We are attracting and retaining the best talent

BAT Kenya is known for attracting and developing great talent, as we believe our people are the core of our business success. When we look to recruit, we seek to bring in people who will provide additional knowledge and skills that will strengthen our teams and ultimately make us a stronger business.

In 2015, various channels and strategies were implemented to meet our internal talent demand. Reduced attraction lead time, simplified but stringent recruitment processes and constant contact with candidates were key in meeting these demands. As a result, we hired 18 management employees and 21 non-management employees.

E-recruitment on jobs@bat

The single global platform now provides our employees a transparent view of career opportunities across all markets. Also, given the full visibility of job postings around other British American Tobacco operating centres, it has expanded the employees' view of potential roles for their future career developments. This portal also serves to attract talent from outside BAT.

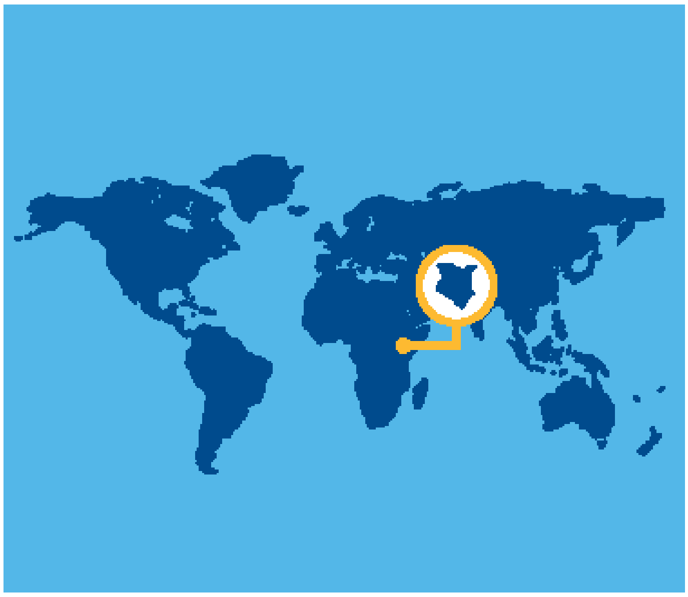
Understanding and responding to effective trends

As it gets harder to attract great talent, we have also extended our talent sourcing network to include various social media channels to attract high potential talent and to also increase our visibility with the current workforce. During the year, we took part in a number of external engagements, including participating at University career fairs seeking to showcase some of our processes and practices that we have implemented.

Likeminds initiative

We believe that our employees make the best ambassadors and know how to spot the best talent for the company. The Employee Referral Program aims to encourage current employees to refer potential talent to join BAT and in return get rewarded. In BAT Kenya, nearly half of all our new hires in 2015 were through referrals. This initiative helped to further build our employer brand through our existing employees, improve recruitment quality & turn around and cut costs as our dependency on recruitment agencies to fill roles has materially reduced.

We are exporting our talent across the East African community and beyond



We are extremely proud of our Kenyan Talent who are currently lending their expertise to other British American Tobacco entities across Africa and beyond.

- Country Manager, Uganda
- General Manager, Sudan
- Head of Finance for Mozambique, Zambia, Zimbabwe & Angola based in Maputo, Mozambique
- Head of Operations for West Africa Area based in Lagos, Nigeria
- Head of Trade, Rwanda
- Head of Trade, Uganda
- IT Account Manager for Shared Services & Southern African Markets based in Capetown, SA
- Plan Development Manager for Europe Middle East and Africa based in Southampton, UK

Employee Engagement

We are committed to ensuring that our people are engaged with our business. We keep them informed about our strategy, performance and other developments via communications cascades, face-to-face dialogue, presentations and our intranet.

One-of-a-kind experience

Towards the end of the 2015 BAT Kenya hosted a one-of-a-kind uplifting experience as part of its internal employee engagement journey. As a company, we felt it was time to step back, reflect & re-engage with our people. The event dubbed 'Welcome to the Village', included a musical play set in a local African village. The theatrical experience was loaded with rhythm, flashes of uncontrollable laughter and was not short of moments of self-reflection on various daily realities. The story set around a relation between a young warrior and his true love, the chief's daughter symbolized the life cycle of a relationship between employer and employee.

An acclaimed motivational speaker later reinforced the behaviours that successful teams and individuals need to continue nurturing such as open mindedness, recognition and having a winning attitude.

We are committed to providing an enabling work environment where employees will continue to realize their full potential. We will sustain the momentum leveraging on the event as a foundation for future employee engagement initiatives.

BAT Kenya Managing Director, Keith Grretton presents a Long Service Award certificate to Michael D'Souza for 30 years of dedicated service to the company.

We work in partnership with retailers both large and small and add value to their businesses as well. Our efforts are directed at ensuring that our products are available to adult tobacco consumers in Kenya regardless of where they are.

Sustainability Statement

> We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf, benefitting rural communities and the environment.

Value Shared

Sustainability is not a choice or something that is 'nice to have' – it is crucial to securing the future of our company and for creating shared value for our consumers, our shareholders and our stakeholders. For BAT Kenya, this is not a recent priority – as a major business in a controversial sector, we have long been aware of our responsibilities and our ability to address certain issues. Indeed in our long history of focusing on sustainability and corporate responsibility, we have made significant progress. Our initiatives have included advancing agricultural practices among our farmers, developing security systems for our supply chain that help prevent tobacco trafficking, and ensuring that we are reducing our environmental impact through greener initiatives within our Nairobi plant.

Harm Reduction

We know tobacco products pose real and serious health risks, as such our top priority continues to be working towards reducing these risks and making available a range of less risky tobacco and nicotine based alternatives. We believe we are best placed to deliver these alternative products and we strive to continue working with scientists and regulators to promote these next generation of products and advocate a regulatory and taxation approach that puts consumer safety and product quality first, while encouraging the growth of these new and less risky nicotine products that could help smokers cut down or quit.

Sustainable Agriculture

We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf, benefitting rural communities and the environment.

Our approach

Working with our farmers to look after the environment, address child labour and other human rights issues, and build local infrastructure, resources and networks to support rural communities.

Providing on-the-ground advice and support for over 5,000 contracted farmers worldwide, helping them to build successful, profitable businesses.

Setting standards, advancing agricultural practices, developing new technologies and conducting cutting-edge research into more sustainable leaf varieties.

A global crop

Over 75% of Kenyans make their living through agricultural activity.

Tobacco is a major global cash crop, which farmers grow in rotation with, or alongside, other crops such as fruit, vegetables, wheat and maize.

Our agricultural supply chain

Our leaf technicians countrywide support over 5,000 contracted farmers.

We paid 1.24 billion shillings to our contracted farmers in Gross Farmer Revenues in 2015.

We bought over 7 million kilos of tobacco leaf from our contracted farmers across the country in 2015.

The farmers we work with are valued business partners and crucial to the success of our business – if they do well, we do well. In the 2015 crop season, we contracted 5,537 farmers to grow tobacco on our behalf. We work to enable prosperous livelihood for all farmers who supply our tobacco leaf, benefitting rural communities and the environment. Our approach to supporting farmers' livelihoods focuses on five key areas:

Farm income – We help our farmers to have profitable businesses, with tobacco grown alongside a diverse range of other crops. Because tobacco is only grown for part of the year annually, we ensure that we support our farmers to grow various other food crops that enable them to remain profitable all year round. Each of our farmers is given maize seedlings (Certified seed maize: 2kg seed maize for every 600kg of tobacco delivered by a farmer) that they use to feed their families and generate additional income.

Natural resources – Preserving forests, water, soil health and biodiversity is essential for long-term agricultural productivity. Like all crops, tobacco does have its impacts on the environment, but we work with farmers to mitigate them. For example, wood is often used as a fuel in tobacco-curing processes. This has been an ongoing concern raised by various stakeholders across the country. We are taking steps to address our environmental impact by engaging in aggressive afforestation programs to plant up to 2 million trees annually. We do this partially by providing our farmers with tree seedlings to cater for their curing needs in addition to other domestic uses and for environmental conservation.

Additionally, in 2015, BAT partnered with Sony Sugar, one of Kenya's largest sugar milling companies to use sugarcane bagasse to manufacture briquettes for substituting wood in tobacco curing barns. This together with our afforestation projects supports the government's program of attaining forest cover of 10% of Kenya by 2030. We will continue to work with farmers to preserve our natural forests through such initiatives, which provide alternatives for a sustainable source of fuel.

Infrastructure and resources – We help to ensure that tobacco-growing areas are viable places to live and work, by providing farmers with access to technology and investing in community projects where we can. One of our programs involves donation of solar lamps to farmers and their communities

Skills, knowledge and labor – We promote human rights, tackle child labour, protect the health of farm workers and provide advice and training for running successful businesses. BAT uses various training organizations to educate farmers on financial management, child labour, afforestation among other initiatives. Our staff provide extension services and advice to farmers to ensure that they have the right skills to succeed now and in the future.

Community networks – We help to build and strengthen farmer networks, by providing the support and opportunities farmers need to be able to share best practice and become more self-sufficient and resilient. The farmer grouping model (Farmer cells) introduced in 2012 has matured and is now being transformed into cooperative societies that will progress the sustainability agenda in the tobacco growing regions leading to economic independence and quality improvement. Further, the company is educating farmers to form farmer societies as a way of encouraging a saving and investing culture. The first of these farmer societies kicked off operations in late 2015 in Migori County with a current membership of 300 farmers. We look forward to supporting this and other societies to grow and become self-sufficient in their operations.

We provide support to overcome agricultural challenges

The support we provide farmers is especially important given the serious pressures and challenges agriculture faces, in Kenya and globally. These range from rural poverty and food security, to an increasing demand for land and natural resources. There are also issues over access to clean water and sanitation, child labour, urban migration and aging farmer populations.

But these challenges are not related to any specific crops; they are issues that are common to agriculture as a whole. We agree that tobacco, like all crops does have its impacts but our approach to agriculture and working with farmers is designed to mitigate and address them.

In Kenya, tobacco is a profitable choice – we agree to buy a certain amount of tobacco from our contracted farmers each year which gives them a regular income, enabling them to invest in their farms and build successful businesses.

We set standards

All the farmers who supply us with tobacco leaf are reviewed through our Social Responsibility in Tobacco Production (SRTP) program. This program covers good agricultural practices and environmental management, such as soil and water conservation, sustainable wood sourcing and protecting biodiversity. It also includes criteria which are aligned to International Labour Organization conventions and cover labour standards and activities to prevent child labour.

The SRTP program sets out the minimum requirements we expect of our suppliers. If they are not met, action plans are put in place and failure to comply with these could result in them losing their position as a leaf supplier to BAT.

Energy Management

The Energy Management Regulations were published in 2012 with the aim of reducing the environmental footprint primarily of manufacturers in the country. In May 2015, BAT became the first company in Kenya to receive the Energy Management Compliance Certificate for fully complying with these Regulations.

Our commitment to sustainable energy management started back in the year 2008 with launch of our 5 year Operations Strategy. We are proud to share that this focused drive on energy reduction has yielded a total energy saving of approximately. Shs 117 million over the last 5 years. Key initiatives undertaken to reduce energy consumption have included:

- Installation of an LED lighting and occupancy sensors
- Installation of more efficient air dryer, variable speed drives and Sigma Air Manager which yielded 15% saving on compressed air usage.
- Upgrading of production equipment through resizing motors, use of high efficient motors and reducing transmission losses leading to 18% savings.
- Installed more modern and efficient passenger lifts yielding 20% savings
- Installed a more efficient boiler and reduced distribution losses leading to 20% saving in Furnace Oil Usage.

Corporate behavior

We are committed to operating to the highest standards of corporate conduct and transparency, benefiting governments, consumers, the environment and our people.

We understand that tobacco is a controversial industry and there remains mistrust towards it across society. Building trust is crucial, which is why we have adopted an open and responsible approach, working with transparency and clarity and ensuring that our actions speak louder than our words. This supports our business sustainability and benefits the government and our society as a whole.

Our approach

Responsible marketing of our products, as well as providing clear and meaningful information about their risk profiles.

Working with retailers around the world to prevent children from getting access to tobacco products.

Engaging openly on regulatory issues, offering constructive solutions and being transparent about our views on key regulatory issues.

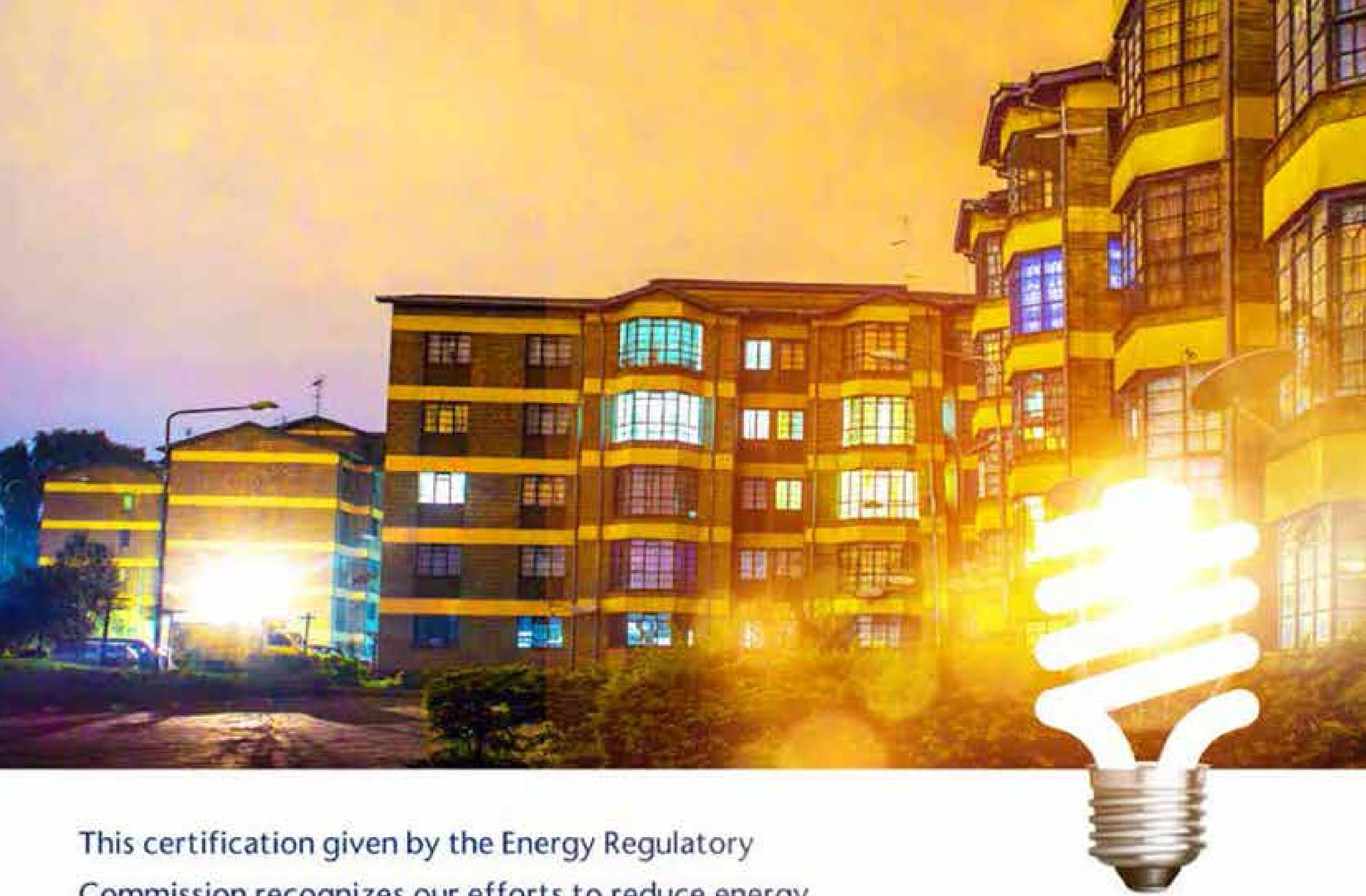
Fighting tobacco trafficking through international cooperation, industry-wide systems to secure the supply chain and working alongside law enforcement agencies.

Reducing our environmental impacts and making our operations more efficient.

Looking after our people and working to get closer to our goal of zero accidents.

WE ARE LEADERS IN SUSTAINABILITY

BAT Kenya is the first company in Kenya to receive the Energy Compliance Certificate.



This certification given by the Energy Regulatory Commission recognizes our efforts to reduce energy consumption and advance the sustainability agenda in Kenya. Our electricity savings of 5 million kWh could power 5000 households for 8 months.

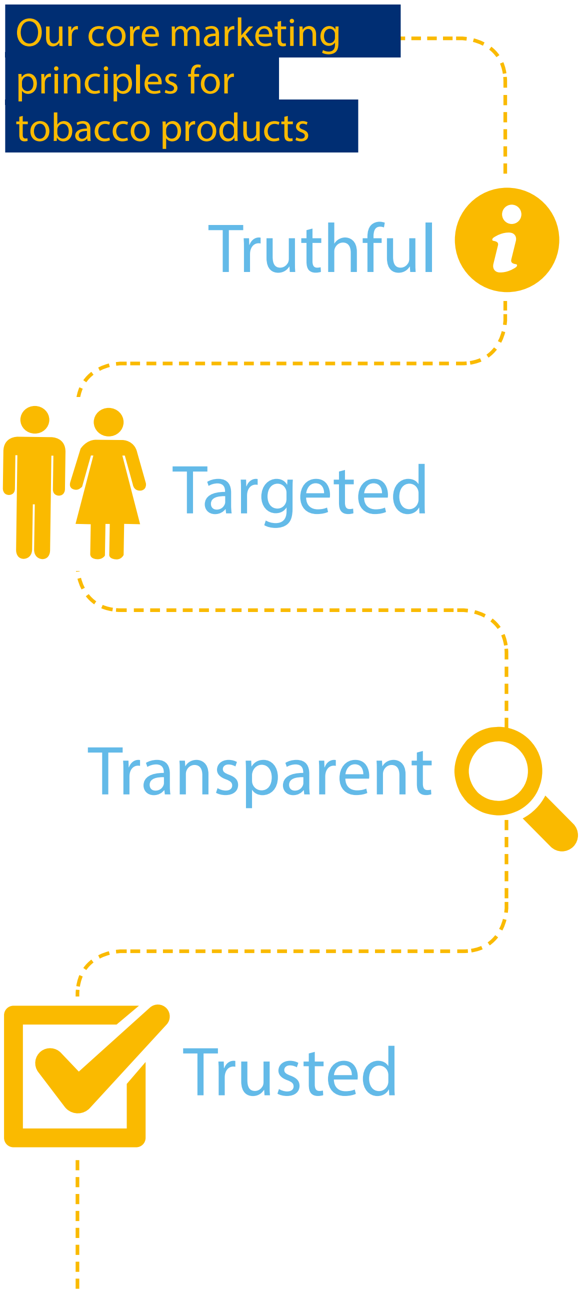
We are committed to sustainable energy management and acknowledge the role of efficient and responsible use of energy in socio-economic transformation.

BRITISH AMERICAN TOBACCO
KENYA

We are committed to operating to the highest standards of corporate conduct and transparency across our business and our employees are required to adhere to our Standards of Business Conduct and Principles of Engagement which provide even clearer guidance for our external engagements.

Youth Smoking Prevention Activities

In 2015, we rolled out a nationwide Youth Smoking Prevention campaign aimed at raising retailers' awareness of Kenya's minimum age law of 18 in respect to tobacco purchase and consumption. The exercise, conducted in all 47 counties, activated over 18,000 outlets across the country to ensure compliance with the Tobacco Control Act. We believe that only adults who choose to smoke should have access to our products and will continue to work with retailers to enforce this message



Our approach to regulation

The production, sale and consumption of tobacco products in Kenya has been regulated by the Tobacco Control Act 2007 (TCA) since July 2008. In December 2014, the Cabinet Secretary for Health gazetted the Tobacco Control Regulations 2014 which are intended to operationalize the Tobacco Control Act.

BAT moved to court to contest the legality of the Regulations on a number of grounds including breaches of the Constitution and failure of the Ministry of Health to release the required technical information for the implementation of some of the Regulations in time. BAT Kenya applied to the High Court to suspend the implementation date of the Regulations to obtain the necessary clarity and time for preparations so that manufacturers can meet their legal obligations.

Our challenge does not reflect an opposition to the regulation of our industry, which we support. Indeed, we support effective, evidence-based regulation that meets public health objectives, does not impede our ability to compete and respects our legal rights. We question regulation that does not meet this criteria, or which could have unintended consequences such as stimulating illicit trade. Whilst we resorted to judicial measures to resolve the contentious issues regarding the Regulations, we have a long and proven track record of complying with laws and regulations while delivering on our performance objectives and we continue to emphasize our willingness to cooperate with the government to ensure balanced regulation.

Working with the Counties

Only three years since its inception, the devolved system of government continues to gain momentum. However, earlier identified challenges that could arise continue to be a real threat to the stability of the business environment in Kenya. These include increased taxation across the counties and introduction of business levies and regulations – all of which would increase both the cost and the complexity of doing business. In 2015, we continued to work closely with our stakeholders to ensure that the governance systems introduced and implemented were consistent both with national law and across the counties themselves to ensure uniformity and sustainability in the business environment.

Throughout the year, we conducted several training and capacity building forums for our Trade Marketing and Distribution team who are based in the field. The objectives were to enable our wider team to be able to manage relationships with key stakeholders at the county level, monitor and report any regulatory activities that may have a business impact and foster greater ties between the company and the county governments. We continue to look forward to more opportunities to strengthen existing partnerships and relationships with county stakeholders, develop new ones and work together to ensure a conducive operating environment is maintained.

Fighting Illicit trade

BAT is a major contributor to government revenue. In 2015, we paid Shs 16.3 billion in excise duties, VAT, corporation tax and PAYE to the tax authority. We also devote considerable resources to stem the illegal trade in tobacco products and continue to engage with relevant authorities to ensure sustainability of industry revenues which in turn result in sustainable Government revenues.

We make every effort to control our supply chain and have collaborated and cooperated with regional Customs authorities such as the Kenya Revenue Authority (KRA) and law enforcement agencies for many years in this regard. All products manufactured for either domestic or export markets follow very stringent governance protocols set by the Customs Authority. We have an in-house team dedicated to countering illicit trade and over the years have invested significant resources to tackle this criminal activity.

Earlier last year, BAT Kenya partnered with the Kenya Association of Manufacturers and the Judiciary to develop and publish the Anti-Illicit Trade Enforcement Manual – a legal document that consolidates all laws relating to illicit trade in the country with the purpose of strengthening the prosecution process. Additionally, the Company has supported the work of Law Enforcement Agencies such as the Police, the Kenya Revenue Authority and the Anti-Counterfeit Authority through facilitating training and awareness seminars to build capacity in this regard. We continue to partner with both the National and County government in the monitoring and tackling of any issues arising from the illegal trade of tobacco.

Standards of Business Conduct

Our Standards of Business Conduct set out the rules and policies that apply to everyone working within the BAT Group, while also providing support and guidance to assist all employees in meeting the high standards expected of them. The central requirement is that at all times employees act with high standards of business integrity and comply with all applicable laws and regulations.

The Standards also provide guidance on specific areas relevant to our business including conflicts of interest, bribery and corruption, entertainment and gifts, public contributions, corporate assets and financial integrity and national and international Trade. The Company endeavors to ensure compliance to the Standards by face-to-face cascades to all employees. Employees are then expected to sign a compliance form on an annual basis affirming their understanding of and adherence to the Standards. Any non-compliance of the Standards is dealt with in an appropriate manner.

Towards the end of 2015, a number of public allegations were made regarding certain conduct on the part of BAT. The Board of BAT Kenya takes these allegations extremely seriously and has taken steps to ensure that they are fully investigated. All our employees are required to understand and abide by the company's Standards of Business Conduct.

Since its launch in 1932, Sportsman has grown to become the number one brand in the Kenyan tobacco market.
It has continued to deliver both in volume and value terms.

Not for sale to persons under the age of 18

WARNING: SMOKING HARMS PEOPLE NEXT TO YOU

ONYO: UVUTAJI WA SIGARA UNADHURU WATU WALIO KARIBU NAWE

Board of Directors

Mr. G. Maina (age 63)

Non-Executive Chairman
Kenyan

Position:
Chairman since 1 September 2013; Non-Executive Director since November 2010; and Chairman of the Nominations Committee.

Skills and experience:
Mr. Maina is an engineer by profession. He worked with the Shell Group of Companies for 26 years during which time he served in senior management in Kenya, Jamaica and Ghana. In 1998 he was appointed Managing Director of Kenya Shell and BP Kenya Ltd before leaving corporate employment to pursue private business in 2004.

Key Appointments:
He holds directorships in NIC Bank, Insurance Company of East Africa, Afrika Investment Bank, Faulu Kenya Limited and Nairobi Securities Exchange Ltd. He is also a Trustee of Starehe Boys Centre, Africa Conservation Centre and Gertrude Gardens Children's Hospital.

Mr. K. Gretton (age 54)

Managing Director
British

Position:
Managing Director since 1 July 2015.

Skills and experience:
Mr. Gretton served as BAT General Manager East Africa Markets based in Nairobi between June 2011 to December 2012 and as Area Head of Corporate & Regulatory Affairs with the then BAT Sub-Saharan Africa Area between April 2007 to September 2008. Most recently, Mr. Gretton held the position of Area Director, North Africa & Managing Director of BAT Egypt. He was responsible for BAT Group's operations across North Africa. Prior to this he was responsible for BAT's operations in West Africa based in Lagos Nigeria

Key Appointments:
He is currently also the Area Director for BAT East and Central Africa.

Mr. P. Lopokoiyit (age 49)

Finance Director
Kenyan

Position:
Finance Director since November 2010.

Skils and experience:
Mr. Lopokoiyit has extensive experience in financial management and served in senior management over the last fifteen years as Head of Finance in various BAT Business units. Prior to this appointment he was the BAT West Africa Area Finance Director based in Lagos, Nigeria. Philip is a member of Institute of Certified Public Accountants of Kenya (CPA), a Fellow Member of the Institute of Chartered Accountants of England and Wales and holds an MBA from Warwick Business School.

Key Appointments:
Non-Executive Director of CIC Insurance Group Ltd. He is currently also the Area Finance Director for BAT East and Central Africa.

Mr. G.R. May (age 72)

Non-Executive Director
British

Position:
Non-Executive Director since September 2005. Chairman of the Audit Committee and Member of the Nominations Committee.

Skills and experience:
Mr. May has a rich accounting background having worked for PricewaterhouseCoopers in various countries for 37 years. He is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA), a member of the Institute of Certified Public Accountants of Kenya (CPA) and a Member of the Institute of Certified Public Secretaries of Kenya (CPS). He is currently the Regional Representative of the Eastern Africa Association, a business information service based in Nairobi, but active throughout East Africa.

Key Appointments:
He holds directorships in Swissport Kenya Limited, Liberty Holdings Limited, Liberty Life Assurance Kenya Limited, and The Heritage Insurance Company Kenya Limited.

Board of Directors

Ms. C. Musyoka (age 43)

Non-Executive Director
Kenyan

Position:
Non-Executive Director since February 2011 and a Member of the Audit Committee.

Skills and experience:
Ms. Musyoka is a Lawyer by profession. She has over 10 years of financial leadership and legal experience working in Kenya and the United States. Her executive management experience includes her role as the Corporate Director of Barclays Bank of Kenya Ltd. She currently provides consulting and training services for various local and international commercial banks and insurance companies and is also a popular weekly columnist on the Business Daily newspaper.

Key Appointments:
She is a Non-Executive Director of East African Breweries Limited and chairs the Board of the recently constituted Business Registration Services under the Attorney General's office.

Dr. J. Ciano (age 64)

Non-Executive Director
Kenyan

Position:
Non-Executive Director since July 2012; Chairman of the Remunerations Committee and Member of the Nominations Committee.

Skills and experience:
Dr. Ciano was most recently the Group CEO of Uchumi Supermarkets. Prior to that he held Senior positions in organisations such as Kenya Power and Lighting Company and Kenya Shell Ltd amongst others. He holds a Bachelors of Commerce degree in Finance, an MBA in Strategy and Finance and a honorary doctorate in humanities. He is a Fellow of the Institute of Certified Public Accountants and a Fellow of Kenya Institute of Management. He currently lectures in a number of universities.

Key Appointments:
He is a Non-Executive Director of Investeq Capital Ltd.

Dr. J. Ciano resigned as Non-Executive Director on 26 February 2016.

Mr. J. Mohamed (age 61)

Non-Executive Director
Kenyan

Position:
Non-Executive Director since November 2012; Member of the Audit Committee.

Skills and experience:
Mr. Mohamed is currently the Managing Director for Serena Hotels Africa and head of the Tourism Department for Aga Khan Fund for Economic Development (AKFED) and is responsible for 35 Hotels, Lodges and Safari resorts located in 9 countries in Africa and Asia. Mr. Mohamed's work experience includes Senior Management positions in Europe and Africa.

Key Appointments:
He is the Founding Chairman of the Kenya Tourism Federation and a Trustee of the East African Wildlife Society. He is a Director on the Kenya Tourism Board and Kenya Land Conservation Trust. He is also a member on the Eastern Africa Association Advisory Council

Board of Directors

Mr. P. Mwangi (age 46)

Non-Executive Director
Kenyan

Position:
Non-Executive Director since February 2015.

Skills and experience:
Mr. Mwangi is currently the Group Chief Executive Officer of UAP-Old Mutual Group in East Africa since 1st July 2015. Prior to this appointment he served as the Group Chief Executive Officer of the Old Mutual Group in Kenya from October 2014 and the Chief Executive Officer of the Nairobi Securities Exchange Limited for a period of 6 years until September 2014. He has over twenty years of proven business and leadership experience. Mr. Mwangi holds a Bachelor of Science degree in Electrical Engineering from the University of Nairobi. He is a member of the CFA Institute, CFA Society of East Africa, Institute of Certified Investment and Securities Analysts, Institute of Certified Public Accountants of Kenya (ICPAK), Institute of Certified Public Secretaries of Kenya (ICPSK), Institute of Directors of Kenya and the Kenya Institute of Management (KIM).

Key Appointments:
Non-Executive Director of the Central Depository and Settlement Corporation and Funguo Investments Ltd.

Mrs. T. Mapunda (age 41)

Non-Executive Director
Tanzanian

Position:
Non-Executive Director since October 2014 and a Member of the Remunerations Committee.

Skills and experience:
Mrs. Mapunda is the founder of Montage Limited, a multi-dimensional consultancy and creative agency based in Dar-es-Salaam, Tanzania. She has over twenty years of leadership experience in public relations, customer service, administration and sales. Mrs. Mapunda is a graduate of the Swedish Institute of Public Administration and the Ghana Institute of Management and Public Administration.

Key Appointments:
Board Member of Why Africa Now of USA, Mpingo Conservation, TPS Eastern Africa (Serena Hotels) and the Tanzania Tourist Board.

Ms. R. T. Ngobi (age 55)

Company Secretary
Kenyan

Position:
Company Secretary since August 2002.

Skills and experience:
Ms. Ngobi was educated in both Kenya and the UK and qualified as a lawyer in 1985. She previously worked with Unilever Kenya Limited for 15 years as Company Secretary before joining British American Tobacco Kenya Ltd in 2002 as Company Secretary and Area Legal Counsel. She retired from full time employment with British American Tobacco Kenya Ltd in 2010 but retained her role as Company Secretary. She founded Cosec Solutions which provides company secretarial services and corporate governance solutions to various companies.

Key Appointments:
She is a Non- Executive Director on the Boards of CFC Stanbic Bank Limited and CFC Stanbic Holdings Limited.

Leadership Team

Mr. Keith Gretton
Managing Director

Ms. Lina Githuka
Head of Marketing

Mr. Philip Lopokoiyit
Finance Director

Mr. Simukai Munjanganja
Head of Legal and External Affairs

Ms. Razeeah Belath
Head of Human Resources

Mr. Dirk Eloff
Head of Operations

Corporate Governance

Overview

Corporate governance refers to the structures and processes guiding the leadership of the Company. The Company has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the organisation. Throughout the year ended 31 December 2015 and to the date of this document, the Company complied with the Capital Markets Authority guidelines on Corporate Governance Practices by Public Listed Companies in Kenya. Besides complying with external corporate governance guidelines, the Company has committed to embed internal rules of engagement to support corporate governance. These internal guidelines are constituted in the Standards of Business Conduct to which every employee makes a commitment to comply with.

The Role of the Board

The Board is comprised of seven (7) Non-Executive Directors including the Chairman and two Executive Directors. The Board is collectively responsible for the Company's vision and strategic direction, its values, and its governance. The Board is accountable to the Company's shareholders for the performance of the business and the long-term success of the Company. It provides the leadership necessary for the Company to meet its performance objectives within a framework of internal controls.

The key responsibilities of the Board include:

- Approving company strategy
- Approving company policies
- Approving major corporate activities
- Approving Annual Report
- Agreeing governance framework
- Agreeing company budget
- Agreeing Board succession plans
- Reviewing risk management and internal controls
- Reviewing periodic financial reports
- Declaring an interim/recommending final dividend

The Board has established three principal Board Committees, to which it has delegated certain responsibilities namely, the Nominations Committee, the Audit Committee and the Remuneration Committee. The roles, membership and activities of these Committees are described in more detail later in this Corporate Governance Report. Each Committee has its own terms of reference which are reviewed and updated as appropriate.

Division of Responsibilities

The Chairman and Managing Director are responsible for the profitable operation of the Company. Their roles are separate, with each having distinct and clearly defined duties and responsibilities. The Chairman is responsible for leadership of the Board, for ensuring its effectiveness on all aspects of its role and for facilitating the productive contribution of all Directors. He sets the agenda for Board meetings in consultation with the Managing Director and the Company Secretary. He is also responsible for ensuring that the interests of the Company's shareholders are safeguarded and that there is effective communication with them. The Chairman is accountable to the Board for leading the direction of the Company's corporate and financial strategy and for the overall supervision of the policies governing the conduct of the business.

The Managing Director has overall responsibility for the performance of the business. He provides leadership to facilitate successful planning and execution of the objectives and strategies agreed by the Board. He is also responsible for stewardship of the Company's assets and, jointly with the Chairman, for representation of the Company externally.

Non-Executive Directors

The Board has seven (7) Independent Non-Executive Directors. Their role is to help develop strategy, review management proposals, scrutinise performance of management, to bring an external perspective to the Board, monitor reporting of performance and be available to meet with major shareholders as appropriate.

Collective Decision Making

The Chairman seeks a consensus at Board meetings but, if necessary, decisions are taken by majority. If any Director has concerns on any issue that cannot be resolved, such concerns are noted in the Board minutes. No such concerns arose in 2015.

Independence and Conflicts of Interest

The Board considers its current Non-Executive Directors to be independent, as they have not previously been employed in Company management roles and are free from any business or other relationships that could interfere materially with or appear to affect, their judgement.

The Board has procedures for managing conflicts of interest and may authorise situational conflicts under the Company's Articles of Association. All Directors are expected to disclose, on appointment, any circumstances which may give rise to any actual or potential conflict of interest with their roles as Directors. Directors are also required, during the tenure of their appointments, to give advance notice of any conflict issues to the Chairman of the Board or the Company Secretary, which conflict issues would be considered at the next Board meeting.

At the end of every year each Director executes a Standards of Business Conduct Confirmation Form wherein they confirm the existence or non-existence of conflicts of interests for declaration.No conflicts of interest were declared and or reported by Directors in 2015.

The Leadership Team

The Leadership Team is responsible for the oversight and implementation of the Company's strategy as set out by the Board of Directors. Their profiles are set out on page 41 of this Annual Report.

The Composition of the Board

The composition of the Board as at 31 December 2015 and as at the date of this Annual Report as set out on page 38- 40.

Attendance at Board and Annual General meetings in 2015

Five (5) scheduled meetings and two (2) Special Board Meetings were held in 2015.

Name	Meetings Attended	Meetings Eligible to Attend
Mr. G. Maina (Chairman)	7	7
Mr. C. Burrell (Managing Director) [1]	3	3
Mr. K. Gretton (Managing Director) [2]	4	4
Mr. P. Lopokoiyit (Finance Director)	7	7
Mr. G. R. May	6	7
Ms. C. Musyoka	7	7
Dr. J. Ciano[3]	6	7
Mr. J. Mohamed	4	7
Mrs. T. Mapunda	5	7
Mr. P. Mwangi	4	7
Ms. R. T. Ngobi (Company Secretary)	7	7

1. Mr.C. Burrell resigned as Managing Director on 30 June 2015.
2. Mr. K. Gretton was appointed as Managing Director on 1 July 2015.
3. Dr. J. Ciano resigned as Non-Executive Director on 26 February 2016.

Nominations Committee

The Nominations Committee is responsible for reviewing the structure, size and composition of the Board to ensure it has an appropriate balance of skills, expertise, knowledge and independence. The Committee is also responsible for identifying candidates to fill vacancies on the Board and ensures that the procedure for appointing Directors is rigorous, transparent, objective, merit-based and has regard for diversity. It makes recommendations to the Board on suitable candidates for appointments to the Board which process includes an evaluation of the skills and experience being sought prior to recruitment. Suitable candidates are interviewed by the Committee and its Chairman and recommended to the Board for appointment.

The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment for an initial term of two years and thereafter renewable as per the Board's policy on maximum tenure and upon recommendation by the Nominations Committee.

Members

Mr. G. Maina (Chairman)
Mr. G. R. May
Dr. J. Ciano
Ms. R. T. Ngobi (Secretary)

Attendance at meetings in 2015

Name	Meetings Attended	Meetings Eligible to Attend
Mr. G. Maina (Chairman)	1	1
Mr. G. R. May	1	1
Dr. J. Ciano**	1	1
Mr. K. Gretton*	1	1
Ms. R. T. Ngobi (Secretary)	1	1

*Mr. K. Gretton attends the Committee as a Permanent Invitee.
**Dr. J. Ciano resigned as Non-Executive Director on 26 February 2016.

Mandate of the Nominations Committee

The mandate of the Nominations Committee is to make recommendations to the Board on the suitability of candidates for appointment to the Board, whilst ensuring that the Board has an appropriate balance of expertise and ability. The Nominations Committee also evaluates and makes recommendations with regard to the composition of all Board Committees. In so doing, it monitors and ensures that appropriate Non-Executive and Executive Directors' ratios are maintained. This Committee is also charged with the responsibility of evaluating and reporting to the Board on an annual basis, the effectiveness of the Board and effectiveness of the Directors in the discharge of their responsibilities.

Commitment

The Board recognises that all Directors should allocate sufficient time to the Company to discharge their responsibilities effectively. The Chairman and other Non-Executive Directors ensure they have adequate time to undertake what is expected of them. Other significant commitments are disclosed to the Board upon appointment and subsequent changes highlighted as they arise. The terms of engagement of the Non-Executive Directors are held by the Company Secretary and are available for inspection.

Induction, Training and Development

On joining the Board all receive a full induction. Non-Executive Directors also receive a full programme of briefings on all areas of the Company's business from the Executive Directors, members of the Leadership Team, the Company Secretary and other senior executives.

Following his appointment as a Non-Executive Director in February 2015, Mr. P. Mwangi attended induction briefings covering the Company's strategy, organizational structure, business functions, statutory reporting cycle, financing principles, IT strategy and legal and regulatory issues. He visited the Company's factory and also participated in a market visit.

Directors, and particularly Non-Executive Directors, are encouraged to embrace on-going training and development. Towards that end appropriate training interventions were identified for attendance by Directors such as The Executive Directors Programme conducted by the Strathmore Business School. To enable the Non-Executive Directors to gain exposure to the Company's business on the ground one of the scheduled Board meetings is held out of Nairobi. In 2015 the November Board meeting was held in Mombasa. Non-Executive Directors received briefings from the Marketing and Sales Team based in Mombasa on the Company's operations there and were also invited to attend a scheduled market visit.

Information and Support

The Board receives high quality, up-to-date information for review in good time ahead of each meeting. The Company Secretary ensures timely information dissemination within the Board and its Committees and between the Non-Executive Directors and senior management as appropriate.

Board Evaluation

Every year the Board conducts a critical evaluation of its effectiveness and that of its Committees, the Executive and Non-Executive Directors for the preceding year. The evaluation is conducted by each Director completing a Board Effectiveness Evaluation Form. This information is thereafter collated by the Company Secretary and presented to the Nominations Committee with a view to identifying and recommending areas for improvement. The findings from the Board Evaluation exercise are subsequently presented to the full Board and recommendations for improvements discussed and if thought fit, approved.

The evaluation for 2014 was conducted in 2015. A report was prepared for the Board on the results of this exercise. While the Board and each of its Committees are considered to be fully effective with demonstrated progress against 2014 actions, fresh action points were identified for implementation.

Individual feedback was given by the Chairman to all Board members. All Board members continued to perform well, and each was considered to be making an effective contribution to the Board. Feedback on the Chairman's own performance was given to him by the Nominations Committee.

Re-election of Directors

In accordance with the Articles of Association of the Company, all Directors offer themselves for re-election at regular intervals, subject to continued satisfactory performance and commitment. All new appointments to the Board are subject to election by shareholders at the first Annual general Meeting after their appointment.

At this year's AGM on 12 May 2016, the Company will be submitting all eligible Directors for re-election and, in the case of Mr. K. Gretton, election for the first time. The Nominations Committee confirms that the performance of the Directors being proposed for re-election continues to be effective and that they continue to demonstrate commitment to their roles as Non-Executive Directors, including commitment of the necessary time for Board and Committee meetings and other duties.

Financial and Business Reporting

The Board is satisfied that it has met its obligation to present a balanced and understandable assessment of the Company's position through the Annual Report. It is appropriate to treat this business as a going concern as there is sufficient existing financing available to meet expected requirements in the foreseeable future. The Audit Committee is assigned to review financial, audit and internal control issues in supporting the Board of Directors which is responsible for the financial statements and all information in the annual report.

Risk Management and Internal Control

The Board is responsible for determining the nature and extent of the significant risks that the Company is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems. With the support of the Audit Committee, the Board carries out a review of the effectiveness of its risk management and internal control systems annually, covering all material controls including financial, operational and compliance controls and risk management systems.

Risk registers, based on a standardised methodology, are used to identify, assess and monitor the key risks (both financial and nonfinancial) faced by the business. Information on prevailing trends, for example whether a risk is considered to be increasing or decreasing over time, is provided in relation to each risk and all identified risks are assessed at three levels (high/medium/low) by reference to their impact and likelihood. Mitigation plans are put in place to manage the risks identified and the risk registers and mitigation plans are reviewed on a regular basis.

The Company also completes a checklist of the key controls annually in compliance with the Group best practice, known as the Control Navigator. Its purpose is to enable a self-assessment into the internal control environment, and to assist in identifying any controls which may require strengthening and monitoring action plans to address control weaknesses. The Control Navigator checklist is reviewed annually to ensure that it remains relevant to the business and covers all applicable key controls.

The Board, with advice from its Audit Committee, has completed its annual review of the effectiveness of the system of risk management and internal control for the period since 1 January 2015. No significant failings or weaknesses were identified and the Board is satisfied that, where specific areas for improvement have been identified, processes are in place to ensure that the necessary remedial action is taken and that progress is monitored.

Audit Committee and Auditors

The Audit Committee is responsible for monitoring compliance with the Company's Standards of Business Conduct, which underpin the Group's commitment to good corporate behaviour. The Standards of Business Conduct require all staff to act with high standards of business integrity, comply with all applicable laws and regulations and ensure that business standards are never compromised for the sake of results.

Members

Mr. G. R. May (Chairman)
Mr. M. Janmohamed
Ms. C. Musyoka

Attendance at meetings in 2015

Name	Meetings Attended	Meetings Eligible to Attend
Mr. G. R. May	3	3
Ms. C. Musyoka	3	3
Mr. M. Janmohamed	3	3
Mr. C. Burrell[1]	1	1
Mr. K. Gretton[2]	2	2
Mr. P. Lopokoiyit[2]	3	3

1. Mr. C. Burrell resigned as Managing Director on 30 June 2015
2. Mr. K. Gretton and Mr. P. Lopokoiyit attend as Permanent Invitees.

Mandate of the Audit Committee

The Audit Committee is responsible for monitoring the integrity of the financial statements and any formal announcements relating to the Company's performance, keeping under review the consistency of the accounting policies applied by the Company, reviewing the effectiveness of the accounting, internal control and business risk systems of the Company, reviewing and, when appropriate, making recommendations to the Board on business risks, internal controls and compliance. The committee is also responsible for monitoring compliance with the Company's Standards of Business Conduct, monitoring and reviewing the effectiveness of the Company's internal audit function; and monitoring and reviewing the performance of the Company's external auditors by keeping under review their independence and objectivity, making recommendations as to their reappointment (or, where appropriate, making recommendations for change), and approving their terms of engagement and the level of audit fees payable to them.

The Board has an obligation to establish formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the external auditors, which is delivered through the Audit Committee.

KPMG Kenya replaced PricewaterhouseCoopers as the Company's auditors as approved by the Shareholders on 5 May 2015. The Audit Committee considers that its relationship with the auditors worked well during the period and was satisfied with their effectiveness.

The Audit Committee is also responsible for monitoring and reviewing the effectiveness of the Internal Audit function. The Area Head of Internal Audit is a permanent invitee to the committee. The Internal Audit manager presents a report to the committee on the audit plan for the year as well as updates on ongoing and completed audits. Further the audit committee meets separately with the internal audit team and the External Auditor representatives at the end of every meeting without management.

Standards of Business Conduct

All BAT Kenya employees are expected to live up to the Standards of Business Conduct and guidance is provided through training and awareness programmes. Every employee and members of the Board sign a declaration to comply with the Standards of Business Conduct annually. The Standards of Business Conduct also set out the Group's whistleblowing policy, which enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal, provided that such concerns are not raised in bad faith. Any whistleblowing incidents are tabled at the Audit Committee. The procedures in place ensure independent investigation and appropriate follow-up actions. The Standards of Business Conduct are available on www.bat.com.

Towards the end of 2015, a number of public allegations were made regarding certain conduct on the part of BAT. The Board of BAT Kenya takes these allegations extremely seriously and has taken steps to ensure that they are fully investigated. All our employees are required to understand and abide by the company's Standards of Business Conduct.

The Remuneration Committee

The Remuneration Committee considers the remuneration policy annually for employees, Executive and Non-Executive Directors. The Remuneration Committee ensures that the remuneration policy is aligned with business needs, is performance-driven and appropriately benchmarked against other companies in Kenya. Its overriding objective is to reward the delivery of the Company's strategy in a manner which is simple, straightforward and understandable.

With respect to the Executive Directors the remuneration package comprises core fixed elements (base salary, pension and other benefits) designed to recognize the skills and experience of the Executive Directors and to ensure current and future market competitiveness in attracting talent. In addition, two performance-based variable elements (a single cash and share incentive annual bonus (IEIS), and a single long-term incentive scheme (LTIP) are designed to motivate and reward the delivery of growth to shareholders on a long-term sustainable basis.

Members

Dr. J. Ciano (Chairman)
Mr. G. Maina
Mrs. T. Mapunda

Attendance at meetings in 2015

Name	Meetings Attended	Meetings Eligible to Attend
Dr. J. Ciano**	1	1
Mr. G. Maina	1	1
Mrs. T. Mapunda	1	1
Mr. C. Burrell*	1	1
Mr. P. Lopokoiyit*	1	1

*Mr. C. Burrell and Mr. P. Lopokoiyit attended as Permanent Invitees.
**Dr. J. Ciano resigned as Non-Executive Director on 26 February 2016.

Mandate of the Remuneration Committee

The Remuneration Committee is responsible for setting executive remuneration covering salary and benefits, performance based variable rewards, pensions and terms of service, setting of targets applicable for the Company's performance based reward schemes, monitoring and advising the Board on major changes to the policy on employee benefit structures for the Company.

Dialogue with Shareholders

The Company is keen to have interactive sessions with its stakeholders and makes arrangements to have specific engagement sessions in the course of the year. The Company held a shareholders "Open Day" on 23 April 2015. Shareholders in attendance were taken through the Company's operations and participated in a Factory tour.

The Company holds an Annual General Meeting (AGM) to discuss full year performance with the shareholders. The AGM provides a useful opportunity for shareholder engagement and, in particular, for the Chairman to explain the Company's progress and receive questions from investors. The chairmen of the Audit, Nominations and Remuneration Committees are normally available at the AGM to take any relevant questions and all other Directors attend, unless illness or another pressing commitment precludes them from doing so.

The Company also periodically hosts investor briefs. This facilitates engagement with key stakeholders from the Nairobi Securities Exchange, Capital Markets Authority and various fund managers representing institutional/foreign investors to interact with senior management to ask questions regarding the Company's performance. The Managing Director and Finance Director are among senior management on hand at investor briefs to respond to stakeholder queries.

Constructive Use of the Annual General Meeting

Voting at any general meeting of shareholders is by a show of hands. On a show of hands, every shareholder who is present in person at a general meeting has one vote regardless of the number of shares held by the shareholder. Every proxy appointed by a shareholder and present at a general meeting has one vote.

The Company Secretary gives the Notice to the AGM 21 days prior to the meeting stipulating the agenda for the meeting including any resolutions that will be passed at the meeting in compliance with the Articles of Association and the Companies Act.

During 2015 the services of Custody & Registrar Services Limited (CRS) were maintained to manage the Register, shareholder transactions such as distribution of dividends and related matters. CRS also ensures that all valid proxy appointments received are properly recorded and counted.

BAT Kenya Corporate Governance Factsheet

Size of Board including Company Secretary	10
Number of independent Directors	7
Number of women on the Board	3
Separate Chairman and CEO	Yes
Terms of Reference for Board Committees	Yes
Independent Audit Committee	Yes
Number of Financial Experts on Audit Committee	1
Number of Independent Remuneration Committee members	3
Number of Independent Nominations Committee members	3
Number of Board and Annual General Meetings Held in Full Year 2015	7
Re-election of Directors in accordance with Articles of Association	Yes
Annual Board Evaluation	Yes
Individual Director Evaluations	Yes
Corporate Governance Guidelines Approved by Board	Yes
Standards of Business Conduct	Yes
Board Induction Programs conducted	Yes

Financial Statements

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2015, which disclose the state of affairs of the group and of the Company.

Principal activities

The principal activities of the group are the manufacture and sale of cigarettes and tobacco.

Results and Dividend

The net profit for the year of Shs 4,976,256,000 (2014:Shs 4,255,314,000) has been added to retained earnings. During the year an interim dividend of Shs 350,000,000 (2014: Shs 350,000,000) was paid. The Directors recommend the approval of a final dividend of Shs 4,600,000,000 (2014: Shs 3,900,000,000).

Board of Directors

The following changes have taken place in the Board of Directors since the last Annual General Meeting:

Mr. C. Burrell resigned as Managing Director on 30 June 2015. Mr. K. Gretton was appointed as Managing Director on 1 July 2015.

In accordance with Article 95 Mr. K. Gretton retires from the Board and being eligible, offers himself for re-election.

Mr. G. Maina, Mr. P. Lopokoiyit and Ms. C. Musyoka retire by rotation and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.

Mr. G. May having attained the age of 70 in March 2013 retires in terms of Article 98 of the Company's Articles of Association and being eligible offers himself for re-election.

Dr. J. Ciano resigned as Non-Executive Director on 26 February 2016.

Auditor

The Company's auditor at the date of this Report is KPMG Kenya, who were appointed during the year, continue in office in accordance with section 159(2) of the Kenyan Companies Act (Cap 486).

Approval of financial statements

The financial statements were approved by the Board of Directors on 25 February 2016.

By order of the Board

R.T. Ngobi (Ms.)
Company Secretary
25 February 2016

Taarifa ya Wakurugenzi

Wakurungenzi wanawasilisha taarifa yao pamoja na taarifa za ukaguzi wa kifedha kwa kipindi kilichomalizikia tarehe 31 Desemba 2015 kinachoelezea maswala ya kampuni.

Shughuli Kuu

Shughuli kuu za kampuni ni utengenezaji na uuzaji wa sigara na bidhaa za tumbaku.

Matokeo na Mgao wa Faida

Faida ya mwaka ya kampuni ya shilingi 4,976,256,000 (2014:Shs 4,255,314,000) imeongezwa kwa mapato yaliyoko. Katika mwaka huo mgao wa muda wa faida wa shilingi 350,000,000 (2014: Shs 350,000,000) ulilipwa. Wakurugenzi walipendekeza kuidhinishwa kwa mgao wa mwisho wa faida wa shilingi Shs 4,600,000,000 (2014: Shs 3,900,000,000).

Halmashauri ya Wakurugenzi

Mabadiliko yafuatayo yametekelezwa katika Halmashauri ya wakurugenzi tangu mkutano mkuu wa kila mwaka uliopita:

Bwana C. Burrell alijiuzulu kwenye Halmashauri tarehe 30 June 2015. Bwana K. Gretton aliteuliwa kama mukurugenzi mkuu tarehe 1 July 2015.

Kwa mujibu wa kifungu nambari 95 cha sheria za kampuni, Bwana K. Gretton anastaafu kwenye halmashauri kwa zamu wakati wa muktano mkuu wa kila mwaka na kwa vile anastahili anajiwasilisha kuchaguliwa tena.

Kwa mujibu wa kifungu nambari 89 cha sheria za kampuni, Bwana G. Maina, Bwana P. Lopokoiyit na Bii C. Musyoka wanastaafu kwenye halmashauri kwa zamu wakati wa muktano mkuu wa kila mwaka na kwa vile wanastahili wanajiwasilisha kuchaguliwa tena.

Bwana G. May ambaye alitimiza umri wa miaka 70 Marchi 2013 anastaafu kuambatana na kifungu 98 cha sheria za kampuni na anajiwasilisha kuchaguliwa tena.

Bwana J. Ciano alijiuzulu kutoka halmashauri ya wakurugenzi tarehe 26 Feburuari 2016

Wakaguzi

Wakaguzi wa hesabu wakati huu ni KPMG Kenya, wataendelea na wadhifa huo kwa kufuatana na sehemu 159(2) ya sheria za Makampuni za Kenya

Kuidhinishwa Kwa Taarifa za Fedha

Taarifa hizi za fedha ziliidhinishwa katika mkutano wa wakurugenzi Februari 25, 2016.

Kwa amri ya Halmashauri

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R.T. Ngobi (Ms.)
Katibu wa Kampuni
25 February 2016

Statement of Directors' Responsibilities

The directors are responsible for the preparation and presentation of the financial statements of British American Tobacco Kenya Limited set out on pages 54 to 77 which comprise the consolidated and company statements of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated statement of cash flows for year then ended, and a summary of significant accounting policies and other explanatory information.

The directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company as at the end of the financial year and of the operating results of the Group for that year. It also requires the directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and Company and Group operating results.

The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors have made an assessment of the Group and Company's ability to continue as a going concern and have no reason to believe the Group and Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors and were signed on its behalf by:

K. Gretton
Managing Director

P. Lopokoiyit
Finance Director

25 February 2016

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BRITISH AMERICAN TOBACCO KENYA LIMITED

Report on the financial statements

We have audited the accompanying financial statements of British American Tobacco Kenya Limited set out on pages 54 to 77 which comprise the consolidated and company statements of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As stated on page 52, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the consolidated and company financial position of British American Tobacco Kenya Limited at 31 December 2015 and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on other legal requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii) The statement of financial position of the Company is in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is FCPA Eric Aholi – P/1471.

25 February 2016

Consolidated statement of profit or loss and other comprehensive income

	Notes	2015 Shs' 000	2014 Shs' 000
		Year ended 31 December	
Net revenue	5	22,257,182	21,032,333
Raw materials and manufacturing costs	6	(11,824,138)	(11,818,577)
Marketing and distribution costs	7	(1,616,965)	(1,650,364)
Administration and other expenses	8	(1,481,136)	(1,462,728)
Other income		337,505	271,030
Operating profit		7,672,448	6,371,694
Finance costs	9	(533,546)	(276,275)
Profit before tax	10	7,138,902	6,095,419
Income tax expense	12	(2,162,646)	(1,840,105)
Profit for the year		4,976,256	4,255,314
Other comprehensive income			
Items that will not be reclassified to profit or loss		-	-
Items that may be reclassified to profit or loss		-	-
Total comprehensive income for the year		4,976,256	4,255,314
Earnings per share:			
Basic and diluted (Shs per share)	13	49.76	42.55

The notes on pages 60 to 77 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	At 31 December 2015 Shs' 000	2014 Shs' 000
Capital and reserves attributable to the company's equity holders			
Share capital	15	1,000,000	1,000,000
Share premium	15	23	23
Revaluation surplus	16	1,416,219	1,446,433
Retained earnings		1,836,936	1,780,466
Proposed dividends	14	4,600,000	3,900,000
Total equity		8,853,178	8,126,922
Non-current liabilities			
Borrowings	24	1,227,600	1,086,600
Deferred income tax	17	1,999,703	1,857,083
Total non-current liabilities		3,227,303	2,943,683
Total equity and non-current liabilities		12,080,481	11,070,605
Non-current assets			
Property, plant and equipment	18	9,087,923	9,273,858
Deferred income tax	17	14,056	7,156
		9,101,979	9,281,014
Current assets			
Inventories	20	6,954,674	5,956,933
Receivables and prepayments	21	2,498,925	2,625,373
Cash and cash equivalents	22	125,606	112,229
Current income tax	25	-	277,961
		9,579,205	8,972,496
Current liabilities			
Payables and accrued expenses	23	4,384,320	6,142,183
Borrowings	24	1,737,406	845,084
Current income tax	25	357,487	-
Provisions for liabilities and charges	26	121,490	195,638
		6,600,703	7,182,905
Net current assets		2,978,502	1,789,591
Total assets		12,080,481	11,070,605

The notes on pages 60 to 77 are an integral part of these consolidated financial statements.

The financial statements on pages 54 to 77 were approved and authorised for issue by the Board of Directors on 25 February 2016 and signed on its behalf by:

K. Gretton
Managing Director

P. Lopokoiyit
Finance Director

Company Statement of Financial Position

	Notes	At 31 December 2015 Shs' 000	2014 Shs' 000
Capital and reserves attributable to the Company's equity holders			
Share capital	15	1,000,000	1,000,000
Share premium	15	23	23
Revaluation surplus	16	1,416,219	1,446,433
Retained earnings		1,836,936	1,780,466
Proposed dividends	14	4,600,000	3,900,000
Total equity		8,853,178	8,126,922
Non-current liabilities			
Borrowings	24	1,227,600	1,086,600
Deferred income tax	17	1,999,703	1,857,083
Total non-current liabilities		3,227,303	2,943,683
Total equity and non-current liabilities		12,080,481	11,070,605
Non-current assets			
Property, plant and equipment	18	9,087,923	9,273,858
Investment in subsidiaries	19	12,000	12,000
		9,099,923	9,285,858
Current assets			
Inventories	20	5,376,277	5,956,933
Receivables and prepayments	21	3,389,353	2,495,520
Cash and cash equivalents	22	125,606	109,754
Current income tax	25	-	140,920
		8,891,236	8,703,127
Current liabilities			
Payables and accrued expenses	23	3,612,381	5,877,658
Borrowings	24	1,737,406	845,083
Current income tax	25	439,401	-
Provisions for liabilities and charges	26	121,490	195,639
		5,910,678	6,918,380
Net current assets		2,980,558	1,784,747
Total assets		12,080,481	11,070,605

The notes on pages 60 to 77 are an integral part of these consolidated financial statements.

The financial statements on pages 54 to 77 were approved and authorised for issue by the board of directors on 25 February 2016 and signed on its behalf by:

K. Gretton
Managing Director

P. Lopokoiyit
Finance Director

Consolidated Statement of Changes in Equity

	Notes	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 December 2014							
At start of year		1,000,000	23	1,488,403	1,733,182	3,350,000	7,571,608
Comprehensive income for the year							
Profit for the year		-	-	-	4,255,314	-	4,255,314
Transfer of excess depreciation	12	-	-	(59,958)	59,958	-	-
Deferred income tax on transfer	17	-	-	17,988	(17,988)	-	-
Net (gains)/losses recognised directly in equity		-	-	(41,970)	41,970	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2013	14	-	-	-	-	(3,350,000)	(3,350,000)
- Interim for 2014	14	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2014	14	-	-	-	(3,900,000)	3,900,000	-
Total transactions with owners		-	-	-	(4,250,000)	550,000	(3,700,000)
At end of year		1,000,000	23	1,446,433	1,780,466	3,900,000	8,126,922
Year ended 31 December 2015							
At start of year		1,000,000	23	1,446,433	1,780,466	3,900,000	8,126,922
Comprehensive income for the year							
Profit for the year		-	-	-	4,976,256	-	4,976,256
Transfer of excess depreciation	12	-	-	(43,163)	43,163	-	-
Deferred income tax on transfer	17	-	-	12,949	12,949	-	-
Net (gains) / losses recognised directly in equity		-	-	(30,214)	30,214	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2014	14	-	-	-	-	(3,900,000)	(3,900,000)
- Interim for 2015	14	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2015	14	-	-	-	(4,600,000)	4,600,000	-
Total transactions with owners		-	-	-	(4,950,000)	700,000	(4,250,000)
At end of year		1,000,000	23	1,416,219	1,836,936	4,600,000	8,853,178

The notes on pages 60 to 77 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

	Notes	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 December 2014							
At start of year		1,000,000	23	1,488,403	1,733,182	3,350,000	7,571,608
Comprehensive income for the year							
Profit for the year		-	-	-	4,255,314	-	4,255,314
Transfer of excess depreciation	12	-	-	(59,958)	59,958	-	-
Deferred income tax on transfer	17	-	-	17,988	(17,988)	-	-
Net (gains)/losses recognised directly in equity		-	-	(41,970)	41,970	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2013	14	-	-	-	-	(3,350,000)	(3,350,000)
- Interim for 2014	14	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2014	14	-	-	-	(3,900,000)	3,900,000	-
Total transactions with owners		-	-	-	(4,250,000)	550,000	(3,700,000)
At end of year		**1,000,000**	**23**	**1,446,433**	**1,780,466**	**3,900,000**	**8,126,922**
Year ended 31 December 2015							
At start of year		1,000,000	23	1,446,433	1,780,466	3,900,000	8,126,922
Comprehensive income for the year							
Profit for the year		-	-	-	4,976,256	-	4,976,256
Transfer of excess depreciation	12	-	-	(43,163)	43,163	-	-
Deferred income tax on transfer	17	-	-	12,949	12,949	-	-
Net (gains) / losses recognised directly in equity		-	-	(30,214)	30,214	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2014	14	-	-	-	-	(3,900,000)	(3,900,000)
- Interim for 2015	14	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2015	14	-	-	-	(4,600,000)	4,600,000	-
Total transactions with owners		-	-	-	(4,950,000)	700,000	(4,250,000)
At end of year		**1,000,000**	**23**	**1,416,219**	**1,836,936**	**4,600,000**	**8,853,178**

The notes on pages 60 to 77 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	2015 Shs' 000	2014 Shs' 000
		Year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	27	5,659,776	6,668,154
Interest received	9	1,560	2,250
Interest paid	9	(339,508)	(269,784)
Income tax paid	25	(1,391,478)	(1,619,510)
Net cash generated from operating activities		3,930,350	4,781,110
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(564,818)	(1,528,790)
Proceeds from disposal of property, plant and equipment		5,523	8,334
Net cash used in investing activities		(559,295)	(1,520,456)
Cash flows from financing activities			
Dividends paid to the Company shareholders	14	(4,250,000)	(3,700,000)
Net cash used in financing activities		(4,250,000)	(3,700,000)
Net decrease in cash and cash equivalents		(878,945)	(439,346)
Cash and cash equivalents at beginning of year		(732,855)	(293,509)
Cash and cash equivalents at end of year	22	(1,611,800)	(732,855)

The notes on pages 60 to 77 are an integral part of these consolidated financial statements.

Notes

1 General Information

BAT Kenya Ltd is incorporated in Kenya under the Companies Act as a public limited liability Company, and is domiciled in Kenya. The address of its registered office is:

Likoni Road
P.O Box 30000-00100
Nairobi

60% of the Company is controlled by the British American Tobacco Plc incorporated in England and Wales, which is also the ultimate parent company.

The Company's shares are listed on the Nairobi Securities Exchange.

For Kenyan Companies Act reporting purposes, the profit and loss account is represented by the statement of profit or loss and other comprehensive income and the balance sheet is represented by the statement of financial position, in these financial statements.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires directors to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

i) Adoption of new standards or amendments effective for the year ended 31 December 2015

The impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 are explained below;

Amendments to IAS 19 Defined benefit plans – *Employee contributions*

The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service

When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 with early adoption permitted. The adoption of these changes did not affect the amounts and disclosures of the Group's defined benefits obligations.

ii) New standards and amendments issued but not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these financial statements. These are summarised below:

New standard or amendments	Effective for annual periods beginning on or after
• Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
• Accounting for acquisitions of interests in joint operations (Amendments to IFRS 11)	1 January 2016
• Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciations and amortization	1 January 2016
• Amendments to IAS 41 - Bearer plants (Amendments to IAS 16 and IAS 41)	1 January 2016
• Equity method in separate financial statements (Amendments to IAS 27)	1 January 2016
• IFRS 14 Regulatory deferral accounts	1 January 2016
• Investment Entities: Applying the consolidation exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
• Disclosure Initiative (Amendments to IAS 1)	1 January 2016
• IFRS 15 Revenue from contracts with customers	1 January 2018
• IFRS 9 Financial instruments (2014)	1 January 2018
• IFRS 16 Leases	1 January 2019

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

ii) New standards and amendments issued but not yet adopted (continued)

Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised. The amendments will be effective from annual periods commencing on or after 1 January 2016.

The adoption of these changes is not expected to have a significant impact on the financial statements of the Group since the Group does not transact with associates or joint ventures.

Accounting for acquisitions of interests in joint operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes is not expected to have a significant impact on the financial statements of the Group since the Group does not have joint operations.

Amendments to IAS 41- Bearer plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41. The new requirements are effective from 1 January 2016, with earlier adoption permitted.

The adoption of these changes is not expected to have an impact on the financial statements of the Group as the Group does not have bearer plants.

Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The Group does not apply revenue-based methods of depreciation or amortization therefore these amendments are not expected to have an effect on amounts and disclosures of the Group's property and equipment and intangible assets.

Equity method in separate financial statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group, since the Group does not have interests in other entities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body. The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

The adoption of this standard is not expected to have an impact on the financial statements of the Group given that it is not a first time adopter of IFRS.

Investment entities: Applying the consolidation exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted. The adoption of these changes is not expected to have a significant impact on the financial statements of the Group.

Disclosure initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted. The Group is assessing the potential impact on its financial statements resulting from the application of amendments to IAS 1.

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

ii) New standards and amendments issued but not yet adopted (continued)

IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption is permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 9: Financial instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted. The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

(i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

(ii) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

(i) short-term leases (i.e. leases of 12 months or less), and;
(ii) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied).

The Group did not early adopt new or amended standards in the year ended 31 December 2015.

b) Consolidation

(i)Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement

2 Summary of significant accounting policies (continued)

b) Consolidation (continued)

(i) Subsidiaries (continued)

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

c) Functional currency and foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kenyan Shillings (Shs), which is the Group's presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies during the year are converted into Kenya shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Leadership Team that makes operational decisions.

e) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group and Company's activities. Net revenue is stated net of value-added tax (VAT), excise duty, returns, rebates and discounts and after eliminating sales within the Group.

The Group and Company recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and Company and when specific criteria have been met for each of the Group and Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group and Company base their estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(i) Sales of goods: The Group manufactures and sells cigarettes to distributors and fellow subsidiaries of the ultimate parent Company. Sales of goods are recognised in the period in which the Group delivers products to the customer, the customer has full discretion over the channel to sell the products and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery does not occur until the products are shipped to the specified location, the risk of obsolescence and loss has been transferred to the customer and the customer has accepted the products. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with the market practice.

(ii) Sales of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a percentage of the total services to be provided.

(iii) Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(iv) Interest income is recognised using the effective interest method.

(v) Dividends are recognised as income in the period in which the right to receive payment is established.

f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and land are subsequently shown at fair value, based on periodic, but at least once every five years, valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and cumulated in the revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation surplus directly in equity; all other decreases are charged to profit or loss.

Each year, the difference between depreciation based on the revalued carrying amount of the asset (i.e. the depreciation charged to profit or loss) and the depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

:

2 Summary of significant accounting policies (continued)

f) Property, plant and equipment (continued)

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows

Buildings	2% per annum
Plant and machinery	7% per annum
Vehicles and computers	20% per annum
Furniture, fittings and equipment	10% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

The carrying amount of the Group's non-current assets is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are included in the profit or loss. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

Capital work in progress represents assets that are under construction or that are not immediately available for use, and are not depreciated but are reviewed for impairment.

g) Impairment of non-financial assets

The carrying amounts of the Group's assets, other than deferred tax assets and inventories, are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that largely are independent from other assets and groups. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

h) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

The Group and Company lease certain property, plant and equipment. Leases of property, plant and equipment where the Group and Company have substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the lease property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the assets useful life and the lease term.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.

j) Financial assets

(i) Classification

The Group and Company classify their financial assets in the following categories; at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group and Company's loans and receivables comprise 'trade and other receivables' and 'non-current receivables and prepayments' in the statement of financial position.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables and are carried at amortised cost using the effective interest method.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(iv) Impairment of financial assets

Assets carried at amortised cost

The Group and Company assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group and Company may measure impairment on the basis of an instrument's fair value using an observable market price.If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2 Summary of significant accounting policies (continued)

k) Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in profit or loss. These derivatives are trading derivatives and are classified as a current asset or liability.

l) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment (note j).

m) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

n) Share capital

Ordinary shares are classified as ‘share capital’ in equity. Any premium received over and above the par value of the shares is classified as ‘share premium’ in equity.

o) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

p) Employee benefits

Pension obligations

The Group and Company operate two defined contribution retirement benefit schemes for all their employees. The assets of each scheme are held in separate funds which are administered by an independent fund manager and are funded by contributions from both the Group and employees. The Group’s contributions to the schemes are charged to profit or loss in the year to which they relate.

Other entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. The estimated monetary liability for employees’ accrued annual leave entitlement at the statement of financial position date is recognised as an expense accrual.

The Group and all its employees also contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

q) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre- payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

s) Dividend distribution

Dividends payable to the Company’s shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company’s shareholders. Proposed dividends are shown as a separate component of equity until declared.

Dividends payable are charged to equity in the period in which they are approved. Proposed dividends are accrued after ratification at a General Meeting of the Company.

2 Summary of significant accounting policies (continued)

t) Provisions

Provisions are recognised when the Group and Company have a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

u) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

v) Related party transactions

The Group discloses the nature, volume and amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the directors, executive officers and Group or related companies. The related party transactions are at arms length.

w) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

Investments in subsidiaries

Investments in subsidiaries are carried in the Company's statement of financial position at cost, less provision for impairment losses. Where, in the opinion of the directors', there has been impairment in the value of the investment, the loss is recognised as an expense in the period in which the impairment is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

Dividends receivable from subsidiaries are recognised as income for the Company in the period in which the right to receive payments is established.

x) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis

y) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances. The Group and Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Provisions and contingent liabilities

The group has provisions which are set up in the ordinary course of business and are related to general liabilities to various stakeholders. The group follows the guidance of IAS 37 to determine whether a provision is required.

ii) Useful lives of property plant and equipment

Property plant and equipment are depreciated over their useful lives. The actual lives of the assets are assessed annually and may vary depending on a number of factors. Management applies judgement in determining useful lives.

iii) Income taxes

The Company is subject to income taxes in Kenya. Significant judgment is required in determining the Company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities on the basis of amounts expected to be paid to the tax authorities. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4 Financial risk management

The Group and Company's activities expose them to a variety of financial risks, market risk (including currency and interest risk), credit risk and liquidity risk. The Group and Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the management under policies approved by the Board of Directors. Management identifies and evaluates financial risks where applicable. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

4 Financial risk management (continued)

(a) Market risk

(i) Foreign exchange risk

The Group and Company operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, British Pound and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities by regularly revising prices and robust working capital management and has not designated any derivative instruments as hedging instruments.

Below is a summary of the Group and Company's exposure to currency risk at their carrying amounts in Kenya shillings equivalent:

31 December 2015	USD Shs' 000	GBP Shs' 000	EUR Shs' 000
Asset			
Receivables and prepayments	1,213,323	91,242	59,451
Cash and cash equivalents	84,388	20,583	17,236
	1,297,711	111,825	76,687
Liabilities			
Payables and accrued expenses	300,505	36,057	27,639
Borrowings	1,227,600	-	-
	1,528,105	36,057	27,639

31 December 2014	USD Shs' 000	GBP Shs' 000	EUR Shs' 000
Asset			
Receivables and prepayments	344,214	65,087	174,098
Cash and cash equivalents	85,057	1,249	6,054
	429,271	66,336	180,152
Liabilities			
Payables and accrued expenses	46,346	42,386	-
Borrowings	1,086,600	-	-
	1,132,946	42,386	-

The following are the exchange rates that existed at the financial year end for the following significant currencies:

	USD	GBP	EUR
2015			
Average rates	98.26	150.19	109.02
Closing rates	102.30	150.78	11.13
2014			
Average rates	87.96	144.88	116.79
Closing rates	90.55	141.19	109.57

4 Financial risk management (continued)

(i) Foreign exchange risk (continued)

The following sensitivity analysis shows how profit or loss and equity would change if the market risk variables had been different at the reporting period with all other variables held constant.

	2015 Shs' 000	2014 Shs' 000
Currency – USD 10% movement effect (higher/lower)	(23,039)	(70,368)
Currency – GBP 10% movement effect (higher/lower)	7,577	2,395
Currency – EUR 10% movement effect (higher/lower)	4,905	18,015

(ii) Price risk

The Group and the Company are not exposed to equity securities price risk.

(iii) Cash flow and fair value interest rate risk

The Group and Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group and Company to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group and Company regularly monitor financing options available to ensure optimum interest rates are obtained. At 31 December 2015, an increase/decrease of 1% would have resulted in a change of Shs 12,163,976 (2014: Shs 10,780,140) in Group and Company post tax profit.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from deposits with banks, as well as trade and other receivables. Neither the Group nor the Company has any significant concentrations of credit risk. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and Company.

For banks and financial institutions, only reputable well established financial institutions are accepted. For trade receivables, Group management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The amount that best represents the Group and Company's maximum exposure to credit risk at 31 December 2015 and 31 December 2014 is made up as follows:

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
Cash and cash equivalents	125,606	112,229	125,606	109,754
Amounts due from related parties	1,518,374	1,799,724	1,530,149	1,751,765
Trade and other receivables	410,938	486,476	1,204,607	404,582
	2,054,918	2,398,429	2,860,362	2,266,101

No collateral is held for any of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are either past due or impaired

(c) Liquidity risk

Liquidity risk is the risk that the Group and Company will not be able to meet their financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the treasury department maintains flexibility in funding by maintaining availability under committed credit lines.

Management performs cash flow forecasting and monitors rolling forecasts of the Group and Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 22) at all times so that the Group and Company do not breach borrowing limits or covenants (where applicable) on any of their borrowing facilities.

The Group's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. Balances due within one year are equal to their carrying amounts, as the impact of discounting is not significant. The amounts disclosed in the table below are the contractual undiscounted cash flows.

4 Financial risk management (continued)

(c) Liquidity risk (continued)

i) Group	Less than 1 year Shs' 000	Between 1 & 3 years Shs' 000
At 31 December 2015		
Liabilities		
Borrowings	1,737,406	1,398,435
Trade and other payables	3,248,182	-
Amounts due to related parties	382,416	-
Total financial liabilities	5,368,004	1,398,435
Assets		
Cash and bank balances	125,606	-
Amounts due from related parties	1,518,374	-
Trade and other receivables	410,938	-
Total financial assets	2,054,918	-
At 31 December 2014		
Liabilities		
Borrowings	845,084	1,177,786
Trade and other payables	3,255,339	-
Amounts due to related parties	2,070,314	-
Total financial liabilities	6,170,737	1,177,786
Assets		
Cash and bank balances	112,229	-
Amounts due from related parties	1,799,724	-
Trade and other receivables	486,476	-
Total financial assets	2,398,429	-

ii) Company	Less than 1 year Shs' 000	Between 1 & 3 years Shs' 000
At 31 December 2015		
Liabilities		
Borrowings	1,737,406	1,398,435
Trade and other payables	2,644,144	-
Amounts due to related parties	281,883	-
Total financial liabilities	4,663,433	1,398,435
Assets		
Cash and bank balances	125,606	-
Amounts due from related parties	1,530,149	-
Trade and other receivables	1,204,607	-
Total financial assets	2,860,362	-
At 31 December 2014		
Liabilities		
Borrowings	845,083	1,177,486
Trade and other payables	2,042,333	-
Amounts due to related parties	2,059,425	-
Total financial liabilities	4,946,841	1,177,486
Assets		
Cash and bank balances	109,754	-
Amounts due from related parties	1,751,765	-
Trade and other receivables	404,582	-
Total financial assets	2,266,101	-

4 Financial risk management (continued)

(c)Liquidity risk (continued)
For both Group and Company, there are no financial assets or liabilities older than 3 years.

(d) Capital risk management
Capital comprises all components of equity as shown in the statement of changes in equity plus net debt. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new capital or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2 014 Shs' 000
Total borrowings	2,965,006	1,931,684	2,965,006	1,931,683
Less: cash and cash equivalents	(125,606)	(112,229)	(125,606)	(109,754)
Net debt	2,839,400	1,819,455	2,839,400	1,821,929
Total equity	8,853,178	8,126,922	8,853,178	8,126,922
Total capital	11,692,578	9,946,377	11,692,578	9,948,851
Gearing ratio	24.3%	18.3%	24.3%	18.3%

Financial instruments by category

Financial assets:
All of the Group and Company's financial assets are classified as loans and receivables and comprise:

Trade and other receivables (excluding pre-payments)	1,929,312	2,286,200	2,734,756	2,156,346
Cash and cash equivalents	125,606	112,229	125,606	109,754
	2,054,918	2,398,429	2,860,362	2,266,100

Financial liabilities:
All of the Group and Company's financial liabilities are classified as liabilities at amortised cost and comprise:

Borrowings	2,965,006	1,931,684	2,965,006	1,931,683
Trade and other payables (excluding statutory liabilities)	3,630,598	5,325,653	2,926,027	4,101,758
	6,595,604	7,257,337	5,891,033	6,033,441

(e) Fair value

A number of the Group's accounting policies and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities.

Below is the fair value measurements disclosure using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosure only cover instruments measured at fair value.

Level 1

Included in level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2
Included in level 2 category are financial assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2. Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Level 3

Financial assets and liabilities measured using inputs that are not based on observable market data are categorised as level 3. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data. However, significant portion of the unquoted shares have been valued at cost and variation in inputs would not have significant fair value change.

The following table shows an analysis of non-financial assets held at fair value as at 31 December 2015 and 31 December 2014 (Note 18):

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
Property, plant and equipment	9,087,923	9,273,858	9,087,923	9,273,858
Total assets	9,087,923	9,273,858	9,087,923	9,273,858

5 Segment information

The Leadership Team is the Group's chief operating decision-maker. The Leadership Team considers the business from a geographic and product perspective. Geographically, management considers the performance in Local Sales and Export Sales. From a product perspective, management considers sales of cigarettes and cut rag (semi-processed tobacco). All the products are manufactured through the same process and in the same location. The group is considered as one reportable operating segment.

5 Segment information (continued)

Analysis of net revenue by geography:	2015 Shs' 000	2014 Shs' 000
Local sales	12,387,223	11,654,293
Export sales	9,869,959	9,378,040
	22,257,182	21,032,333
Analysis of net revenue by product:		
Sale of cigarettes	21,221,949	20,210,685
Sale of cut rag	1,035,233	821,648
	22,257,182	21,032,333

6 Raw materials and manufacturing costs

Raw materials, consumables and other manufacturing costs*	11,215,636	11,385,337
Depreciation of property, plant and equipment	608,502	433,240
	11,824,138	11,818,577

*Raw materials, consumables and other manufacturing costs include employee expenses of Shs 1,183,621,752 (2014: Shs 1,123,803,198).

7 Marketing & distribution costs

Employment expenses	385,085	388,555
Freight & other expenses	1,231,880	1,261,809
	1,616,965	1,650,364

8 Administrative and other expenses

Employment expenses	580,424	601,274
Recharges & other expenses	900,712	861,454
	1,481,136	1,462,728

9 Finance costs

	2015 Shs' 000	2014 Shs' 000
Interest income	(1,560)	(2,250)
Interest expense	339,508	269,784
Net foreign currency exchange losses	195,598	8,741
	533,546	276,275

10 Profit before tax

The following items have been charged in arriving at the profit before income tax:

Employee benefits expense (Note 11)	2,149,131	2,113,632
Depreciation (Note 18)	749,219	685,243
Auditor's remuneration	9,980	9,517
(Profit)/loss on sale of property, plant and equipment	(3,989)	15,548

11 Employee benefits expense

	2015 Shs' 000	2014 Shs' 000
Salaries and wages	2,059,773	2,025,750
Retirement benefits costs:		
- Defined contribution scheme	87,219	85,778
- National Social Security Fund	2,139	2,104
	2,149,131	2,113,632

12 Income tax

	2015 Shs' 000	2014 Shs' 000
Current income tax		
- Current tax on profits for the year	2,057,068	1,572,897
- Adjustments in respect of prior years	(30,142)	1,436
Total current tax	2,026,926	1,574,333
Deferred income tax (Note 17)		
- Deferred income tax	105,567	265,772
- Adjustments in respect of prior years	30,153	-
Total deferred income tax	135,720	265,772
Income tax expense	2,162,646	1,840,105

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2015 Shs' 000	2014 Shs' 000
Profit before income tax	7,138,902	6,095,419
Tax calculated at domestic rate applicable to profit - 30% (2014:30%)	2,141,671	1,828,626
Tax effect of:		
Income not subject to tax	-	(63,187)
Expenses not deductible for tax purposes	20,964	73,230
(Over)/under-provision of current tax in prior years	(30,142)	1,436
Under-provision of deferred tax in prior years	30,153	-
Income tax expense	2,162,646	1,840,105

The tax (charge)/credit relating to components of equity are as follows:

	2015 Shs' 000			2014 Shs' 000		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Transfer of excess depreciation	43,163	(12,949)	30,214	59,958	(17,988)	41,970

13 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2015 Shs' 000	2014 Shs' 000
Profit attributable to equity holders of the Company (Shs '000)	4,976,256	4,255,314
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	49.76	42.55

14 Dividends per share

During the year a final dividend in respect of the 2014 financial results of Shs 39.00 (2013: Shs 33.50) and an interim dividend of Shs 3.50 per share (2014: Shs 3.50) was declared and paid. The total dividend paid in the year is therefore Shs 42.5 per share (2014: Shs 37.00), amounting to a total of Shs 4,250,000,000 (2014: Shs 3,700,000,000).

At the annual general meeting to be held on 25 May 2016, a final dividend in respect of the year ended 31 December 2015 of Shs 46.00 per share amounting to a total of Shs 4,600,000,000 is to be proposed. These financial statements do not reflect this dividend as a liability.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

15 Share capital

	Number of shares (Thousands)	Ordinary shares Shs' 000	Share premium Shs' 000
Authorised, issued and fully paid			
Balance at beginning and end of year	100,000	1,000,000	23

The total authorised number of ordinary shares is 100,000,000 with a par value of Shs 10 per share. All issued shares are fully paid. All shares rank equally with regard to the company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium arose when the shares of the Company were issued at a price higher than the par value.

16 Revaluation surplus

The revaluation reserve surplus relates to the revaluation of the Group and Company's land and buildings net of deferred income tax and is non-distributable. The movements in the revaluation surplus are set out in the Group and Company statements of changes in equity.

17 Deferred income tax

	2015 Shs' 000	2014 Shs' 000
The analysis of Group deferred tax assets and deferred liabilities is as follows		
Deferred tax assets	(14,056)	(7,156)
Deferred tax liabilities	1,999,703	1,857,083
Deferred tax liabilities (net)	1,985,647	1,849,927

Deferred income tax is calculated using the enacted income tax rate of 30% (2014: 30%). The movement on the Group deferred income tax account is as follows:

	2015 Shs' 000	2014 Shs' 000
At start of year	1,849,927	1,584,155
Charge for the period		
Charge to statement of profit or loss and other comprehensive income	118,516	283,760
Adjustments in respect of prior years	30,153	-
Credit to equity	(12,949)	(17,988)
At end of year	1,985,647	1,849,927

Consolidated deferred tax assets and liabilities and deferred income tax charge in the consolidated income statement are attributable to the following items.

Year ended 31 December 2015

Deferred income tax liabilities	1.1.2015 Shs' 000	Charged /credited to P&L Shs' 000	Credited to equity Shs' 000	31.12.2015 Shs' 000
Property, plant and equipment:				
- on historical cost basis	1,782,020	(108,661)	-	1,653,769
- on revaluation surpluses	508,073	-	(12,949)	514,714
Unrealised exchange gains	6,987	78,088	-	85,075
	2,297,080	(30,573)	(12,949)	2,253,558
Deferred income tax assets				
Provisions for liabilities and charges	(428,494)	271,500	-	(156,994)
Unrealised exchange losses	(18,659)	(92,258)	-	(110,917)
	(447,153)	179,242	-	(267,911)
Net deferred income tax liability	1,849,927	148,669	(12,949)	1,985,647

Year ended 31 December 2014

Deferred income tax liabilities	1.1.2014 Shs' 000	Charged/ credited to P&L Shs' 000	Charged to equity Shs' 000	31.12.2014 Shs' 000
Property, plant and equipment:				
- on historical cost basis	1,437,495	344,525	-	1,782,020
- on revaluation surpluses	526,061	-	(17,988)	508,073
Unrealised exchange gains	10,754	(3,767)	-	6,987
	1,974,310	340,758	(17,988)	2,297,080
Deferred income tax assets				
Provisions for liabilities and charges	(374,960)	(53,534)	-	(428,494)
Unrealised exchange losses	(15,195)	(3,464)	-	(18,659)
	(390,155)	(56,998)	-	(447,153)
Net deferred income tax liability	1,584,155	283,760	(17,988)	1,849,927

17 Deferred income tax (continued)

Deferred income tax of Shs 6,641,000, (2014: 17,988,000), was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

Company deferred income tax assets and liabilities are attributable to the following items:

	2015 Shs' 000	2014 Shs' 000
Deferred income tax liabilities		
Property, plant and equipment:		
- on historical cost basis	1,643,133	1,764,032
- on revaluation surpluses	525,351	525,351
Unrealised exchange gains	84,827	7,657
Total deferred income tax liabilities	2,253,311	2,297,040
Deferred income tax assets		
Provisions for liabilities and charges	(142,739)	(421,298)
Unrealised exchange losses	(110,869)	(18,659)
Total deferred income tax assets	(253,608)	(439,957)
Net deferred income tax liability	1,999,703	1,857,083

18 Property, plant and equipment – Group and Company

	Land and Buildings Shs' 000	Plant and Machinery Shs' 000	Vehicles and Equipment Shs' 000	Construction in Progress* Shs' 000	Total Shs' 000
At 1 January 2014					
Cost or valuation	3,935,797	7,810,202	936,037	596,968	13,279,004
Accumulated depreciation	(888,649)	(3,227,995)	(708,167)	-	(4,824,811)
Net book amount	3,047,148	4,582,207	227,870	596,968	8,454,193
Year ended 31 December 2014					
Opening net book amount	3,047,148	4,582,207	227,870	596,968	8,454,193
Additions	279,180	1,542,801	171,155	(464,346)	1,528,790
Disposals					
- Cost	-	(89,815)	(25,332)	-	(115,147)
- Accumulated depreciation	-	68,529	22,736	-	91,265
Depreciation charge	(103,453)	(485,242)	(96,548)	-	(685,243)
Closing net book amount	3,222,875	5,618,480	299,881	132,622	9,273,858
At 31 December 2014					
Cost or valuation	4,214,977	9,263,188	1,081,860	132,622	14,692,647
Accumulated depreciation	(992,102)	(3,644,708)	(781,979)	-	(5,418,789)
Net book amount	**3,222,875**	**5,618,480**	**299,881**	**132,622**	**9,273,858**
Year ended 31 December 2015					
Opening net book amount	3,222,875	5,618,480	299,881	132,622	9,273,858
Additions	87,764	134,355	107,101	235,598	564,818
Disposals					
- Cost	(295)	(435)	(15,763)	-	(16,493)
- Accumulated depreciation	154	306	14,499	-	14,959
Depreciation charge	(7,226)	(593,493)	(148,500)	-	(749,219)
Closing net book amount	3,303,272	5,159,213	257,218	368,220	9,087,923
At 31 December 2015					
Cost or valuation	4,302,446	9,397,108	1,173,198	368,220	15,240,972
Accumulated depreciation	(999,174)	(4,237,895)	(915,980)	-	(6,153,049)
Net book amount	**3,303,272**	**5,159,213**	**257,218**	**368,220**	**9,087,923**

*Construction in progress relates to factory buildings under construction and plant and machinery under installation at the year end.

During the year the Group conducted an operational efficiency review which resulted in changes in the expected usage of certain items of property, plant and equipment. The effect of these changes on the actual and expected depreciation expense is included in manufacturing costs.

18 Property, plant and equipment - Group and Company (continued)

In 2012, Knight Frank Valuers Limited, professionally valued the Group's land and buildings. The valuation was on an open market value basis. The valuer used the Comparables method of valuation for valuation of land. This is defined as a set of procedures in which a valuer derives the value by comparing the property being valued to similar properties that have recently been sold applying appropriate units of comparison and making adjustments to the sale prices of the comparable sales. The technique is based on the principal of substitution which states that 'the value of a property tends to be set by the price that would be paid to acquire a substitute property of similar utility and desirability within a reasonable amount of time. Buildings were valued on the basis of Depreciated Replacement Cost (Private Sector) which is defined as the Current Gross Replacement Cost of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimisation.

The fair value measurement of revalued items of property plant and equipment has been categorized as a level 3 fair value based on the inputs to the valuation techniques.

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2015 Shs' 000	2014 Shs' 000
Cost	1,660,375	1,570,912
Accumulated depreciation	(390,472)	(359,271)
Net book amount	1,269,903	1,211,641

There are no assets that have been pledged as collateral for loans.

There was no impairment of property, plant and equipment during the year.

19 Investment in subsidiaries

The Company's interest in its subsidiaries, all of which are wholly owned, incorporated in Kenya, unlisted and have the same year end as the Company, were as follows:

	Principal activity
BAT Kenya Tobacco Company Limited	Selling of cigarettes
African Cigarette Company (Overseas) Limited	Dormant
East Africa Tobacco Company Kenya Limited	Dormant

The investment in BAT Kenya Tobacco Company Limited is Shs 12,000,000.

20 Inventories

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
Raw materials and consumables	5,023,236	5,033,072	5,023,235	5,033,072
Finished goods	1,931,438	672,422	353,042	672,422
Work in progress	-	251,439	-	251,439
	6,954,674	5,956,933	5,376,277	5,956,933

21 Receivables and prepayments

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
Trade receivables	131,370	140,318	62,094	59,991
Prepayments and other receivables	849,181	685,331	1,797,110	683,764
Due from related parties	1,518,374	1,799,724	1,530,149	1,751,765
	2,498,925	2,625,373	3,389,353	2,495,520

The carrying amounts of the above receivables and prepayments approximate to their fair values.

22 Cash and cash equivalents

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
Cash at bank	125,606	112,229	125,606	109,754

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	Group	
	2015 Shs' 000	2014 Shs' 000
Cash at bank	125,606	112,229
Bank overdrafts (Note 24)	(1,737,406)	(845,084)
	(1,611,800)	(732,855)

23 Payables and accrued expenses

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
Trade payables	1,176,074	1,262,191	1,072,460	1,194,987
Due to related companies	382,416	2,070,314	281,883	2,059,425
Other payables and accrued expenses	2,825,830	2,809,678	2,258,038	2,623,246
	4,384,320	6,142,183	3,612,381	5,877,658

24 Borrowings

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
Non-current				
Loan from BATIF$	1,227,600	1,086,600	1,227,600	1,086,600
Current				
Bank overdrafts	1,737,406	845,084	1,737,406	845,083
	2,965,006	1,931,684	2,965,006	1,931,683

The loan from BATIF$ is an unsecured US Dollar denominated floating rate loan repayable by 31 July 2018 at an interest rate of USD LIBOR plus 4.25% up to 31 July 2018. The carrying amounts of short-term borrowings approximate to their fair value. None of the borrowings were in default at any time during the year.

The Group and Company have the following undrawn borrowing facilities:

The facilities are open ended. Bond guarantees are issued in favour of the Kenya Revenue Authority to cover import duty and excise payable.

	2015 Shs' 000	2014 Shs' 000
Overdraft facilities	4,257,823	3,396,533
Bond guarantees	823,493	1,125,252
	5,081,316	4,521,785

25 Current tax movement

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
Opening income tax asset	277,961	232,786	140,920	366,709
Charge to statement of profit or loss and Other comprehensive income	(2,026,926)	(1,574,335)	(759,797)	(347,931)
Income tax paid	1,391,478	1,619,510	179,476	122,142
Closing income tax (liability)/asset	(357,487)	277,961	(439,401)	140,920

26 Provisions for liabilities and charges

	Group Shs' 000	Company Shs' 000
Year ended 31 December 2014		
At start of year	365,569	365,569
Additional provisions	120,437	120,437
Unused amounts reversed	(290,368)	(290,368)
Credit to statement of profit or loss and other comprehensive income	(169,931)	(169,931)
Utilised during the year	-	-
At end of year	195,638	195,638
Year ended 31 December 2015		
At start of year	195,638	195,638
Additional provisions	12,125	12,125
Unused amounts reversed	(32,000)	(32,000)
Credit to statement of profit or loss and other comprehensive income	(19,875)	(19,875)
Utilised during year	(54,273)	(54,273)
At end of year	121,490	121,490

Provisions comprise balances set up in the ordinary course of business and are related to general liabilities to various stakeholders.

27 Cash generated from operations

	2015 Shs' 000	2014 Shs' 000
Profit before taxation	7,138,902	6,095,419
Adjustments for:		
Depreciation (Note 18)	749,219	685,243
(Profit)/loss on sale of property, plant and equipment	(3,989)	15,548
Interest received (Note 9)	(1,560)	(2,250)
Interest expense (Note 9)	339,508	269,784
Unrealised foreign exchange losses	141,000	51,000
Changes in working capital:		
-inventories	(997,741)	(1,474,866)
-receivables and prepayments	126,448	845,978
-payables and accrued expenses	(1,757,863)	352,229
-provisions for liabilities and charges	(74,148)	(169,931)
Cash generated from operations	5,659,776	6,668,154

28 Related party transactions

The Group is controlled by British American Tobacco Plc incorporated in England and Wales, which is also the ultimate parent of the Group. There are other companies that are related to British American Tobacco Kenya Limited through common shareholdings or common directorships.

The Company has an operating subsidiary, BAT Kenya Tobacco Company Limited.

The following transactions were carried out with related parties.

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
i) Sale of goods and services				
Subsidiary	-	-	18,750,282	15,779,204
Other related parties	8,552,449	8,490,429	8,552,449	8,490,429
	8,552,449	8,490,429	27,302,731	24,269,633
ii) Purchase of goods and services				
Parent company	411,085	518,328	411,085	518,328
Other related parties	797,693	761,798	797,693	761,798
	1,208,778	1,280,126	1,208,778	1,280,126
iii) Outstanding balances arising from sale and purchase of goods/services				
Receivables from other related parties	1,518,374	1,799,724	1,530,149	1,751,765
Payables to the parent company	13,871	7,174	13,871	7,174
Payables to other related parties	368,545	2,063,140	268,012	2,052,251
	382,416	2,070,314	281,883	2,059,425

The amounts outstanding are unsecured and will be settled in cash. No interest is charged on outstanding balances and no guarantees have been given or received.

28 Related party transactions (continued)

iv) Loans from related parties

	Group		Company	
	2015 Shs' 000	2014 Shs' 000	2015 Shs' 000	2014 Shs' 000
Loan from related party (BAT Investments)	1,227,600	1,086,600	1,227,600	1,086,600

v) Key management compensation

	2015 Shs' 000	2014 Shs' 000
Salaries and other short-term employment benefits	210,758	230,015
Other long-term benefits	106,593	128,306
	317,351	358,321

vi) Directors' remuneration

	2015 Shs' 000	2014 Shs' 000
Fees for services as a director	17,990	11,822
Other emoluments (included in key management compensation above)	129,126	120,102
Total remuneration of directors of the Company	147,116	131,924

29 Contingent liabilities

The Group is a defendant in various legal actions. Based on professional advice received, the directors are confident that the resolution of these cases is not likely to have a material effect on the financial statements.

The Group has guarantees amounting to Shs 2,676,507,054 (2014: Shs 3,910,248,000), issued on its behalf in the normal course of business from which it is anticipated that no material liabilities will arise.

30 Capital commitments

Capital expenditure contracted for at the statement of financial position date but not recognised in the financial statements is as follows:

	2015 Shs' 000	2014 Shs' 000
Property, plant and equipment	120,396	13,842

Shareholding Structure as at 25 February 2016

Major Shareholders as at 25 February 2016	Number Of Shares	% Shareholding
Molensteegh Invest Bv.	60,000,000	60.00%
Standard Chartered Kenya Nominees Ltd, A/C KE18993	10,404,059	10.40%
Standard Chartered Nominees Non-Resd. A/C 9866	2,479,020	2.48%
Standard Chartered Nominees Non-Resd. A/C KE8723	1,318,200	1.32%
Standard Chartered Nom A/C KE11916	1,241,941	1.24%
CFC Stanbic Nominees Limited A/C NR00304	1,187,310	1.19%
Kenya Commercial Bank Nominees Limited A/C 915A	955,023	0.96%
Kenya Commercial Bank Nominees Limited A/C 915B	730,045	0.73%
Standard Chartered Nominees Resd A/C KE11443	631,523	0.63%
Kenya Reinsurance Corporation Limted	500,000	0.50%
Others (4,800 shareholders)	20,552,879	20.55%
TOTAL	**100,000,000**	**100.00%**

Summary of Shareholders as at 25 February 2016

Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Foreign Companies	53	82,974,156	82.97%
Foreign Individuals	85	218,679	0.22%
Local Companies	461	10,757,682	10.76%
Local Individuals	4,211	6,049,483	6.05%
TOTAL	**4,810**	**100,000,000**	**100.00%**

Distribution of Shareholders as at 25 February 2016

Shareholding	No. of Shareholders	No. of Shares	% Shareholding
Less than 500	2,496	573,285	0.57%
501 - 5,000	1,890	3,003,161	3.00%
5,001- 10,000	166	1,178,367	1.18%
10,001 - 100,000	206	6,182,748	6.18%
100,001 - 1,000,000	46	12,431,909	12.43%
Above 1,000,000	6	76,630,530	76.63%
TOTAL	**4,810**	**100,000,000**	**100.00%**

Directors' Shareholding as at 25 February 2016

Director's Name	Shareholdings
Mr. P. Lopokoiyit	400
Ms. C. Musyoka	200

Proxy Form

To: ....

The Secretary,
British American Tobacco Kenya Limited,
P.O. Box 30000 -00100,
Nairobi

I/We ....

..............................of P.O. Box ....

member/members of British American Tobacco Kenya Limited appoint

....

....

or failing him, the Chairman of the Meeting as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 12 May 2016 at 11:00am in the Ball Room, Hotel Intercontinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this ....

day of..2016

....(Signature)

NOTES:

1. If a member is unable to attend this meeting personally this Form of Proxy should be completed and returned to reach the Company's Registered Office not later than 2.30 p.m. on 11 May 2016.

2. A person appointed to act as a proxy need not be a member of the Company.

3. If the appointer is a corporation, this Form of Proxy must be under its Common Seal or under the hand of the officer or attorney duly authorised in that behalf.

2015

Annual Report

BRITISH AMERICAN TOBACCO KENYA

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