We are BAT

Delivering today, Investing in tomorrow

Annual Report 2016

BRITISH AMERICAN TOBACCO KENYA

We are a strong Company with over 10 brands sold in the Kenyan market. We employ directly and indirectly over 1,800 people and we make cigarettes chosen by a majority 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 plc Annual Report 2016

This is the Annual Report of British American Tobacco Kenya plc, comprising the Strategic Report, the Governance Report and the Audited Financial Statements for the year ended 31 December 2016. This Annual Report has been drawn up and is presented in accordance with, and reliance upon applicable Kenyan Company Law and the Companies Act, 2015. 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 mail register who have elected to receive it. The Report is also emailed to those shareholders who have at any previous time indicated their email addresses.

References in this publication to 'British American Tobacco', 'BAT Kenya plc', 'BAT', 'we', 'us' and 'our' when denoting opinion or tobacco business refer to British American Tobacco Kenya plc.

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 changing economic and business affecting the Kenyan 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.

The material in this Annual Report is provided for the purpose of giving information about us to shareholders and is not provided for tobacco product advertising, promotional or marketing purposes. This material does not constitute and should not be construed as constituting an offer to sell, or a solicitation of an offer to buy, any of our tobacco products. Our products are sold only in compliance with the law.

British American Tobacco
KENYA

What you will find in this report

"The Company fundamentals remain solid and we are confident that our strategy will continue to deliver value for our shareholders."

George Maina
Chairman

Read our Chairman's statement on page 6

Notice of the 2017 Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixty-Fifth Annual General Meeting of British American Tobacco Kenya plc will be held in the Mara Ball Room, Hotel Intercontinental, Nairobi, on Thursday 27 April 2017, 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 2016, 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 16 September 2016 and to declare a final dividend of KES 39.50 per ordinary share payable, net of Withholding Tax, on 27 April 2017 to Shareholders on the Register at the close of business on 22 March 2017.

3. To elect Directors:

(i) Dr. M. Oduor-Otieno retires and being eligible offers himself for re-election in accordance with Article 102 of the Articles of Association.

(ii) Mr. M. Jan Mohamed, Mr. P. Mwangi and Mrs. T. Mapunda retire by rotation and being eligible, offer themselves for re-election in accordance with Article 103 of the Articles of Association.

(iii) Pursuant to the provisions of Section 769 of the Companies Act 2015, Mr. G. May, Mr. M. Jan Mohamed, Ms. Carol Musyoka and Dr. M. Oduor-Otieno being Members of the Board Audit Committee be elected to continue to serve as Members of the said Committee.

4. To approve the remuneration of Directors and the Directors' Remuneration Report for the year ended 31 December 2016.

5. To reappoint KPMG Kenya to continue in office as External Auditors of the Company by virtue of Section 721(2) of the Companies Act 2015 and to authorise the Directors to fix their remuneration.

By Order of the Board

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

22 February 2017

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 stead. Such proxy need not be a member of the Company.

2. A proxy form is provided with this report. The proxy form can also be obtained from the Company's website www.batkenya.com. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the form to, The Co-operative Bank of Kenya Limited, Registrars Services, 1st Floor CIC Plaza II, Mara Road, Upper Hill, P. O. Box 48231-00100 Nairobi, or alternatively to the Registered Office of the Company so as to arrive not later than 2:30 p.m. on 25 April 2017. Duly signed proxy forms may also be emailed to shares@co-opbank.co.ke in PDF format.

3. In accordance with the Company's Articles of Association, a copy of the entire Annual Report and Financial Statements may be viewed and or downloaded from the Company's website www.batkenya.com.

Explanatory Notes to Resolutions to be Passed

Agenda Item 1 - Report and Accounts 2016

Resolution 1:
THAT the Report of the Directors and the Financial Statements for the year ended 31 December 2016, as audited and reported by the Company's Auditors now submitted to this meeting be and are hereby approved and adopted.

The Report and Accounts are for the year ended 31 December 2016.

Agenda Item - 2 Declaration of Final Dividend

Resolution 2:
THAT the interim dividend of Shs 3.50 per ordinary share paid on 16 September 2016 be and is hereby confirmed and that a proposed final dividend of Shs 39.50 per ordinary share payable, net of Withholding Tax, on 27 April 2017 to Shareholders on the Register at the close of business on 22 March 2017 be and is hereby approved.

The Company paid an interim dividend of Shs 3.50 per Ordinary Share on 16 September 2016. The Board recommends a final dividend of Shs 39.50 per Ordinary Share, bringing the total dividend for the year to Shs 43 per Ordinary Share. Subject to approval by Shareholders, the final dividend will be paid on 27 April 2017 to Shareholders on the Register on 22 March 2017.

Agenda Item 3 - Directors seeking re-election

Resolution 3:
THAT the re-election of all retiring Directors as set out in Agenda Item 3 and in the Directors' Report be dealt with by a single resolution.

In accordance with Section 132(1) of the new Companies Act 2015, if the Shareholders agree, the retiring Directors may be re-elected by a single resolution. This Resolution seeks Shareholders consent to re-elect eligible Directors by a single resolution.

Agenda Item 3 - Directors seeking re-election

Resolution 4:
THAT Dr. M. Oduor-Otieno, Mr. M. Jan Mohamed, Mr. P. Mwangi and Mrs. T. Mapunda be and are hereby re-elected Directors of the Company.

Dr. M. Oduor-Otieno seeks re-election in accordance with Article 102 of the Company's Articles of Association following his appointment on 1 August 2016. In relation to the re-election of all the above named Non-Executive Directors the Chairman has confirmed that the Nominations Committee and the Board has determined that each of them is independent, continues to perform effectively and demonstrates commitment to their role, and that they are all influential individuals in their respective fields and backgrounds.

Their balance of knowledge and skills combined with their diversity and business experience, makes a major contribution to the proper functioning of the Board and its Committees. Biographical details of the Directors seeking re-election are set out on pages 40 to 44 of the Annual Report 2016.

Copies of the Directors' letters of appointment are available for inspection during normal business hours at the Company's registered office on any business day.

Agenda Item 3 - Directors seeking re-election

Resolution 5:
THAT Mr. G. May, Mr. M. Jan Mohamed, Ms. Carol Musyoka and Dr. M. Oduor-Otieno and are hereby elected to continue to serve as Members of the Board Audit Committee.

In accordance with the provisions of Section 769 of the Companies Act 2015, the Directors listed in Agenda Item 3 (iii) offer themselves for election to continue to serve as Members of the Board Audit Committee.

Agenda Item 4 - Directors' Remuneration

Resolution 6:
THAT the Directors' remuneration and Directors' Remuneration Report be and are hereby approved.

Resolution 6 is an advisory vote to approve the Directors' remuneration and Directors' Remuneration Report as prescribed by CMA Code of Corporate Governance Practices for issuers of Securities to the Public. The remuneration report is set out on page 61 of the Annual Report 2016.

Agenda Item 5 - Re-Appointment of Auditors and Auditors' Remuneration

Resolution 7:
THAT in accordance with Section 721(2) of the Companies Act 2015, KPMG Kenya is reappointed to continue in office as the Auditors of the Company and that the Directors be and are hereby authorised to fix their remuneration.

KPMG having expressed their willingness to continue in office as the Company's external auditors in accordance with the provisions of Section 721(2) it is proposed that the Directors be authorised to fix Auditors' remuneration for the ensuing financial year.

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*	
Mr. M. Jan Mohamed*	
Mrs. T. Mapunda*	
Mr. P. Mwangi*	
Dr. M. Oduor-Otieno**	
Ms. R. Ngobi	(Company Secretary)

Audit Committee

Mr. G.R. May*	(Chairman)
Mrs. C. Musyoka*	
Mr. M. Jan Mohamed*	
Dr. M. Oduor-Otieno*	
Mr. G. Maina*	(By Invitation)
Mr. K. Gretton	(Permanent invitee)
Mr. P. Lopokoiyit	(Permanent invitee)
Mr. S . Adeyemo	(Permanent invitee)
Mr. S. Munjanganja	(Permanent invitee)
Mr. S. Nthama	(Secretary)

Nominations Committee

Mr. G. Maina*	(Chairman)
Mr. G. May*	
Mr. M. Jan Mohamed *	
Mr. P. Mwangi*	
Mr. K. Gretton	(Permanent invitee)
Ms. R.T. Ngobi	(Secretary)

Remuneration Committee

Mr. P. Mwangi *	(Chairman)
Mr. G. Maina*	
Mrs. T. Mapunda*	
Mrs. C. Musyoka*	
Mr. K. Gretton	(Permanent invitee)
Mr. P. Lopokoiyit	(Permanent invitee)
Ms. R. Belath	(Secretary)

* Non-Executive Directors
** Dr. M. Oduor-Otieno was appointed as a Non - Executive Director on 1 August 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

The Co-operative Bank of Kenya Limited,
Registrar Services,
1st Floor, CIC Plaza B,
Mara Road, Upper Hill,
P. O. Box 48231-00100,
NAIROBI

Advocates

Kaplan & Stratton,
Williamson House,
4th Ngong Avenue,
P.O. Box 4011-00100,
NAIROBI

Bankers

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

Secretary and Registered Office

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

Chairman's Statement

> "The Company fundamentals remain solid and we are confident that our strategy will continue to deliver value for our shareholders."

George Maina
Chairman

Dear Shareholder,

Welcome to the Annual Report 2016. Your Company continued to perform well despite challenging conditions in our operating environment.

Macro-Economic Environment

In 2016 the Kenyan economy remained relatively stable weathering a number of unexpected challenges. The economy registered growth rates above 5% in the first half of the year largely driven by government investment in infrastructure projects. Despite the economic growth slowing down in the later part of the year, Kenya's economy continued to be a star performer in the region. Inflation posed a challenge in the second half of the year moving from a low of 5% in May 2016 to close at 6.28% in December 2016. This compounded with food shortages following failed rains saw the overall consumer price index rise to 175.18 in December 2016 compared to 164.72 in December 2015.

Unlike in 2015, the Kenya shilling remained relatively stable in 2016 with the Central Bank selling a portion of its dollar reserves in late July to shore up support for the shilling. This translated to stability in the cost base for our operations.

Socio-Political Environment

In 2016, the Government continued with its agenda to deepen the implementation of devolution and strengthen the governance institutions, while addressing other challenges including land reforms and security. There still exist some challenges in the role that counties should play and we will continue to work together with the National and County Governments in our joint quest for prosperity and a better future for Kenya. We also witnessed increased political activity ahead of the Presidential and Legislative elections slated for August 2017.

Other Developments

We continue to monitor the developments within the East African Community (EAC) and welcome efforts to ease and harmonise trade across member countries. We continue to seek Government support in eliminating existing non-tariff barriers within the EAC to increase regional trade. We are similarly keen on the developments within the Common Market for Eastern and Southern Africa (COMESA) particularly accession of Free Trade Agreements in order to eliminate tariff barriers and drive market access.

Sustainable Regulation

We support regulation that is balanced and evidence-based. Regulation that does not meet these criteria could have unintended consequences such as stimulating illicit trade and harassment of members of the public and traders. 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 business objectives.

Business Performance

Despite the challenges in the operating environment, the Company delivered a solid performance in 2016 with gross revenue growing by 2%. Net revenue declined principally reflecting higher Excise Duty and VAT payments in the domestic market. The results were supported by impressive cost savings and efficiency improvements.

The Company fundamentals remain solid and we remain confident that our strategy will continue to deliver value for our shareholders.

Dividends

The Board of Directors recommended a final dividend of Shs 39.50 per ordinary share which when added to the interim dividend of Shs 3.50 paid out during the year, brings total dividends to Shs 43.00 per share. The dividend, which is subject to withholding tax, will be paid on 27 April 2017 to shareholders on the Register at the close of business on 22 March 2017.

Changes to the Board of Directors

Dr. Martin Oduor-Otieno joined the Board of Directors as a Director of the Board on 1 August 2016. Dr. Oduor-Otieno had an illustrious career at Kenya Commercial Bank Group between October 2005 and December 2012, initially as Deputy Chief Executive Officer (CEO) and then as CEO. He has also held senior positions in Barclays Bank and in the public sector.
Dr. Oduor-Otieno is no stranger to British American Tobacco Kenya having previously worked for the Company and also served on the Board as a Non-Executive Director. He is a strong advocate for good governance and institutional development. The Board of directors is confident that it and indeed the Company stand to benefit from his wealth of experience and commercial acumen.

It is with regret that I announce that Philip Lopokoiyit, Finance Director will be leaving the Company on 1 May 2017. Philip has spent the last 21 years with the Company and we have benefited enormously from his commercial and financial acumen, professionalism and cross-market experience.

It is also with regret that I announce that Keith Gretton, Managing Director will be leaving the Company on 1 May 2017. Keith has spent the last 29 years with the BAT Group. During his tenure with BAT Kenya he has overseen market share growth, driven the sustainability of the business through the introduction of changes in work practices and the implementation of efficiency initiatives, which stand the Company in good stead for the future.

I take this opportunity to thank Philip and Keith for their invaluable contribution to the Board and to wish them the best in their future endeavours.

The Board welcomes Mr. Sidney Wafula and Mrs. Beverley Spencer - Obatoyinbo as the incoming Finance Director and Managing Director respectively effective 2 May 2017.

Looking Forward

Reflecting on our performance in 2016, I would like to thank my Directors on the Board and all the employees, suppliers and partners of British American Tobacco Kenya for their contribution and continued commitment to the success of our Company.

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

George Maina
Chairman

Taarifa Ya Mwenyekiti

"Misingi ya Kampuni inabaki imara na tuna imani kuwa mikakati yetu itaendelea kuwaletea thamani wenye hisa."

George Maina
Mwenyekiti

Kwa mwenye hisa,

Twakukaribisha kupokea ripoti ya fedha ya mwaka 2016. Kampuni yenyu iliendelea kufanya vyema licha ya changamoto katika mazingira yetu ya biashara.

Mazingira ya Kiuchumi

Mwaka wa 2016 uchumi wa Kenya ulibaki imara na kuvumilia changamoto zilizokuwemo. Uchumi uliongezeka juu ya asilimia 5% katika nusu ya kwanza ya mwaka kutokana na uwekezaji wa serikali katika miradi ya miundombinu. Licha ya kasi ya ukuaji wa uchumi kupunguka mwaka ukikaribia kuisha uchumi ya Kenya iliendelea kuwa bora zaidi mkoani. Mfumuko wa bei ulileta changamoto katika nusu ya pili ya mwaka kwa kuongezeka kutoka asilimia 5% mwezi wa Mei 2016 hadi asilimia 6.8% mwezi wa Desemba. Mfumuko huu wa bei pamoja na upungufu wa chakula ulitokana na mvua kutonyesha, ulifanya matumizi ya na bei ya bidhaa kupanda hadi 175.18 mwezi wa Desemba 2016 ikilinganishwa na 164.72 mwezi wa Desemba mwaka 2015.

Tofauti na mwaka wa 2015, shilingi ya Kenya ilibaki imara mwaka wa 2016 na Benki Kuu ikauza sehemu ya dola iliyohifadhi kuimarisha shilingi ya Kenya. Hii iliimarisha bei yetu ya kufanya biashara.

Mazingira ya Jamii na Siasa

Serikali iliendeleza ajenda yake ya kukabidhi uongozi na kuimarisha taasisi za utawala, na kupambana na changamoto zinginezo zikiwemo mageuzi ya ardhi na usalama. Bado kuna changamoto zinginezo kwenye jukumu ambazo kata zafaa kufanya na tutaendelea kuunga mkono Kata na Serikali kuu kupata mafanikio na siku bora za usoni nchini Kenya. Tulitazama pia kuongezeka kwa shughuli ya siasa kutokana na uchaguzi ujao wa rais na wabunge utakaofanyika mwezi wa Agosti 2017.

Maendeleo Mengine

Tunaendelea kufuatilia matokea mengine katika jumuia ya Afrika Mashariki na twakaribisha juhudi za kupunguza ugumu wa kufanya biashara katika ya nchi za Afrika Mashariki. Tunaomba kuungwa mkono na Serikali kuondoa vikwazo vya biashara Afrika Mashariki ili kuongeza biashara kati ya nchi hizo. Pia tunafuatilia matokeo katika jumuia ya soko za Africa Mashariki na Kusini sana sana kwa kutawazwa kwa mkataba huru wa kufanya biashara ili kuondoa vikwazo na kuendeleza biashara.

Kanuni

Tunaunga mkono kanuni zenye haki. Kanuni ambazo hazifuati vigezo hizi zitaleta matokeo zisijotarajiwa kama vile kuendeleza Biashara haramu na kunyanyaswa kwa raia na wauzaji. Tunadhamiria kuendelea kujishughulisha na wadau wote wanaohusika na kanuni pamoja na kushirikiana na Serikali kupambana na biashara haramu ya tumbaku. Tuna rekodi ndefu na ya kuthibitika ya kufuata sheria na kanuni tunapofikisha malengo yetu ya biashara.

Matokeo ya biashara

Licha ya kukumbwa na chanagamoto katika mazingira ya kibiashara Kampuni ilipata matokeo mazuri mwaka wa 2016 na mapato kabla ya kutozwa ushuru ikiongezeka kwa 2%. Mapato baada ya kutozwa ushuru yalipungua na kuonyesha athari ya ongezeko la ushuru kwenye soko nchini. Matokeo yetu yaliimarishwa na maboresho yetu ya kutenda kazi.

Misingi ya Kampuni inabaki imara na tuna imani kuwa mikakati yetu itaendelea kuwaletea thamani wenye hisa.

Gawio

Halmashauri la Wakurugenzi limependekeza gawio la shilingi 39.50 kwa hisa hii ikiongezwa kwenye gawio mpito wa shilingi 3.50 uliolipwa mwaka huo unaleta jumla hadi shilingi 43.00 kwa kila hisa. Gawio bila ushuru italipwa tarehe 27 Aprili 2017 kwa wenye hisa kwa regista baada ya kufunga biashara tarehe 22 Machi 2017.

Mabadiliko Katika Bodi la Wakurugenzi

Bw. Martin Oduor-Otieno alijiunga na Bodi la Wakurugenzi kama Mkurungenzi wa Bodi mwezi wa Agosti mwaka wa 2016. Bw Oduor-Otieno alifanya kazi kwa muda mrefu katika benki ya KCB kati ya mwezi Oktoba mwaka 2005 na Desemba mwaka 2012, mwanzoni kama Naibu wa Mkurugenzi Mtendaji na baadaye akawa Mkurugenzi Mtendaji. Alishikilia pia nyadhfa kubwa katika benki ya Barclays na sekta ya umma.

Bw Oduor-Otieno si mgeni BAT kwani aliwahi kufanya kazi katika Kampuni hii na pia kuwa kwenye Bodi kama Mkurugenzi. Ni mtu anayeamini sana utendakazi na uongozi njema wa Kampuni na Bodi la Wakurugenzi pamoja na Kampuni lina imani kuwa litafaidika kutokana na ujuzi wake mwingi.

Ninasikitika kutangaza kuwa Bw Philip Lopokoiyit Mkurugenzi wa Fedha ataiwacha Kampuni tarehe 1 Mei 2017. Bw Philip amefanyia Kampuni hii kazi miaka 21 na tumenufaika sana na ujuzi wake. Pia ninasikitika kutangaza kuwa Bw Keith Gretton Mkurugenzi Mkuu ataiwacha Kampuni tarehe 1 Mei 2017. Bw Keith ameifanyia kazi Kampuni hii miaka 29. Kama Mkurugenzi Mkuu wa Kampuni hii alisimamia ongezeko la soko na uendelevu wa biashara kwa kuleta mbinu vyema vya utendaji kazi.

Nachukua nafasi hii kuwashukuru Bw Philip na Keith na kusema asante kwa kazi yao nzuri kwenye Bodi na kuwatakia mema katika shughli zao za usoni.

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Bodi la Wakurugenzi lawakaribisha Bw Sidney Wafula na Bi Beverley Spencer-Obatoyinbo kama Mkurugenzi wa Fedha na Mkurugenzi Mkuu kuanzia tarehe 2 Mei 2017.

Matazamio

Kwa kuangazia matokeo yetu ya mwaka 2016, ningependa kuwashukuru Wakurugenzi wenzangu kwenye Bodi, wafanyikazi wote na wahusika wote wa BAT Kenya kwa juhudi yao inayochangia mafanikio ya Kampuni.

Kwa kuangazia mbele nina imani kuwa tuna malengo na mkataba mazuri na wafanyi kazi watakaoendeleza ukuaji na thamani kwa wadau wetu kwa miaka ijayo.

George Maina
Mwenyekiti

Managing Director's Message

> "Sustainability is a key focus for our business and we will continue to invest for the future."

Keith Gretton
Managing Director

Dear Shareholder,

While your Company faced numerous challenges in 2016 which impacted our financial performance for the year, we demonstrated impressive resilience and face the future stronger than ever.

Domestic Market

On the domestic market, we grew turnover and market share despite two major external factors negatively impacting our total volume and profit.

In December 2015, the government introduced the single tier specific Excise regime for our category. We welcome this regime which charges all cigarettes at the same rate since it is easy to administer and provides certainty and predictability. However, the new rate was high - effectively a 50% increase on the Excise we were previously paying. This resulted in significant increases in the prices of our key brands.

The second factor was the Tobacco Control Regulations. Throughout 2016, we faced uncertainty over the timing and form of the implementation of the Tobacco Control Regulations. This caused confusion and marginally higher costs. Our legal challenge against the Regulations is informed by our belief that substantial parts of these regulations are excessive and unconstitutional.

Against this external backdrop, to grow share and turnover was a significant achievement for your Company. However, our consumers have been under significant financial pressure and many of them have been forced to downtrade from their favourite brand, Sportsman, into Safari and Rooster. This has impacted our financial performance.

Looking ahead, we expect predictability in Excise increases since the Excise Act, 2015 stipulates that future increases will be aligned to inflation.

Portfolio and Route to Market

Sustainability is a key focus for our business and we will continue to invest for the future. In 2016 we launched Rothmans, undertook a Dunhill pack and product upgrade, upgraded Sportsman, and line-extended Embassy. We significantly improved our route to market effectiveness – substantially increasing the number of stores our distribution partners deliver to directly, as opposed to those stores having to collect their product.

Exports

Revenues from our export business stood at USD 88 million. Over the last decade, our Nairobi factory has become a strategic manufacturing hub for the BAT Group, and in 2016 we exported to 13 countries outside Kenya. Export volumes and revenues in 2016 were lower than in 2015 for a variety of reasons which include foreign currency challenges and unfavourable macroeconomics in some of our export markets.

Government levies paid in the form of Excise Duty, Value Added Tax (VAT), Pay As You Earn (PAYE) and Corporation Tax increased significantly by Shs 3.1 billion to a record Shs 19.2 billion in 2016. Profit before tax declined by 15% to Shs 4.2 billion reflecting the impact of a decline in net revenue offset by lower costs.

Productivity

Our focus on productivity and efficiency savings was more intense than ever. We introduced new working practices in our manufacturing organisation a consequence of which was a reduction in our workforce by around 40 people. Such cuts are regrettable but we ensure at all times that we treat those affected by restructuring exercises with respect and sensitivity.

Winning Teams

The quality and motivation levels of the people employed by an organisation define its future. A major reason we have confidence in our future, is that we have a great pipeline of energised talent in BAT.

As a global organisation, BAT leverages on its' international presence when developing its' people. Today, we have 16 Kenyans flying our flag in East, West and South Africa, Europe and Asia.

Whether at home or working abroad, our people continue to be the foundation of our success.

In 2016, the hard work and commitment of our workforce attracted external recognition. Your Company received recognition in the Think Business Investment Awards as the best quoted share at the Nairobi Securities Exchange (NSE). It also won two runners up awards for excellence in financial reporting under the Corporate Governance category, as well as the Listed Companies (Industrial Commercial and Services) category.

BAT Kenya was the 2016 recipient of the prestigious Total EcoChallenge overall winners award for our re-afforestation efforts where we have planted over 2.5 million trees across the country in partnership with tobacco farmers, tree farmers and County Governments.

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

Outlook

2017 will be another challenging year. However, we anticipate a more balanced and predictable regulatory environment. We will continue to strengthen our portfolio and route to market capabilities in the domestic market. We will continue to offer high quality and competitively priced products to our export customers.

We are proud of the many thousands of livelihoods we support in Kenya and beyond by providing employment opportunities and supporting an extensive supply chain from farmers through to retailers.

Looking ahead, we appeal to the Kenyan Government to provide the right support for our business. Over the years, we have worked hard at BAT Kenya to ensure that we remain a strategic manufacturing hub for our international group. This has been a significant achievement considering that there are only 2 other such hubs in Africa.

We cannot take this status for granted. We are competing with other factories in BAT and to maintain our importance within the Group we need a strong domestic market, regulatory predictability and help from Government especially in dismantling trade barriers in the region.

As the Government seeks new investors in Kenya, we ask them not to overlook the operators like BAT who have been here for over 100 years and have a track record of delivery for this economy. We need Government policies which support our growth aspirations.

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 2016. I also extend my gratitude to our shareholders, stakeholders, consumers and business partners.

Keith Gretton
Managing Director

Taarifa Ya Mkurugenzi

> "Uendelevu ndio lengo kubwa la biashara yetu na tutazidi kuwekezea siku za usoni."

Keith Gretton
Mkurugenzi Mkuu

Kwa mwenye hisa,

Licha ya Kampuni yako kukumbwa na changamoto mwaka wa 2016 zilizoathiri matokeo yetu kifedha tuliweza kuwa na uvumilivu na sasa twasonga mbele tukiwa imara zaidi.

Soko ya Nyumbani

Katika soko ya nyumbani tuliongeza mauzo na umiliki wa soko licha ya matukio mawili kuathiri vibaya kiwango chetu na faida.

Desemba mwaka 2015 Serikali ilileta ushuru binafsi ya bidhaa zetu. Tunaikaribisha ushuru hii ambayo inatoza sigara zote kwa kiwango moja kwani ni rahisi kusimamia na unatupa uthubitifu na uhakika. Hata hivyo ushuru hii ilikuwa juu na 50% ya ushuru tuliokuwa tukilipa mwanzoni. Jambo hili lilifanya ongezeko ya bei ya bidhaa zetu kuu.

Tukio la pili lilikuwa Kanuni za Tumbaku ya mwaka 2014. Katika mwaka wa 2016 tulikabiliana na changamoto za kukosa uhakika kuhusu utekelezaji wa Kanuni za Tumbaku. Tukio hii ilisababisha mkanganyiko na ongezeko la bei. Pingo letu la kisheria dhidi ya kanuni hizo ni kwa kuamini kuwa sehemu kubwa za kanuni hizo zimezidishwa na zipo kinyume na katiba.

Licha ya tukio hilo, kukua na kuongezeka mapato ilikuwa tokeo la muhimu sana kwa Kampuni yako. Hata hivyo wateja wetu wamekuwa wakikumbwa na upungufu wa fedha na jambo hili limewafanya kubadili matumizi ya sigara wanayoipenda ya Sportsman na kuanza kutumia sigara ya Safari na Rooster. Jambo hili limeathiri mapato yetu.

Matazamio yetu ni kutarajia kuwa na uhakika kwa kuongezeka kwa ushuru kwani Kanuni ya Ushuru ya mwaka 2015 yasema kuwa kuongezwa kwa ushuru yafaa kuwiana na mfumuko wa wa bei.

Bidhaa na Soko

Uendelevu ndio lengo kubwa la biashara yetu na tutazidi kuwekezea kwa siku za usoni. Mwaka wa 2016 tulileta sigara ya Rothmans, tukaboresha pakiti la Dunhill na Sportsman na kuendeleza Embassy. Tuliongeza kiwango chetu katika soko na kuongeza viwango vya duka ambazo wahusika wetu wa kibiashara wanapeleka sigara wenyewe badala ya wenye maduka kuja kwetu kuchukua bidhaa yao.

Soko Nje

Mapato kutoka kwa mauzo yetu ya nje ilikuwa milioni ya dola 88. Muongo huu uliopita kiwanda chetu cha Nairobi kimekuwa muhimu kwetu kwa uundaji wa sigara na mwaka wa 2016 tuliuzia nchi 13 nje ya Kenya. Kiwango cha mauzo ya nje na mapato kilipungua mwaka wa 2016 likilinganishwa na mwaka wa 2015 kutokana na sababu kama vile athari za sarafu za kigeni na hali uchumi ya nchi tunazouzia.

Ushuru ya Serikali inayotozwa kwa bidhaa na ushuru inayotozwa kwa mapato ya wafanyikazi na Makapuni iliongezeka zaidi kwa shilingi bilioni 3.1 hadi bilioni 19.2 mwaka wa 2016. Faida kabla ya kutozwa ushuru ilipunguka kwa 15% hadi shilingi bilioni 4.2 ikionyesha kupunguka kwa mapato tuliokabili kwa bei ya chini ya kufanya biashara.

Tija

Lengo letu la tija na ufanisi ulikuwa murwa zaidi. Tulilete mbinu mpya za utendajikazi katika kiwanda chetu na kusababisha kuachishwa kwa wafanyikazi 40. Kuachishwa kazi watu hao ni jambo la kusikitisha na huwa tunawapa wote walioathiriwa stahiki zao.

Wafanyikazi Wenye Vipaji

Ujuzi na bidii ya wafanyikazi katika Kampuni ndio utauendeleza vyema. Sababu kubwa ya sisi kuwa na tumaini ya siku zetu za usoni ni kwa sababu ya wafanyikazi wetu wenye bidii hapa BAT. BAT intumia kuwepo kwake nchi mingi duniani kuwanufaisha wafanyikazi wake kikazi. Tuna wakenya 16 wanaopeperusha bendera yetu Afrika Mashariki , Magaribi na Kusini, Ulaya na bara Hindi.

Wafanyikazi wetu ndio wanaendelea kuwa msingi wa mafanikio yetu wakiwa nchini au ngambo.Mwaka wa 2016 Kampuni yako ilitambulika na kupewa sifa kutoka nje. Kampuni yako ilipewa sifa katika tuzo la uwekezaji. Pia Kampuni yako ilishinda tuzo mbili za ubora ya kuchapisha habari za fedha na katika nafasi ya usimamizi na hisa.

BAT Kenya ilipata tuzo ya Total ECochallenge kutokana na juhudi zetu za kupanda msitu ambapo tumweweza kupanda miti milioni 2.5 nchini tukishirikiana na wakulima wa tumbaku, wakulima wa miti na Serikali za kata. Naichukua nafasi hii kuwapa shukrani wafanyikazi wote wenzangu hapa BAT. Pamoja twaweza kupata mafanikio zaidi.

La Kuangazia

Mwaka huu utakuwa mwingine wa changamoto. Lakini tunatarajia utakuwa na uhaki wa kanuni. Tunaendelea kuimarisha bidhaa zetu na uenevu kwenye soko ya nchi. Tutaendelea kutoa bidhaa bora kwa wateja wetu wa nchi za kigeni.

Tunafahari kubwa kutokana na jamii zote zinazotutegemea hapa nchini Kenya na nje kwa kupeana ajira wakiwemo wakulima hadi wauzaji.

.

Matazamio yetu ni kuwa Serikali ya kenya itaunga mkono biashara yetu. Tumetia bidii kwa muda mrefu hapa BAT Kenya ili kuhakikisha kuwa tutabaki kamakiwanda muhimu ya uundaji kwa Kampuni yetu zazi. Hii imekuwa tokeo nzuri sana kwani kuna tu viwanda zingine mbili kama hizo hapa barani Afirca.

Hili si jambo dogo tuko katika ushindani na viwanda mengine ya BAT na kuendeleza umuhimu wetu tunahitaji soko ya nchi imara na kanuni zenye uhakika na usaidizi kutoka kwa Serikali haswa katika kutoa vikwazo vya biashara.

Serikali inavyozidi kutafuta waekezaji tunatarajia itilie maanani Kampuni kama BAT amabayo imekuwa hapa zaidi ya miaka 100 na ina rekodi nzuri ya kunufaisha uchumi. Tunahitaji kanuni za Serikali ambazo zinaimarisha ukuaji wetu.

Kwa niaba ya menejimenti na wafanyikazi wote wa BAT Kenya nawapa shukrani Bodi la Wakurugenzi kwa mwelekezo na uongozi wao mwaka wa 2016. Pia nawapa shukrani wenye hisa, wadau, wateja wetu na wahusika wetu wa biashara.

Keith Gretton
Mkurugenzi Mkuu

Financial Review

"Cash generated from operations increased significantly by 41% to Shs 8.0 billion reflecting enhanced working capital management during the year."

Philip Lopokoiyit
Finance Director

BAT Kenya continued to perfom well in 2016 despite a challenging external enviroment. Key highlights in 2016 compared to 2015 include:

Gross revenue:

Gross revenue increased by 2% to Shs 36.7 billion driven by higher domestic revenues following excise led price increases which were offset by lower contract manufacturing sales. Excise Duty and VAT increased by 24% to Shs 16.8 billion driven by significantly higher Excise Duty following the implementation of a single tier specific Excise regime on 1 December 2015. We grew market share in 2016 notwithstanding the adverse impact of price increases on sales mix.

Cost of operations:

Despite inflationary increases, cost of operations reduced by 9% to Shs 13.3 billion through stringent cost management, productivity and overheads savings. Following the introduction of new ways of working primarily in the factory and in order to manage the cost base and deliver savings into the future, the Company undertook a reorganisation in the second half of 2016 which cost Shs 338 million. Finance costs decreased by 45% to Shs 295 million principally due to lower foreign exchange related losses and interest expenses during the year.

Profit and comprehensive income:

Profit after tax reduced by 15% to Shs 4.2 billion, whilst operating margin declined by 1.5 percentage points to 33.0% in 2016 indicating the impact of a decline in net revenue offset by lower costs. The Company undertook a valuation of its' assets in line with accounting policy which resulted in a gain of Shs 616 million in other comprehensive income. Consequently, total comprehensive income reduced marginally by 3% to Shs 4.9 billion.

Cash generated from operations:

Cash generated from operations increased significantly by 41% to Shs 8.0 billion reflecting enhanced working capital management during the year.

Government revenues:

Contribution to Government revenues in the form of Excise Duty, VAT, Pay As You Earn (PAYE) and Corporation Tax increased significantly by Shs 3.1 billion to a record Shs 19.2 billion in 2016. This increase was mainly driven by significantly higher Excise Duty and VAT from the domestic business as well as higher PAYE.

Dividend:

The recommended final dividend of Shs 39.50 per share, when added to interim dividend already paid, gives a total dividend of Shs 43.00 per share. This is in line with the Company's policy to pay 100% of profit after tax as dividend.

Our year in numbers

Gross revenue – Shs

36.7bn

+2%

2015: 35.8bn

Government revenue – Shs

19.2 bn

+3.1 bn

2015: 16.3bn

Profit after tax – Shs

4.2 bn

-15%

2015: 5.0bn

Cash generated from operations – Shs

8.0 bn

+41%

2015: 5.7bn

Recognition

BAT Kenya plc finance team receive the runners up award for excellence in Corporate Governance Reporting from Mr. Paul Muthaura, CEO Capital Markets Authority (CMA). The Company won a similar award for excellence in financial reporting under the Listed Companies (Industrial, Commercial and Services) category.

DUNHILL
TOBACCO of LONDON LIMITED

PREMIUM RANGE

OWN YOUR **CHOICE**

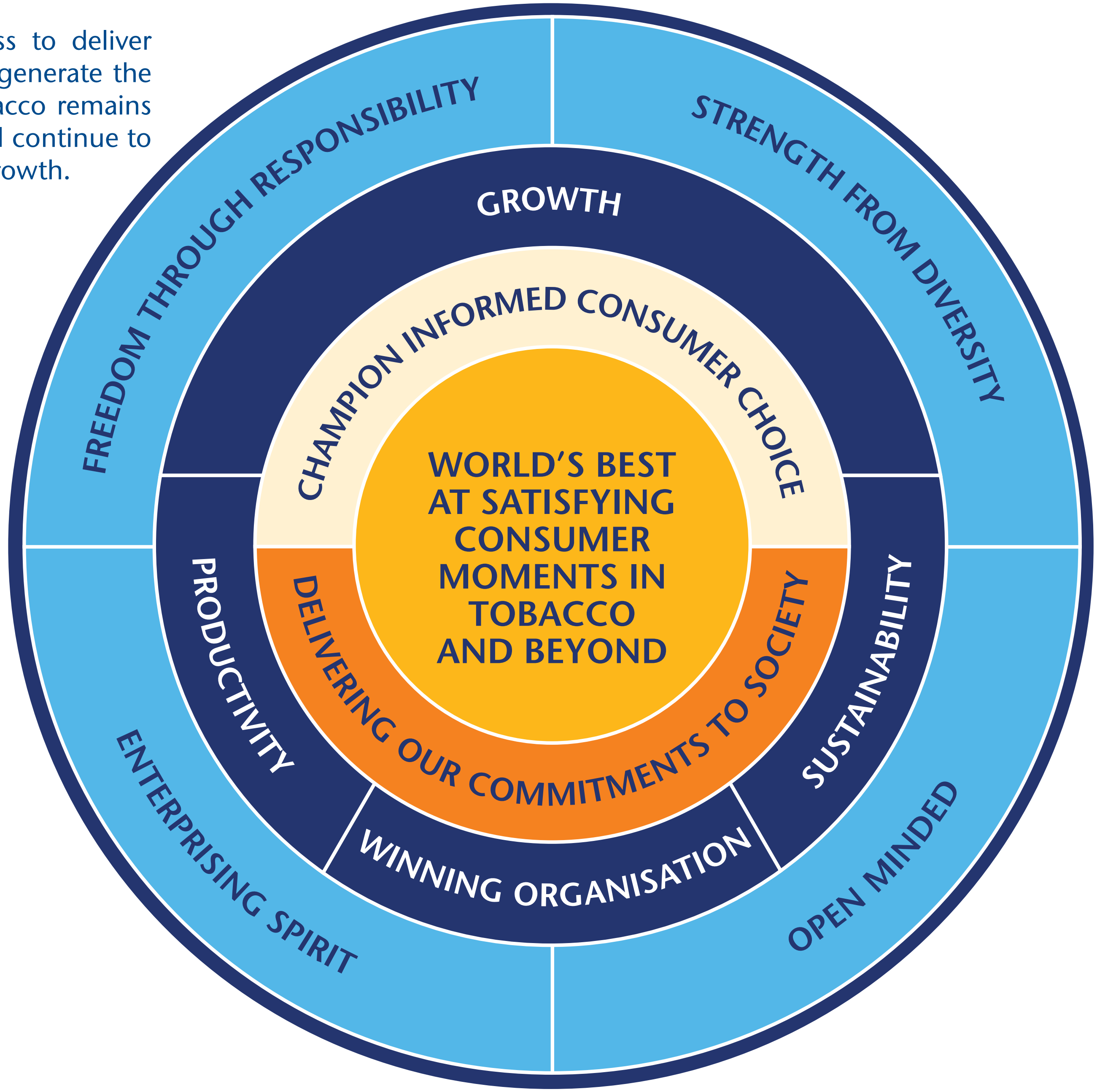
18 AND ABOVE ONLY

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

HEALTH WARNING: CIGARETTE SMOKING CAUSES LUNG CANCER, HEART DISEASES & DEATH.
ONYO YA AFYA: UVUTAJI WA SIGARA HUSABABISHA SARATANI YA MAPAFU, MAGONJWA YA MOYO NA KIFO

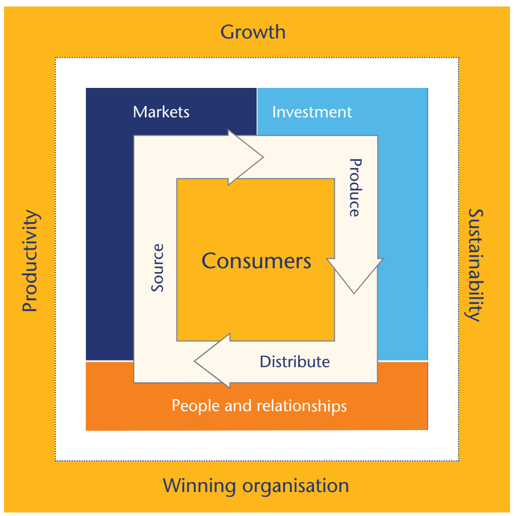
Our Vision and Strategy

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 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 other 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 manufacturing and distributing 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. These include consumers, farmers and their communities, other suppliers, retail and wholesale trade partners, NGOs, goverments and regulators.

Source

We have a significant interest in tobacco growing and we have expert technicians out in the field who support over 5,100 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. 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 and Thika. We work to ensure that our costs are globally competitive and that we use our resources as effectively as possible. Our production facilites are designed to meet the needs of an agile and flexible supply chain and to provide a world-class operational base that is fit for the future. 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 efficiencies.

Distribute

Our well-developed distribution channels are critical enablers of our growth strategy, allowing us to roll out innovations on a national scale. We continously review our route to market, including our relationship with wholesalers, distributors and logistics providers. Most of our volume is sold by retailers who are supplied through our exclusive distributors. We are helping to raise standards by supporting effective and reasonable regulation of regular cigarettes. 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. 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.

Business Review

Our brands

We are market leaders in Kenya because we are best in satisfying consumer moments. In 2016 we conitnued to strenghten our portfolio of brands.

Premium reinforcement for Dunhill

Dunhill continues to play the role of the destination premium brand within the portfolio by delivering Tobacco Experiences Beyond the Ordinary.

In the previous 2 years, Dunhill established its superiority in delivering tobacco experiences in this market by leading category innovation through *Dunhill Switch with the capsule.* To further reinforce the brand, a pack upgrade to harmonise with international Dunhill standards and reinforce premium consumer cues was launched.

Continued leadership with our local hero brand - Sportsman stick upgrade

The core consumer of Sportsman is focused on value for money. In a bid to reinforce the value and quality cues of the brand and reassure consumer of having made the right choice, the Sportsman stick underwent an upgrade. The upgrade involved the inclusion of a gold ring on the cigarette stick with no alteration of the trusted taste and quality the consumer has counted on over the years.

Bringing an international offer to value - focused consumers

As part of our bid to modernise our portfolio and to meet the needs of those of our consumers looking for international brands, Rothmans was launched in March 2016. Rothmans has shown commendable growth as consumers recognise the value offered by this international brand at a value for money price.

We work as partners

"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."

Building lasting and successful partnerships across our distribution network

Partnering to develop capability

BAT Kenya has placed emphasis on the development of people capabilities through continuous training. In 2016, in collaboration with our distribution partners we ran training programs to improve the commercial acumen of our distribution partners' field teams. The program named POSITIVE aims to equip the teams with a winning mindset necessary to win in a challenging operating environment. The program yielded results with the team registering a 3% increase in total volume and 22% increase in Global Drive Brands.

BAT Kenya has partnered with the Marketing Society of Kenya (MSK), to have its POSITIVE field force program certification recognised as part of the marketing skills curriculum. We also introduced a best practice transfer program from other markets. In this initiative, the best performing field team members are sent on a one week exchange program to another country in which BAT operates. The aim of this initiative is to provide an avenue for us to transfer global best practices to our trade partners.

Motivation and recognition

BAT Kenya launched the "Bingwa Awards" in 2016, an initiative designed to encourage and recognise sustained high performance culture within the field team. To motivate our partners and drive performance we also the launched the "Faida Max" program for our wholesale partners. The theme of the program is growing together. We support our partners to increase their earnings by delivering superior market performance.

Equipping our partners

To improve the quality of our distribution network and thus deliver superior market performance, BAT Kenya partnered with the distributors to facilitate acquisition of new distribution tools. These tools have been used to expand market coverage and thus improve performance.

BAT Kenya continuously scans the trading environment for new opportunities. One such opportunity is in the technology arena specifically in cashless platforms. To reduce risk and improve the bottom line of our business partners, BAT Kenya rolled out an initiative for cashless payments within its' distribution chain. The benefits accruing to our business partners include reduced risk of cash handling.

Connecting with our partners

Throughout 2016, BAT Kenya hosted our business partners at the Likoni Road factory. These visits are a great platform for interaction, obtaining feedback and gaining an understanding of our operations.
We also partnered with our key account partners to benchmark category execution in comparison to advanced modern trade markets. These partnerships allow both BAT Kenya and the business partners to effectively channel trade investments to drive business growth as well as share new trends in modern trade.

Mr. Darryn Bassa, Head of Marketing, presents a certificate to Michael Kibira in recognition of successful completion of the POSITIVE program.

We operate efficiently

“Our investments in energy conservation continue to deliver savings and win accolades.”

Establishing world class manufacturing capabilities

We continue to drive a more efficient and globally integrated operations and supply chain. In 2016, we launched a global system of building operational capability through focusing on eliminating losses and developing the capability of our people. We also implemented lean manufacturing systems and principles to achieve breakthrough results. We continued with the roll out of the Integrated Work Systems program (IWS) in our manufacturing plants. This program will help our teams to quickly develop skills to significantly improve our factory efficiencies, increase productivity, deliver savings, eliminate waste, and consistently produce superior quality products that win with our consumers while driving shareholder value through reduced cost of sales.

Impoved efficiencies

50% of our machineries are now on IWS . Efficiencies improved by an average of 6% in 2016 versus 2015. Quality complaints reduced by 25% and we achieved world class service levels to our customers with mood tracker jumping 4 percentage point to 97%.

Our supply chain measure of delivering from our factory On Time In Full (OTIF) also improved significantly by 11% to a world class level of 98%. Financially, 2016 was a great year because we delivered productivity savings of over Shs 600 million inspite of inflation.

We plan to accelerate our improvement in the coming years using IWS as the main driver to eliminate waste, build maintenance systems that significantly improve machine performance, invest in modern technology and upgrade our ageing fleet of machines while supporting new product innovations. We will also continue to optimise and globalise our supply chain through application of best practices and synergies with our global and local partners.

Recognition for best practice

Our investments in energy conservation continue to deliver savings and win accolades. In 2016, the Kenya Association of Manufacturers (KAM) recognized BAT Kenya as the overall winner of the 12th Annual Energy Management Awards (EMA). Our energy management system includes in-depth analysis of energy consumption, an active energy committee, setting of annual targets for reduction of usage with detailed energy audits and reporting procedures.

Safety first

The safety of our employees and contractors remains at the forefront of everything we do. In 2016, we continued to enhance our safety culture though our **PULSAR** observation program, Global Risk Assessment training and Incident Elimination (IE) Daily Management System. These efforts all bore fruit as we achieved the important milestone of 4 years without any injury in our operations.

Our farmers continue to use best agricultural practice to improve their yield and quality.

Partnering with farmers and communities

We have a long and proud history of partnering with Kenyan farmers to produce high-quality leaf which is a critical part of our operations. In the last financial year, we purchased 7.5 million kgs of tobacco grown in partnership with over 5,100 small holder farmers. Our farmers continue to use best agricultural practice to improve their yield and quality. The average farmer yield improved 7% helping the farmer to earn more income on the same piece of land. We paid out about Shs 1.3 billion to farmers in 2016. Alongside these earnings, we also issued farmers with certified maize seeds for food production as part of our sustainable agriculture program.

We continue to support the financial freedom of our farmers and the communities where we operate by helping to transform the farmer cells into independent Savings and Co-operative Societies (SACCOs). So far, five farmer SACCOs have been formed in tobacco growing regions to champion the sustainability agenda leading to farmer economic empowerment and growing of quality tobacco. The SACCOs have been awarded some of the jobs traditionally contracted to third party suppliers, including; tobacco baling, green leaf tobacco transport, afforestation and flue pipes fabrication.

Sustainability in tobacco growing

Sustainability, a key pillar of our strategy has always played a fundamental role within our business. We continue to lead the environmental improvement agenda through our afforestation program. In 2016, we planted 2.5 million trees across the country in partnership with tobacco farmers, tree farmers and County Governments. These efforts won BAT Kenya the prestigious Total EcoChallenge overall winner award.

In addition to this, we rolled out two flagship sustainability projects with the installation and commissioning of the Bagasse Briquetting Plant in Nyanza region in partnership with the local sugar miller, SONY Sugar. This plant has the capacity to cure upto 40% of the tobacco we grow in the next five years saving millions of trees. We began the rehabilitation of the 42-hectare Agongo Hills, planting 230,000 tree seedlings of assorted species in partnership with the County Government of Migori. The Green Leaf Threshing plant in Thika processed 22.3 million kgs of green leaf in 2016.

Our focus is the continued optimisation of the leaf supply chain and rationalisation of our leaf growing footprint. This will ensure we remain sustainable and competitive by concentrating our operations in areas with more reliable weather patterns and with a potential for future expansion.

We operate responsibly

"We support regulation that is balanced and evidence-based, actually helping to achieve the intended public health objectives."

Our approach to regulation

The regulatory environment in Kenya in 2016 continued to be challenging. In December 2014, the Cabinet Secretary for Health gazetted the Tobacco Control Regulations 2014 intended to guide the implementation of the Tobacco Control Act, 2007.

In June 2016, BAT Kenya filed its appeal against some of the provisions in the Tobacco Control Regulations 2014 including the introduction of the Solatium Compensatory Contribution, Extension on public place smoking and limitations on industry and government interaction. The Court of Appeal on 17th February, ruled against BAT Kenya thus upholding the Tobacco Control Regulations.

BAT Kenya is not opposed to regulation. We support regulation that is balanced and evidence-based, actually helping to achieve the intended public health objectives. Regulation that does not meet these criteria could have unintended consequences such as stimulating illicit trade and harassment of members of the public and traders.

Working with counties

The devolved system, now in it's fourth year since inception continues to evolve. This presented some challenges as some counties developed proposals to introduce new business levies and regulations all bound to add cost and complexity to our business. To address these challenges, we engaged our stakeholders to highlight the potential impact of this approach on the sustainability of our operations.

In 2016, we facilitated a variety of awareness sessions with our Trade Marketing and Distribution teams across the country to enable them engage with various stakeholders. We continue to develop opportunities to strengthen existing partnerships with county stakeholders, develop new ones and work together to ensure a conducive operating environment is maintained.

Fighting illicit trade

We continue to devote considerable resources to stem the illegal trade in tobacco products and to engage with relevant stakeholders 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 co-operated 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 authorities. We continue to partner with both National and County governments in the monitoring and tackling of any issues arising from the illegal trade in tobacco.

OUR PREFERRED APPROACH TO REGULATION

QUALITY AND SAFETY STANDARDS

Based on robust science, to ensure consumer safety and confidence.

RESPONSIBLE MARKETING TO ADULTS ONLY

Controlled marketing and advertising rules aimed at adult consumers only.

FREEDOM TO INNOVATE

To give consumers more choice and satisfy their evolving needs and preferences.

FREEDOM TO COLLABORATE AND COMMUNICATE

So the public and private sectors can work together and provide meaningful information to consumers.

APPROPRIATE TAXES AND EXCISE

Reflecting the relative product risks and enabling affordability to encourage wide take-up.

We are a top employer

> "Our organisational culture, founded on open mindedness continues to energise our employees to conquer business challenges from year to year."

Recruiting and retaining our talent for now and the future

The quality of our talent is a key focus for the group in general and British American Tobacco Kenya prides itself in having great people and teams. Our organisational charter has emphasized the key pillars of attracting the best, investing in our leaders across all levels and creating a great place to work. In line with this we have implemented cutting edge recruitment tools and processes while leveraging our presence on the social media platforms to boost our employee/employer proposition. We have reached out to candidates across all levels through participation in career fairs of the higher education institutions, through innovative platforms such as our Global Graduate programme. We currently have 8 such individuals undergoing an intensive 12-month training programme which prepares them for a fast-tracked career into management.

Our organisational culture, founded on open mindedness continues to energise our employees to conquer business challenges from year to year. The Company is keen on driving a way of working which emphasizes freedom through responsibility while allowing an innovative mind. Despite the rapidly evolving regulatory environment we still managed to sustain our growth and retain a staff base with a turnover of less than 4% in 2016.

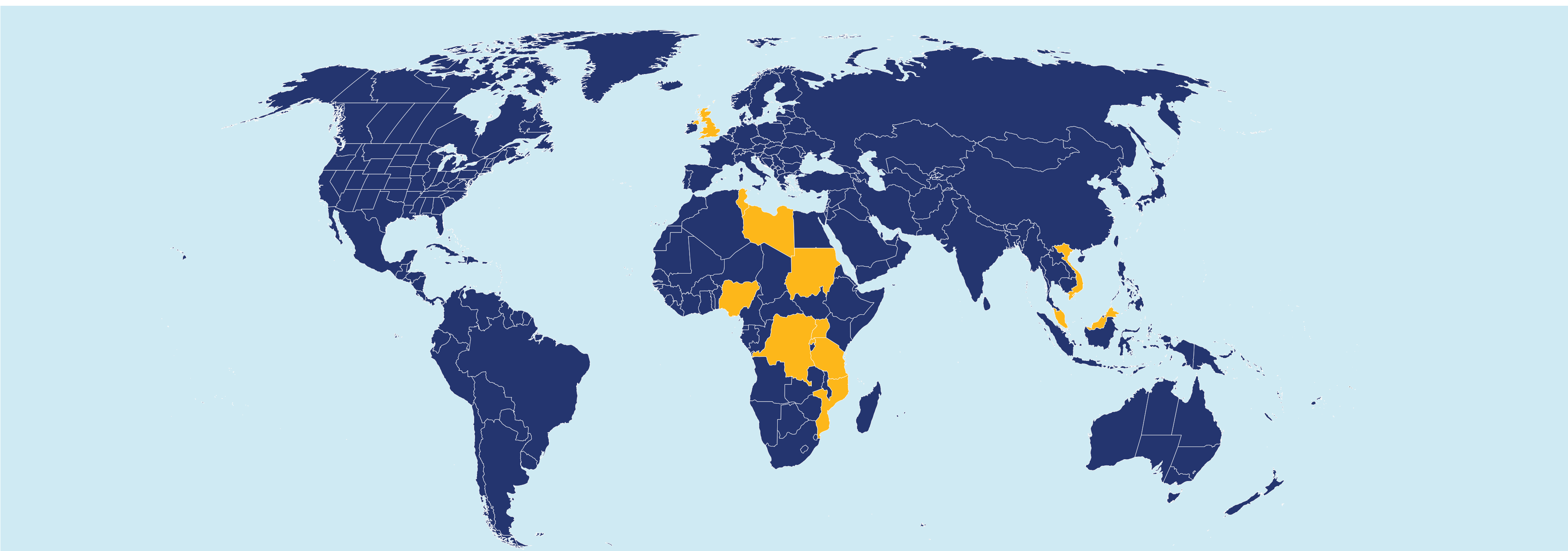
Our retention strategy incorporates total cost of employment elements. We strive to balance monetary and non-monetary compensation. Over the years we have struck this delicate balance in our reward strategy which allows us to attract staff at all levels. We intend to continue looking at market trends to ensure that we retain top talent who can navigate the ever-changing socio-economic environment to continue delivering value and delighting our shareholders.

Exporting talent

Over the years, some of our Kenyan staff members have taken up roles internationally. We are extremely proud of our local talent who are currently lending their expertise to other British American Tobacco entities.

Name	Exported to	Role
Charles M. Kyalo	Nigeria	Head of Operations, West Africa Area
Constance A. Anyika	Great Britain	Senior Commercial Counsel, Western Europe
Crispin O. Achola	Tunisia, Libya and Sudan	General Manager
Dadson W. Mwaura	Uganda	Country Manager
Elizabeth Kisilu	Rwanda	Head of Trade
Geoffrey Mwaura	Tanzania	Trade Lead
Joseph N. Getuno	Democratic Republic of Congo	Head of Finance
Judith P. Nagery	Great Britain	Customer Service Manager
Kenneth Gichubi	Vietnam	Route to Market Manager
Laban Ngatia	Great Britain	IT Account Manager
Mathu Kiunjuri	Uganda	Head of Trade
Paul M. Mburu	Malaysia	Regional Quality Manager, Asia Pacific
Philip M. Ivia	Rwanda	Finance Manager
Sheila H. Changangu	Great Britain	Brand Code Project Deployment Manager
Sidney W. Wafula	Mozambique	Head of Finance, Southern Africa Markets
Wellington Massasabi	Great Britain	IT Account Manager

Global deployment of our staff



Developing talent

In 2016, we held a graduation ceremony to recognise the successful certification of over 50% of BAT Kenya's trade team though the POSITIVE training program. This is an on-the-job learning to build the passion of teams. The POSITIVE program ensured active participation of line managers in their team's development which translated into tangible results in a relatively short period of time. In 2016, POSITIVE ensured that we had a winning mindset in the field leading to increased growth of business.

BAT Kenya's trade team graduation on successful completion of POSITIVE training program.

Diversity in the workplace

We recognise the immense advantages that accrue from a diverse workforce which accommodates gender, race, religious and cultural differences. In our last financial year, we continued to raise the bar even higher with improved diversity in the workplace. Our staff base is made up of diverse nationalities. In addition, the BAT footprint has led to the exposure of our staff to markets internationally allowing them to grow their careers in an international environment.

The Launch of Diversity and Inclusion Forum.

To sustain the momentum on the diversity agenda, our female employees participated in the launch of the Diversity and Inclusion Forum in September 2016. The Kenyan female managers were joined by their counterparts from Rwanda, DRC and La Reunion. Ann Dolgikh, BAT Regional Head of Human Resources for the Eastern Europe, Middle East and Africa also graced the event. The interactive forum helped women take the necessary steps to unlock their potential and address any challenges in the work place.

The outcome from the session was a female work force that felt challenged to take the necessary steps to unlock their full potential. We intend to sustain this effort by carrying out regular forums which incorporate topical issues in the work place to ensure our female employees are offered the opportunity to grow and be all they can be.

2016 Long Service Awards (LSA): Wekulo Nasokho (left) and Michael Kapten (right) receive recognition for 20 years of service at BAT from Keith Gretton.

Recognising long serving employees.

In recognition of employees' commitment and dedication to the Company, British American Tobacco Kenya shows its appreciation towards their contribution through its annual Long Service Awards ceremony.

In 2016, out of the 76 employees awarded, 38 employees received the 10 years' service award, 2 employees received the 15 years' service award, 33 employees received the 20 years' service award, 2 employees received the 25 years' service award and 1 employee received the 35 years' service award.

We are leaders in sustainability

Sustainability is a key pillar of our strategy and has always played a fundamental role within our business. Our sustainability agenda focuses on three key areas which have the greatest significance to our business and our stakeholders: Harm Reduction, Sustainable Agriculture and Farmer livelihoods, and Corporate Behaviour.

As a major business in a controversial sector, we have been long aware of our duty and responsibility to address certain issues. Our long history of focusing on sustainability and corporate responsibility has delivered significant progress. We have put in place initiatives which have included advancing agricultural practices amongst our farmers, putting in place security systems for our supply chain to help prevent tobacco trafficking, and ensuring that we are minimising our environmental impact through greener initiatives within our Nairobi and Thika Plants.

Sustainable agriculture and farmer livelihoods

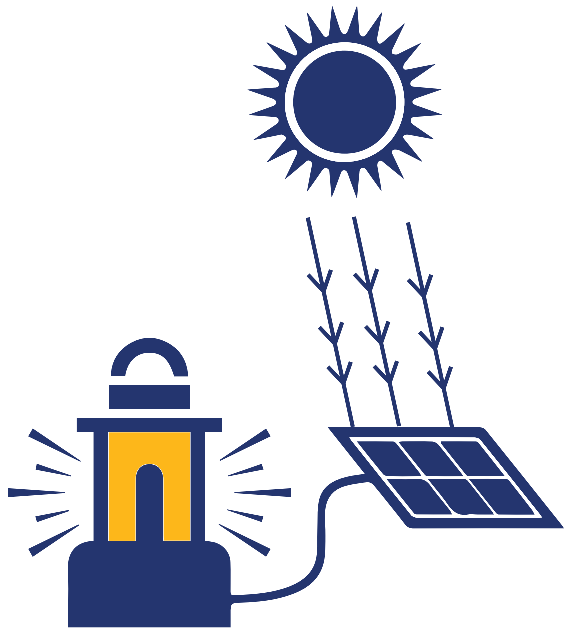
In BAT, we are committed to working to enable prosperous livelihoods for all our farmers who supply our tobacco leaf. The farmers we work with in 14 counties across the country are valued business partners and are crucial to the success of our business. In the 2016 crop season, we contracted 5,100 farmers to grow tobacco on our behalf. Our support for farmers' livelihoods covers five focus areas: farm income, natural resources, skills knowledge and labour; infrastructure and resources and community networks.

1) Farm income: We partner with our farmers as we support them to have profitable businesses with tobacco grown along a diverse range of other crops. Since tobacco is grown for part of the year, we support our famers to grow other food crops enabling them to have all year round profitability. We issue each of our farmers with certified maize seeds (2kg maize seed for every 600 kgs of tobacco delivered). The maize produce is used to feed their families and to generate additional income as part of our sustainable agriculture programme.

2) Natural resources: We have a responsibility to reduce our impact on local communities and the environment. We recognise that preserving forests, water, soil health and biodiversity is essential for long-term agricultural productivity. We acknowledge that just like all crops, tobacco growing impacts on the environment. For example, wood is often used as the primary fuel in tobacco curing with the resultant impact being a cause of concern for our stakeholders. We have taken steps to address this environmental impact by participating in aggressive afforestation programmes where we plant over 2.5 million trees annually.

We are able to achieve this by partnering with our farmers by supplying them with tree seedlings to meet their curing needs, for environmental conservation and for other domestic uses.

We continued with our partnership with local sugar miller, SONY Sugar following the installation and commissioning of the Bagasse Briquetting Plant in 2015. The plant has the capacity to cure upto 40% of the tobacco we grow in the next five years thus saving millions of trees and helping support the Government's ambition to attain 10% forest cover 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.



3) Infrastructure and resources: We help ensure that tobacco growing areas are viable places to live and work, by providing farmers access to technology and investing in community projects where we can. One of our successful programmes has been the donation of solar lamps to farmers and their communities.

4) Skills, knowledge and labour: Our approach to human rights is based on our core belief that universally recognised fundamental human rights should be respected. Our human rights policy details our commitments to tackle child labour, protect the health of farm workers and provide advice and training for running successful businesses. We also work in collaboration with training organisations to help our farmers deal with social and environmental challenges such as financial management, child labour, afforestation and other important initiatives. Our specialist leaf technicians provide on-the-ground advice and support for our contracted farmers.

5) Community networks: We help build and strengthen our farmer networks by providing the support and opportunities necessary to attain best practice and become more self-sufficient and reliant. In 2012, we introduced farmer grouping models (farmer cells). The cells have now matured into five farmer cooperative societies (SACCOs) and have become avenues for progressing the sustainability agenda in the tobacco growing regions leading to economic independence.

Providing support to overcome agricultural challenges

We understand that farmers today are particularly vulnerable to a range of challenges, including climate change, water scarcity, increasing demand for land and natural resources, poverty, social inequality, child labour and ageing farmer populations. These challenges affect all crops tobacco included. Our approach to these challenges is collaborating with farmers to help mitigate and address the challenges they are currently facing. In Kenya, we endeavour to ensure tobacco remains a profitable choice for the farmers. Each year, we agree to buy a certain amount of tobacco from our farmers giving them regular income to invest in their farms, support their families and build successful businesses.

Setting standards for our farmers

BAT Kenya reviews all farmers who supply us with tobacco leaf through our Social Responsibility in the Sustainable Tobacco Programme (STP). Implementation began in June 2016, replacing our Social Responsibility in Tobacco Production (SRTP) which ran for more than 15 years. This programme is aligned to important external standards, such as those of the International Labour Organisation (ILO) and covers among other areas good agricultural practices and environmental management, such as soil and water conservation, sustainable wood sourcing and protecting biodiversity.

The program sets out the minimum requirements we expect of our suppliers. We work with suppliers who meet these standards and develop tangible action plans to close any gaps.

Corporate behaviour

Operating to high standards of corporate conduct and transparency is crucial for any company and can be a key determining factor for its ability to operate and its long-term sustainability. We have clear policies, principles and standards that detail the way we do business and how we behave. These are regularly reviewed to ensure they remain at the forefront of the business practice and continue to meet the expectations of our stakeholders.

OUR POLICIES, PRINCIPLES AND STANDARDS

Statement of Business Principles
Sets out our core beliefs and values.

Standards of Business Conduct (SoBC)
Applies our values to day-to-day situations and covers policy commitments on issues such as bribery and corruption and human rights, as well as our whistleblowing procedures.

Supplier Code of Conduct
Introduced in 2016, it complements our SoBC by defining the minimum standards we expect of all our suppliers.

International Marketing Principles
Governs the marketing of our tobacco products wherever they are sold around the world.

Principles for Engagement
Provides clear guidance for our external engagement with regulators, goverment officials and other third parties.

We also have a number of other policies, principles and standards covering areas such as environment, health and safety, employment and youth smoking prevention.

Board of Directors

Mr. G. Maina (age 64)
Independent Non-Executive Chairman
Kenyan

Position: Chairman since 1 September 2013; Non-Executive Director since November 2010; 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 Limited 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 Limited. He is also a Trustee of Starehe Boys Centre, Africa Conservation Centre and Gertrude Gardens Children's Hospital.

Mr. K. Gretton (age 55)
Managing Director
British

Position: Managing Director since 1 July 2015.

Skills and experience: Mr. Gretton served as General Manager for BAT East Africa Markets based in Nairobi between June 2011 to Dec 2012 and as Area Head of Corporate and 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 and 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 Area based in Nairobi.

Board of Directors

Mr. P. Lopokoiyit (age 50)
Finance Director
Kenyan

Position: Finance Director since November 2010.

Skills 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. He was the BAT West Africa Area Finance Director based in Lagos, Nigeria before his current appointment. Philip is a member of Institute of Certified Public Accountants of Kenya (CPA), a member of the Chartered Institute of Management Accountants (ACMA), a Fellow of the Institute of Chartered Accountants of England and Wales (FCA) and holds an MBA from Warwick Business School.

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

Mr. G.R. May (age 73)
Non-Executive Director
British

Position: Non-Executive Director since September 2005. Chairman of the Audit Committee and a 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 44)
Independent Non-Executive Director
Kenyan

Position: Non-Executive Director since February 2011 and a member of the Audit Committee and Remuneration 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 past role as the Corporate Director of Barclays Bank of Kenya Limited. She currently provides consulting and training services for various local and international commercial banks and insurance companies and is also a popular weekly columnist in the *Business Daily* newspaper.

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

Dr. M. Oduor-Otieno (age 60)
Independent Non-Executive Director
Kenyan

Position: Non-Executive Director since August 2016 and a member of the Audit Committee.

Skills and experience: Dr. Oduor-Otieno is currently an independent Business Advisor and Executive Coach. Prior to this he worked with Deloitte East Africa as Partner, Financial Services Industry from May 2013 to December 2015. Dr. Oduor-Otieno had an illustrious career at Kenya Commercial Bank Group between October 2005 and December 2012, initially as Deputy CEO and then as Chief Executive Officer. He has held senior positions in Barclays Bank of Kenya Limited and in the public sector. Dr. Oduor-Otieno holds an Executive MBA and is an alumnus of the Harvard Business School's Advanced Management Program (AMP). He is a Fellow of the Kenya Institute of Bankers, the Institute of Certified Public Accountants of Kenya (CPA) and a member of the Institute of Certified Public Secretaries of Kenya (CPS) and the Institute of Directors of Kenya.

Key appointments: He holds directorships in Standard Bank Group, Standard Bank of South Africa, East African Breweries Limited and GA Life Assurance Limited.

Board of Directors


Mr. M. Jan Mohamed (age 62)
Independent Non-Executive Director
Kenyan

Position: Non-Executive Director since November 2012; member of the Audit Committee and the Nominations Committee.

Skills and experience: Mr. Jan Mohamed is currently the Managing Director for Serena Hotels Africa and head of the Tourism Department of the 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. Jan 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.


Mrs. T. Mapunda (age 42)
Independent Non-Executive Director
Tanzanian

Position: Non-Executive Director since October 2014; member of the Remuneration 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 20 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: She is a Board member of Why Africa Now of USA, TPS Eastern Africa (Serena Hotels), WAMA Foundation and the Arusha International Conference Centre (AICC).

Board of Directors


Mr. P. Mwangi (age 47)
Independent Non-Executive Director
Kenyan

Position: Non-Executive Director since February 2015; Chairman of Remuneration Committee and member of the Nominations Committee.

Skills and experience: Mr. Mwangi is currently the Group Chief Executive Officer of UAP Old Mutual Group in East Africa. Before this appointment he was the Group Chief Executive Officer of the Old Mutual Group in Kenya from October 2014. He previously served as the Chief Executive Officer of the Nairobi Securities Exchange Limited for a period of 6 years to September 2014. He has over twenty years of business and leadership experience. Mr. Mwangi holds a Bachelor of Science Degree in Electrical Engineering from the University of Nairobi and is also a Chartered Financial Analyst (CFA). He is a member of the Institute of Certified Public Accountants of Kenya (CPA), a member of the Institute of Certified Public Secretaries of Kenya (CPS) and the Kenya Institute of Management (KIM).

Key appointments: He holds directorships in Central Depository and Settlement Corporation and Funguo Investments Limited. He is an executive director on the boards of several subsidiaries of the UAP-Old Mutual and Faulu Group in the region.


Ms. R. T. Ngobi (age 56)
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 plc Ltd in 2002 as Company Secretary and Area Legal Counsel. She retired from full time employment with British American Tobacco Kenya 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 Stanbic Bank Limited, Stanbic Holdings Limited and SBG Securities Limited.

DUNHILL
TOBACCO of LONDON LIMITED

REFINED CHOICE

18 AND ABOVE ONLY

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

Leadership Team

Mr. Keith Gretton
Managing Director

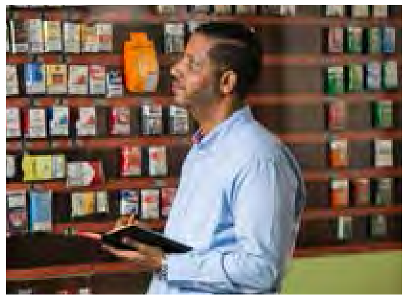
Mr. Philip Lopokoiyit
Finance Director

Leadership Team

Mr. Seyi Adeyemo
Head of Operations

Ms. Razeeah Belath
Head of Human Resources

Leadership Team



Mr. Darryn Bassa
Head of Marketing

Mr. Simukai Munjanganja
Head of Legal and External Affairs

Corporate Governance

Leadership and responsibilities

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 2016 and to the date of this document, the Company endeavoured to comply with the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code). The Board considers that this Annual Report and notably this section, provides the information shareholders need to evaluate how the Company has done so. Besides complying with the Code, 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 the Annual Report
- Agreeing governance frameworks
- Agreeing Company budget
- Agreeing Board succession plans
- Reviewing risk management and internal controls
- Reviewing periodic financial reports
- Declaring interim and 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 Report. Each Committee has its own terms of reference which are reviewed annually 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.

Leadership and responsibilities (continued)

Non-Executive Directors

The Board had seven (7) Non-Executive Directors as at 31 December 2016 and as at the date of this Annual Report. The role of the Non-Executive Directors 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 key stakeholders as appropriate.

Board Programme

The Company's annual Board programme is designed to enable the Board to drive strategy forward across all the elements of the Company's business model. The key activities of the Board in 2016, grouped under the Company's four strategy pillars, are set out in the accompanying table on pages 52 and 53.

The Board devotes considerable attention to corporate governance matters relating to the Company's internal controls and compliance activities. It receives verbal updates from the Chairman of the Audit Committee following each Committee meeting, of which the Board receives full minutes.

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.

The Leadership Team

The Leadership Team led by the Managing Director is responsible for overseeing the implementation of the strategy and policies set by the Board, and for creating the framework for their successful day to-day operation. Their profiles are set out on pages 46 to 48 of this Annual Report.

Principal Leadership Team roles include:

- Developing strategy for approval by the Board
- Developing guidelines for the Company's functions
- Ensuring functional strategies are effective and aligned
- Managing functions
- Reviewing functional budgets
- Monitoring Company operating performance
- Overseeing the management and development of talent

The Composition of the Board

The composition of the Board as at 31 December 2016 and as at the date of this Annual Report is set out on page 5.

Attendance at Board and Annual General meetings in 2016

Name	Meeting attended	Meetings eligible to attend
Mr. G. Maina	5	5
Mr. K. Gretton	5	5
Mr. P. Lopokoiyit	5	5
Mr. G. R. May	5	5
Ms. C. Musyoka	4	5
Dr. J. Ciano[1]	1	1
Mr. M. Jan Mohamed	4	5
Mrs. T. Mapunda	4	5
Mr. P. Mwangi	4	5
Dr. M. Oduor-Otieno[2]	1	1
Ms. R.T.Ngobi	5	5

1. Dr. J. Ciano resigned from the Board effective 26 February 2016.
2. Dr. M. Oduor-Otieno was appointed a Director effective 1 August 2016.

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 throughout 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.

Board effectiveness

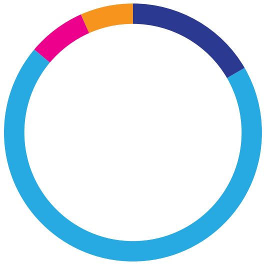
Balance and Diversity

A balanced board

Our Non-Executive Directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business. Women (including the Company Secretary) constitute 33% of our Board. Short biographies of the Directors, including details of relevant skills and experience, and nationalities, are set out in the Board of Directors pages in this section (pages 40 to 44).

Promoting diversity

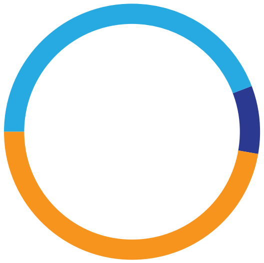
The Board appreciates the benefit of diversity in all its' forms, within its' own membership and at all levels of the Company. The Board promotes diversity and encourages initiatives to improve gender diversity in Senior Management roles. The Board's Diversity Policy can be read on the Company's website www.batkenya.com



Balance of Non-Executive Directors and Executive Directors

Key

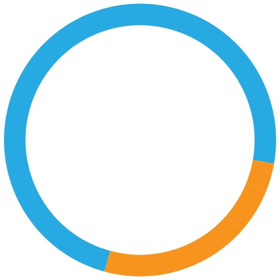
- Chairman
- Executive Directors
- Independent Non-Executive Directors
- Non-Executive Directors



Length of tenure of Non-Executive Directors

Key

- 0- 3 years
- 3-6 Years
- 6- 9 Yeaars



Gender split of the Board

Key

- Male - 6
- Female - 3*

*Includes Company Secretary

Independence and Conflicts of Interest

Independence

The Chairman and five (5) of the Non-Executive Directors are Independent as defined in the Code and accordingly the majority of the Board is constituted of Independent Directors.

Conflicts of interest

The Board has formal procedures for managing conflicts of interest in accordance with the Companies Act, 2015 and the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public and may authorise situational conflicts under the Company's Articles of Association. Directors are required to give advance notice of any conflict issues to the Chairman or Company Secretary and these are considered at the next Board meeting. Declaration of Conflicts of Interest is also the first agenda item of all Board Meetings. Directors are excluded from the quorum and vote in respect of any matters in which they have an interest. No material conflicts were reported by Directors in 2016.

Information and Professional Development

Board induction

On joining the Board, all Directors 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. The induction includes a factory tour and a market visit.

Following his appointment in 2016, Dr. M.Oduor-Otieno received a comprehensive induction including a factory tour and a visit to Company's Green Leaf Threshing Plant in Thika. The induction programme included briefings covering the Company's strategy, organisational structure, business functions, statutory reporting cycle, financing principles, legal and regulatory issues and the Company's Standards of Business Conduct. Sessions on corporate governance, internal controls and risk management were also included.

Training and development

Functional presentations are built into the Annual Board Work Plan so that Non-Executive Directors gain a good sense of the Company's operations and central functions. The Non-Executive Directors are also invited to attend scheduled market visits so that they gain exposure to the Company's business on the ground.

The Board and its Committees receive regular briefings on legal and regulatory developments. During 2016, the Board was briefed on the new Companies Act, 2015 with particular emphasis on their fiduciary responsibilities as Directors of the Company. The Directors also received training on the requirements of the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public.The Chairman meets each Non-Executive Director individually to discuss their individual training and development plans.

Board effectiveness (continued)

Shareholder engagement

The AGM is an opportunity for shareholder engagement and for the Chairman and the Managing Director to explain the Company's full year performance and to receive questions from shareholders. 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 pressing commitments preclude them from doing so.

The Company holds investor briefs twice a year. This facilitates engagement with key stakeholders from the Nairobi Securities Exchange, Capital Markets Authority and various fund managers representing institutional and foreign investors. Attendants interact with senior management and 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.

In 2015, the Company introduced Shareholders "Open Day". The same was conducted on 23 April 2015. Shareholders in attendance were taken through the Company's operations and participated in a Factory tour. The next Shareholders "Open Day" will take place on 4 April 2017.

During the AGM held in May 2016 and at the two Investor Briefs held in July 2016 and February 2017 shareholders and stakeholders were keen to hear more on the latest developments in industry regulation and particularly the onset of graphic health warnings from September 2016. Excise increases (and the related issue of increased illicit trade) were also regular topics as was the request from shareholders at the AGM for consideration of a bonus share issue and share split.

Board Evaluation

Evaluation process

A critical evaluation of the effectiveness of the Board and its Committees, the Executive and Non-Executive Directors, the Chairman and the Company Secretary for the preceding year is conducted. 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 2015 was conducted in 2016. 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.

Constructive feedback

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.

Strategic Board activities in 2016

Growth

Growth remains the Board's key strategic focus

Activities in 2016

- Reviewing and agreeing a re-articulation of the Company's strategy;
- Satisfying itself throughout the year that Management was on track to deliver the Company's strategy, and endorsing the direction and activities proposed by Management to achieve its strategic metrics;
- Considering the Company's innovation pipeline for its brands in light of new consumer trends and insights, and how planned innovations can help strengthen its product portfolio;
- Keeping the Company's trading and performance under review, particularly the performance of the Company's key local brand, Sportsman, and its Global Drive Brands;
- Discussing and improving the Board's understanding of key risks facing the Company; and
- Considering the potential impact on the business of specific risk factors in consultation with the Audit Committee.

Delivering Growth

In October 2016 the Board held a one day off-site meeting with the Leadership Team to approve the 2017 Company Plan and Budget. New marketing insights and how these were informing brand development plans and driving the Company's innovation pipeline were shared. The Company's integrated product and leaf strategy was discussed as was cost management initiatives and strategic drivers to enable collaborative and efficient ways of working.

Productivity

The Board pays close attention to the Company's operational efficiency, cost and capital effectiveness

Activities in 2016

- Monitoring operational key performance indicators;
- Implementation of Graphic Health Warning packaging;
- Operations Transformation including Integrated Work Systems (IWS) rollout, above market synergies for logistics and materials planning;
- Review of additional volume from contract manufacture;
- Discussing strategic direction of leaf supply and farmer earnings;
- Safety at both Nairobi factory and Thika GLT ;
- Capacity and capability upgrades in the factory; and
- Savings and productivity opportunities.

Sustainability

The Board places considerable emphasis on the need for our business to be sustainable for the long term, to meet the expectation of stakeholders and inform the Company's commitments to society.

Activities in 2016

- Reviewing the Company's regulatory strategy in the context of the current regulatory landscape, including Graphic Health Warnings directives and the potential implication for the business;
- Monitoring the status of the Company's litigation proceedings; and
- Monitoring compliance with the Company's Standards of Business Conduct and internal controls. A number of allegations were made towards the end of 2015 regarding historical misconduct. The Board instructed that it be kept updated on findings on the allegations.

Strategic Board activities in 2016 (continued)

Winning Organisation

Setting the 'tone from the top' is an important part of the Board's role, helping to foster a culture centred around the Company's Guiding Principles, and which harness diversity.

Activities in 2016

- Reviewing succession planning at Board Level including Executive Directors and the Leadership team and monitoring the progress of Leadership team development plans;
- Receiving updates on the difficulties of attracting and retaining talent and factoring this into consideration of revised talent and remuneration policies;
- Reviewing the application and continuing impact of the Remuneration Policy during 2016;
- Reviewing the development of leaders in the Company, in particular activities to drive a high-performance leadership culture; and
- Considering Non-Executive Director appointment proposed by the Nominations Committee and appointing one new Non-Executive Director and reviewing and refreshing the composition of Board Committees.

Board Committees

Nominations Committee

Current Members

Mr. G. Maina (Chairman)
Mr. G. R. May
Mr. P. Mwangi
Mr. M. Jan Mohamed
Ms. R. T. Ngobi (Secretary)
Mr. K. Gretton

Meetings attendance in 2016

Name	Meetings attended	Meetings Eligible to attend
Mr. G. Maina	2	2
Mr. G. May	2	2
Mr. P. Mwangi	2	2
Mr. M. Jan Mohamed[1]	0	0
Ms. R. T. Ngobi (Secretary)	2	2
Mr. K. Gretton[2]	2	2

1. Mr. M. Jan Mohamed was appointed to the Committee in August 2016
2. Mr. K. Gretton attends as a permanent invitee

Mandate and Role 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. In so doing, the Committee reviews the structure, size and composition of the Board to ensure it has an appropriate balance of skills, expertise, knowledge and independence. It ensures that the procedure for appointing Directors is rigorous, transparent, objective, merit-based and has regard for diversity. The process includes an evaluation of the skills and experience being sought prior to recruitment. The selection process will generally involve interviews of prospecting candidates by the Chairman and Committee Members. In so doing, it monitors and ensures that appropriate Non-Executive and Executive Directors' ratios are maintained. This process was followed for the recruitment of Dr. M. Oduor-Otieno before subsequent recommendation to the Board for appointment.

The Committee also evaluates and makes recommendations with regard to the composition of all Board Committees. 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. For the Committee's terms of reference visit www.batkenya.com

Board Committees (continued)

Key Nominations Committee activities in 2016

- Reviewing succession planning for the Executive Directors and for the Leadership Team;
- Considering the resignation of Dr. J. Ciano from the Board on 26 February 2016. The Committee agreed, based on it's review of succession planning, that it would identify a Non-Executive Director to fill the vacancy created following the resignation;
- Reviewing the effectiveness of the Board following the Board Evaluation exercise and making recommendations to the Board on actions to be adopted towards improvement; and
- The recruitment of Dr. M. Oduor-Otieno as a Non-Executive Director.

Terms of Appointment to the Board

The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment for an initial term of two (2) years. The Board takes into account the need for it to refresh its membership progressively over time. Letters of appointment are renewable after the initial two (2) years as per the Board's policy on tenure and upon recommendation by the Nominations Committee. The letters of appointment of the Non-Executive Directors are available for inspection at the registered offices of the Company upon Notice.

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 27 April 2017, the Company will be submitting all eligible Directors for re-election and, in the case of Dr. M. Oduor-Otieno, 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.

Audit Committee

Current Members

Mr. G. R. May (Chairman)
Mr. C. Musyoka
Mr. M. Jan Mohamed
Mr. K. Gretton
Mr. P. Lopokoiyit
Mr. S. Nthama (Secretary of Committee)

Attendance at meetings in 2016

Name	Meetings attended	Meetings eligible to attend
Mr. G. May (Chairman)	3	3
Ms. C. Musyoka	2	3
Mr. M. Jan Mohamed	3	3
Dr. M. Oduor-Otieno[1]	0	1
Mr. K. Gretton[2]	3	3
Mr. P. Lopokoiyit[2]	3	3
Mr. S. Nthama (Secretary)	3	3

1. Dr. M. Oduor-Otieno was appointed a Director effective 1 August 2016
2. Mr. K. Gretton and Mr. P. Lopokoiyit attended as permanent invitees

Mandate and Role 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, considering any significant issues and judgements reflected in them before submission to the Board. The Committee keeps under review the consistency of the accounting policies applied by the Company, reviews the effectiveness of the accounting, internal control and business risk systems of the Company and, when appropriate, makes 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.

Board Committees (continued)

The Audit Committee is also responsible for monitoring and reviewing the effectiveness of the internal audit function. The internal audit manager is a permanent invitee to the Committee.The head of internal audit 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 auditors representatives at the end of every meeting without management.

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 BAT 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 2016. 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.

Key Audit Committee activities in 2016

- The Company's 2015 full year and 2016 half year financial results;
- The external auditor's report;
- Progress on 2016 internal audit plan;
- Updates from head of audit on both local and global process audits, the management responses and plans being put in place to address any concerns raised;
- Updates on quarterly risk heat map, including deep dives into specific risk topics;
- Quarterly reports on security risks, frauds and losses;
- Updates on regulatory developments, significant legal cases, Environment, Health and Safety (EHS) issues;
- Reports on compliance with the Company's Standards of Business Conduct (SoBC);
- Changes to 2016 year-end Audit Report to meet requirements of the new Companies Act, 2015;
- 2016 external auditor's work plan;
- Annual review of external auditors' independence;
- 2017 internal audit plan; and
- Reviewing the new Code of Corporate Governance practices for Issuers of Securities to the Public 2015 on behalf of the Board and assessing compliance with the same.

External Auditors

KPMG Kenya are the Company's external auditors. The Audit Committee considers that its' relationship with the auditors worked well during the period and was satisfied with their effectiveness. The external auditors are required to rotate the audit partner responsible for the Company's audit at least every five years. The current lead audit partner has been in position since 5 May 2015 when KPMG Kenya were appointed as external auditors by Shareholders.

Board Committees (continued)

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 member of the Board signs 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.batkenya.com.

Remuneration Committee

Current Members

Mr. P. Mwangi (Chairman)
Mr. G. Maina
Mrs. T. Mapunda
Mr. M. Jan Mohamed
Mr. K. Gretton
Mr. P. Lopokoiyit
Ms. R. Belath (Secretary of Committee)

Attendance at meetings in 2016

Name	Meetings attended	Meetings eligible to attend
Mr. P. Mwangi[1] (Chairman)	0	0
Mr. G. Maina	1	1
Mrs. T. Mapunda	1	1
Ms. C. Musyoka[1]	0	0
Mr. K. Gretton[2]	1	1
Mr. P. Lopokoiyit[2]	1	1
Ms. R. Belath (Secretary)	1	1

1.Ms. C. Musyoka and Mr. P. Mwangi were appointed to the Committee in October 2016
2. Mr. K. Gretton and Mr. P. Lopokoiyit attended as permanent invitees

Mandate of 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.

The Remuneration Committee is responsible for:-

- Setting executive remuneration policies covering salary and benefits; performance-based variable rewards; pensions; and the terms of service contracts;
- Determining, within the terms of the agreed Policy the specific remuneration packages for the Chairman, the Executive Directors and the Non-Executive Directors, both on appointment and on review;
- The setting of targets applicable to the Company's performance-based variable reward schemes and determining achievement against those targets, exercising discretion where appropriate and as provided by the applicable scheme rules and policy; and
- Monitoring and advising the Board on any major changes to the policy on employee benefit structures for the Company.

Key Remuneration Committee activities in 2016

- Salary survey outcome for Kenya;
- Deep dives into comparator companies total cost of employment analysis;
- Cascade of the global remuneration strategy and principles;
- Reward proposition versus turnover of top talent; and
- Analysis of regrettable losses.

Financial Statements and Reports

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016, 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 4,234,334,000 (2015: Shs 4,976,256,000) has been added to retained earnings. During the year an interim dividend of Shs 350,000,000 (2015: Shs 350,000,000) was paid. The Directors recommend the approval of a final dividend of Shs 3,950,000,000 (2015: Shs 4,600,000,000).

Board of Directors

The Directors who held office during the year and to the date of this report are set out on page 5.

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

Dr. M. Oduor-Otieno was appointed as a Non-Executive Director on 1 August 2016.

In accordance with Article 102 Dr. M. Oduor-Otieno retires from the Board and being eligible, offers himself for re-election.

Mr. M. Jan Mohamed, Mr. P. Mwangi and Mrs. T. Mapunda retire by rotation and being eligible, offer themselves for re-election in accordance with Article 103 of the Articles of Association.

Auditors

The auditors, KPMG Kenya continue in office in accordance with the requirements of the Kenyan Companies Act, 2015.

Relevant Audit Information

The Directors in office at the date of this report confirm that:

- There is no relevant audit information of which the Company's auditor is unaware; and
- Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approval of the financial statements

The financial statements were approved at a meeting of the Directors held on 22 February 2017.

By order of the Board

R.T. Ngobi (Ms.)
Company Secretary

Date: 22 February 2017

Taarifa ya Wakurugenzi

Wakurugenzi wanawasilisha taarifa yao pamoja na taarifa za ukaguzi wa kifedha kwa kipindi kilichomalizika tarehe 31 Disemba 2016 kinachoeleza 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 4,234,334,000 (2015: shilingi 4,976,256,000) imeongezwa kwa mapato ilioko. Katika mwaka huu mgao wa muda ya shilingi 350,000,000 (2015: shilingi 350,000,000) ulilipwa. Wakurugenzi wanapendekeza kuidhinishwa kwa mgao wa mwisho wa faida wa shilingi 3,950,000,000(2015: shilingi 4,600,000,000).

Halmashauri ya wakurugenzi

Wakurugenzi walioshikilia nyadhifa mwaka huo hadi tarehe ya kuchapisha ripoti hii wanapatikana katika ukurasa 5.

Mabadiliko yafuatayo yametekelezwa katika Halmashauri ya Wakurugenzi tangu Mkutano Mkuu wa kila mwaka uliopita:

Bwana M. Oduor-Otieno alikuwa Mkurugenzi tarehe 1 August 2016.

Kwa mujibu wa kifungu nambari 102 cha Sheria za Kampuni Bwana M. Oduor-Otieno anastaafu kwenye halmashauri kwa zamu wakati wa Muktano Mkuu wa kila mwaka na kwa vile anastahili anajiwasilisha kuchaguliwa tena.

Kwa mujibu wa kifungu nambari 103 cha Sheria za Kampuni, Bwana M. Jan Mohamed, Bwana P. Mwangi na Bii T. Mapunda wanastaafu kwenye halmashauri kwa zamu wakati wa Muktano Mkuu wa kila mwaka na kwa vile wanastahili wanajiwasilisha kuchaguliwa tena.

Wakaguzi

Wakaguzi KPMG Kenya wataendelea na nyadfa yao ikifuata Kanuni za Kampuni za Kenya za mwaka 2015.

Taarifa ya ukaguzi

Wakurugenzi walioshikila nyadhifa wakati wa kuchapishwa kwa ripoti hii wanathibitisha kwamba:

- Hakuna jambo lolote la ukaguzi amabalo wakaguzi wa Kampuni hawajui; na
- Kila Mkurugenzi amechukua hatua zote kama Mkurugenzi ili aweze kujua jambo lolote la ukaguzi na kubainisha kuwa wakaguzi wa Kampuni wanajua jambo hilo.

Kuidhinishwa kwa taarifa za fedha

Taarifa hizi za fedha ziliidhinishwa katika mkutano wa Wakurugenzi tarehe 22 Febuari 2017.

Kwa amri ya Halmashauri

R.T. Ngobi (Ms.)
Katibu wa Kampuni

Tarehe : 22 February 2017

Directors' Remuneration Report

The Directors Remuneration Report sets out the policy that has been applied by the Company to remunerate Executive and Non-Executive Directors. The Report has been prepared in accordance with the relevant provisions of both the CMA Code of Corporate Governance guidelines on Directors' remuneration and the Kenyan Companies Act, 2015.

Principles of remuneration policy

Executive Directors

The Executive Directors 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. Executive Directors are eligible to participate in the BAT plc (Parent Company) employee share schemes which are designed to incentivize eligible employees by giving them an opportunity to build shareholding in the Parent Company.

Non-Executive Directors

The Company looks to recruit, as Non-Executive Directors, those who have a wide range of strategic and operational experience gained from other businesses or organizations. A Non-Executive Director is required, as a minimum, to make an annual time commitment of about 20 days and is expected to attend all Board and Committee meetings, the AGM, a strategic budgeting session as well as maintaining an appropriate level of knowledge about the business and its operations. As a Listed Company, the quantum and structure of Non-Executive Directors' remuneration will primarily be assessed against the same remuneration comparator group of companies used for setting the remuneration for Executive Directors.

The remuneration components for Non-Executive Directors are as follows:

Fees

Fees for Non-Executive Directors need to be sufficient to attract, motivate and retain individuals with skills and senior-level experience to drive the Company's strategy forward. The fees for the Non-Executive Directors are reviewed annually although the review does not always result in an increase in the Board fees. The structure of the Non-Executive Directors' remuneration consists of a fixed monthly retainer fee and a sitting allowance applicable for Board and Sub-Committee meetings attended. The Board as a whole considers the policy and structure for the Non-Executive Directors' fees on the recommendation of the Remuneration Committee.

Travel and related expenses

Non-Executive Directors based out of the country are reimbursed for the cost of travel and related expenses incurred by them as Directors of the Company in respect of attendance at Board, Committee and General meetings.

Insurance

The Company provides Directors' and Officers' Liability Insurance and Group Personal Accident Insurance for all Directors of the Company during the entire duration of their tenure.

Shareholding requirements

The remuneration of Non-Executive Directors is paid in cash. There are no formal requirements for the Non-Executive Directors to hold shares in the Company. However, Non-Executive Directors are encouraged to acquire a small interest during the initial years after their date of appointment. The Non-Executive Directors do not participate in the British American Tobacco Group share schemes, bonus schemes or incentive plans and are not members of any Company pension plan.

Terms of appointment and termination

The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment which are available for inspection at the Company's registered office upon Notice. On termination, at any time, a Non-Executive Director is entitled to any accrued but unpaid Director's fees but not to any other compensation.

By order of the Board

____

R.T. Ngobi (Ms.)
Company Secretary
Date: 22 February 2017

Statement of Directors' Responsibilities

The directors are responsible for the preparation and presentation of the financial statements of British American Tobacco Kenya plc set out on pages 65 to 91 which comprise the consolidated and company statements of financial position as at 31 December 2016, 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, 2015 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, 2015 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, 2015. 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:

________________	________________	________________
G. Maina **Chairman**	**K. Gretton** **Managing Director**	**P. Lopokoiyit** **Finance Director**

Date: 22 February 2017

Independent Auditors' Report

To the members of British American Tobacco Kenya plc

Report on The Audit of The Consolidated and Company Financial Statements

Opinion

We have audited the financial statements of British American Tobacco Kenya plc and its subsidiaries (the Group) set out on pages 65 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated and company financial position of British American Tobacco Kenya plc as at 31 December 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated and Company Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and company financial statements in Kenya and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and company financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

a) Provisions and Contingent Liabilities in Respect of Litigations

The Group and/ the Company is/are subject to claims, which could have an impact on the Group's and/the Company's results if the potential exposures were to materialise. The Directors apply judgment when considering whether, and how much, to provide for the potential exposure of each litigation. We focused on this area given the complexity and judgment necessary to determine whether to provide for, disclose or not disclose certain exposures.Our work included, but was not limited to, an assessment of the processes and controls over litigations operated by the Directors. We held discussions with the Group's and the Company's in-house legal counsel, including after the year end, to discuss the nature of on-going claims, and to validate the latest status and accounting and disclosure implications. We also obtained formal confirmations from the Group's external and the Company's external counsel for significant litigation matters to ensure completeness of provisioning and disclosure.

We assessed the legal opinion from the external lawyers to challenge the basis used for the provisions recorded or disclosures made by the Directors. Where provisions were not required, we also considered the adequacy and completeness of the Group's and/the Company's disclosures made in relation to contingent liabilities. These are contained in accounting policy note 3 (i) – critical accounting estimates and judgments and disclosure note 29 - contingent liabilities.

b) Valuation of Land and Buildings

The Directors have estimated the fair value of the Group's and/the Company's land and buildings to be Shs 3.9 billion as at 31st December 2016 with a revaluation gain for the year ended 31 December 2016 recorded in other comprehensive income of Shs 616 million (net of tax). The Directors' estimates of the fair value of land and buildings are supported by an independent external valuation. The valuation is dependent on certain key assumptions that require significant judgment. This includes determining the sales prices of comparable properties that have been sold in the case of land and the depreciated replacement cost in relation to buildings.

Our procedures in relation to the Directors' estimates of the fair value of land and buildings included, but were not limited to, evaluating the independent external valuer's competence, capabilities and objectivity and assessing the appropriateness of the methodologies used by the external valuer to estimate the fair value. We also checked, on a sample basis, the accuracy and relevance of the input data provided by the Directors to the external valuer and assessed whether the fair value recorded in the consolidated and company financial statements reconciled with the external valuation report.

The Group's and the Company's accounting policies in respect of valuation of land and buildings are in included in accounting policy note 2 (f) and note 18 to the consolidated and company financial statements.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated and company financial statements and our auditors' report thereon.

Our opinion on the consolidated and company financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and company financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated and Company Financial Statements

As stated on page 62, the Directors are responsible for the preparation of the consolidated and company financial statements that give a true and fair view in accordance with IFRSs, and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report (continued)

In preparing the consolidated and company financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and company financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/or to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and company financial statements, including the disclosures, and whether the consolidated and company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated and company financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 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.

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612
00100 Nairobi GPO

Date: 22 February 2017

Consolidated statement of profit or loss and other comprehensive income

	Notes	Year ended 31 December 2016 Shs' 000	2015 Shs' 000
Gross revenue		36,676,249	35,817,594
Excise duty and Value Added Tax (VAT)		(16,826,348)	(13,560,412)
Net revenue	5	19,849,901	22,257,182
Raw materials and manufacturing costs	6	(10,991,821)	(11,824,138)
Marketing and distribution costs	7	(1,543,866)	(1,616,965)
Administration and other expenses	8	(1,604,839)	(1,481,136)
Other income		496,607	337,505
Operating profit		6,205,982	7,672,448
Finance costs	9	(294,672)	(533,546)
Profit before tax	10	5,911,310	7,138,902
Income tax expense	12	(1,676,976)	(2,162,646)
Profit for the year		4,234,334	4,976,256
Other comprehensive income			
Items that will not be reclassified to profit or loss		616,398	-
Items that may be reclassified to profit or loss		-	-
Total comprehensive income for the year		4,850,732	4,976,256
Earnings per share:			
Basic and diluted (Shs per share)	13	42.34	49.76

The notes on pages 71 to 91 are an integral part of these consolidated and company financial statements.

Consolidated Statement of Financial Position

	Notes	At 31 December 2016 Shs' 000	2015 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	1,902,130	1,416,219
Retained earnings		1,944,636	1,836,936
Proposed dividend	14	3,950,000	4,600,000
Total equity		8,796,789	8,853,178
Non-current liabilities			
Borrowings	24	1,229,640	1,227,600
Deferred income tax	17	2,127,411	1,999,703
Total non-current liabilities		3,357,051	3,227,303
Total equity and non-current liabilities		12,153,840	12,080,481
Non-current assets			
Property, plant and equipment	18	9,523,799	9,087,923
Deferred income tax	17	7,651	14,056
		9,531,450	9,101,979
Current assets			
Inventories	20	5,973,456	6,954,674
Receivables and prepayments	21	2,541,910	2,498,925
Current income tax	25	392,366	-
Cash and cash equivalents	22	60,618	125,606
		8,968,350	9,579,205
Current liabilities			
Payables and accrued expenses	23	4,540,018	4,384,320
Borrowings	24	1,747,336	1,737,406
Current income tax	25	-	357,487
Provisions for liabilities and charges	26	58,606	121,490
		6,345,960	6,600,703
Net current assets		2,622,390	2,978,502
Total assets		12,153,840	12,080,481

The notes on pages 71 to 91 are an integral part of these consolidated and company financial statements.
The financial statements on pages 65 to 91 were approved and authorised for issue by the Board of Directors on 22 February 2017 and signed on its behalf by:

_______________ _______________

K. Gretton
Managing Director

P. Lopokoiyit
Finance Director

Company Statement of Financial Position

	Notes	At 31 December 2016 Shs' 000	2015 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	1,902,130	1,416,219
Retained earnings		1,944,636	1,836,936
Proposed dividend		3,950,000	4,600,000
Total equity		8,796,789	8,853,178
Non-current liabilities			
Borrowings	24	1,229,640	1,227,600
Deferred income tax	17	2,127,411	1,999,703
Total non-current liabilities		3,357,051	3,227,303
Total equity and non-current liabilities		12,153,840	12,080,481
Non-current assets			
Property, plant and equipment	18	9,523,799	9,087,923
Investment in subsidiaries	19	12,000	12,000
		9,535,799	9,099,923
Current assets			
Inventories	20	5,953,870	5,376,277
Receivables and prepayments	21	2,418,327	3,389,353
Cash and cash equivalents	22	55,537	125,606
Current income tax	25	356,719	-
		8,784,453	8,891,236
Current liabilities			
Payables and accrued expenses	23	4,360,470	3,612,381
Borrowings	24	1,747,336	1,737,406
Current income tax	25	-	439,401
Provisions for liabilities and charges	26	58,606	121,490
		6,166,412	5,910,678
Net current assets		2,618,041	2,980,558
Total assets		12,153,840	12,080,481

The notes on pages 71 to 91 are an integral part of these consolidated and company financial statements.
The financial statements on pages 65 to 91 were approved and authorised for issue by the board of directors on 22 February 2017 and signed on its behalf by:

K. Gretton
Managing Director

P. Lopokoiyit
Finance Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016	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
At start of year		1,000,000	23	1,416,219	1,836,936	4,600,000	8,853,178
Comprehensive income for the year							
Profit for the year		-	-	-	4,234,334	-	4,234,334
Gain on revaluation of land and buildings		-	-	876,505	-	-	876,505
Deferred income tax on revaluation	17	-	-	(260,107)	-	-	(260,107)
		-	-	616,398	-	-	616,398
Transfer of excess depreciation	12	-	-	(43,480)	43,480	-	-
Deferred income tax on transfer	17	-	-	13,044	(13,044)	-	-
		-	-	(30,436)	30,436	-	-
Net gains recognised directly in equity		-	-	585,962	30,436	-	616,398
Transfer of revaluation in respect of sale of land and buildings.		-	-	(142,930)	142,930	-	-
Deferred tax on disposed assets	17	-	-	42,879	-	-	42,879
Transactions with owners							
Distribution to owners (Dividends):							
- Final for 2015 paid	14	-	-	-		(4,600,000)	(4,600,000)
- Interim for 2016 paid	14	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2016	14	-	-	-	(3,950,000)	3,950,000	-
Total transactions with owners		-	-	-	(4,300,000)	(650,000)	(4,950,000)
At end of year		1,000,000	23	1,902,130	1,944,636	3,950,000	8,796,789
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 (losses)/gains recognised directly in equity		-	-	(30,214)	30,214	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2014 paid	14	-	-	-	-	(3,900,000)	(3,900,000)
- Interim for 2015 paid	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 71 to 91 are an integral part of these consolidated and company financial statements.

Company Statement of Changes in Equity

Year ended 31 December 2016	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
At start of year		1,000,000	23	1,416,219	1,836,936	4,600,000	8,853,178
Comprehensive income for the year							
Profit for the year		-	-	-	4,234,334	-	4,234,334
Gain on revaluation of land and buildings		-	-	876,505	-	-	876,505
Deferred income tax on revaluation	17	-	-	(260,107)	-	-	(260,107)
		-	-	616,398	-	-	616,398
Transfer of excess depreciation	12	-	-	(43,480)	43,480	-	-
Deferred income tax on transfer	17	-	-	13,044	(13,044)	-	-
		-	-	(30,436)	30,436	-	-
Net gains recognised directly in equity		-	-	585,962	30,436	-	616,398
Transfer of revaluation in respect of sale of land and buildings.		-	-	(142,930)	142,930	-	-
Deferred tax on disposed assets	17	-	-	42,879	-	-	42,879
Transactions with owners							
Distribution to owners (Dividends):							
- Final for 2015 paid	14	-	-	-		(4,600,000)	(4,600,000)
- Interim for 2016 paid	14	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2016	14	-	-	-	(3,950,000)	3,950,000	-
Total transactions with owners		-	-	-	(4,300,000)	(650,000)	(4,950,000)
At end of year		1,000,000	23	1,902,130	1,944,636	3,950,000	8,796,789

Year ended 31 December 2015	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
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 (losses)/gains recognised directly in equity		-	-	(30,214)	30,214	-	-
Transactions with owners							
Distribution to owners							
Dividends:							
- Final for 2014 paid	14	-	-	-	-	(3,900,000)	(3,900,000)
- Interim for 2015 paid	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 71 to 91 are an integral part of these consolidated and company financial statements.

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2016 Shs' 000	2015 Shs' 000
Cash flows from operating activities			
Cash generated from operations	27	7,986,689	5,659,776
Interest received	9	9,301	1,560
Interest paid	9	(324,611)	(339,508)
Income tax paid	25	(2,509,944)	(1,391,478)
Net cash generated from operating activities		5,161,435	3,930,350
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(560,852)	(564,818)
Proceeds from disposal of property, plant and equipment		274,499	5,523
Net cash used in investing activities		(286,353)	(559,295)
Cash flows from financing activities			
Dividends paid to the Company shareholders	14	(4,950,000)	(4,250,000)
Net cash used in financing activities		(4,950,000)	(4,250,000)
Net decrease in cash and cash equivalents		(74,918)	(878,945)
Cash and cash equivalents at beginning of year		(1,611,800)	(732,855)
Cash and cash equivalents at end of year	22	(1,686,718)	(1,611,800)

The notes on pages 71 to 91 are an integral part of these consolidated and company financial statements.

Notes

1 General Information

British American Tobacco Kenya plc is incorporated in Kenya under the Kenyan Companies Act, 2015 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, Kenya

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, 2015 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 (IFRSs). 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 IFRSs 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.

New standards and interpretations

i) New standards, amendments and interpretationseffective and adopted during the year

The Group has adopted the following new standards and amendments during the period/ year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2016. The nature and effects of the changes are explained below:

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

i) New standards, amendments and interpretations effective and adopted during the year (continued)

New standards or amendments
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation
Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
Equity Method in Separate Financial Statements (Amendments to IAS 27)
IFRS 14 Regulatory Deferral Accounts
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
Disclosure Initiative (Amendments to IAS 1)
Annual improvements cycle (2012 - 2014) – various standards

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.

The adoption of these changes did not 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.

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

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

i) New standards, amendments and interpretations effective and adopted during the year (continued)

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.

The adoption of these changes did not have an impact on the financial statements of the Group since the Group does not apply revenue-based methods of depreciation or amortization.

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.

The adoption of these changes did not have an impact on the financial statements of the Group since the Group does not have interests in other entities and does not apply the equity method to account for subsidiaries.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRSs. 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.

The adoption of these changes did not have an impact on the financial statements of the Group given that the Group is not a first time adopter of IFRSs.

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. The adoption of these changes did not have an impact on the financial statements of the Group since the Group does not apply the consolidation exemption and does not have interests in other entities, associates or joint ventures.

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 effect of these changes have been applied in these financial statements. These did not have a significant impact.

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

i) New standards, amendments and interpretations effective and adopted during the year (continued)

Disclosure Initiative (Amendments to IAS 1) (continued)

Standard	Amendments
IFRS 5 Non - current Assets Held for Sale and Discontinued Operations	**Changes in methods of disposal.** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued. The adoption of these changes did not have an impact on the financial statements of the Group since the Group does not have any assets held for sale or held for distribution
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	**Servicing contracts.** Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. The adoption of these changes did not have an impact on the financial statements of the Group since the Group does not have servicing contracts for transferred assets. **Applicability of the amendments to IFRS 7 to condensed interim financial statements.** Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements. The adoption of these changes did not have an impact on the financial statements of the Group since the Group does not produce condensed interim financial statements.
IAS 19 Employee Benefits	**Discount rate: regional market issue.** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level). The adoption of these changes did not have an impact on the financial statements of the Group since the Group does not have a defined benefits scheme.
IAS 34 Interim Financial Reporting	**Disclosure of information 'elsewhere in the interim financial report'.** Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference. The adoption of these changes did not have an impact on the financial statements of the Group since the Group does not produce an interim financial report.

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements.

The Group does not plan to adopt these standards early. These are summarised below;

New standards or amendments	Effective for annual periods beginning on or after
Disclosure Initiative (Amendments to IAS 7)	1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRS 16 Leases	1 January 2019
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS10 and IAS 28).	To be determined

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The Group is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 7.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

• Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

• The carrying amount of an asset does not limit the estimation of probable future taxable profits.

• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

The Group is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 12.

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 permitted.

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

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 (continued)

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.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

Accounting for cash settled share based payment transactions that include a performance condition

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

Classification of share-based payment transactions with net settlement features

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The Group is assessing the potential impact on its financial statements resulting from the application of the amendments to IFRS 2.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

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 issue insurance contracts within the scope of IFRS 4.

2 Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 (continued)

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 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:

a. 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.

b. depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

c. 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:

a. short-term leases (i.e. leases of 12 months or less); and
b. 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 is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

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 effective date for these changes has now been postponed until the completion of a broader review.

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.

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.

2 Summary of significant accounting policies (continued)

f) Property, plant and equipment (continued)

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.

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.

2 Summary of significant accounting policies (continued)

j) Financial assets (continued)

(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.

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.

2 Summary of significant accounting policies (continued)

p) Employee benefits (continued)

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.

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 and investments in subsidiaries

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.

2 Summary of significant accounting policies (continued)

w) Earnings per share and investments in subsidiaries (continued)

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.

(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.

4 Financial risk management (continued)

(i) Foreign exchange risk (continued)

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

31 December 2016	USD Shs' 000	GBP Shs' 000	EUR Shs' 000
Asset			
Receivables and prepayments	719,384	138,496	78,166
Cash and cash equivalents	3,176	8,614	13,954
	722,560	147,110	92,120
Liabilities Payables and accrued expenses	164,987	-	-
Borrowings	1,229,640	-	-
	1,394,627	-	-

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

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

	USD	GBP	EUR
2016			
Average rates	101.51	137.51	112.33
Closing rates	102.47	126.62	108.08
2015			
Average rates	98.26	150.19	109.02
Closing rates	102.30	150.78	111.13

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.

	2016 Shs' 000	2015 Shs' 000
Currency – USD		
10% movement effect (higher/lower)	67,207	23,039
Currency – GBP		
10% movement effect (higher/lower)	14,711	7,577
Currency – EUR		
10% movement effect (higher/lower)	9,212	4,905

(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 2016, an increase/decrease of 1% would have resulted in a change of Shs 12,397,829 (2015: Shs 12,163,976) 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.

4 Financial risk management (continued)

(b) Credit risk (continued)

The amount that best represents the Group and Company's maximum exposure to credit risk at 31 December 2016 and 31 December 2015 is made up as follows:

	Group		Company	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
Cash and cash equivalents	60,618	125,606	55,537	125,606
Amounts due from related parties	1,249,633	1,518,374	1,247,755	1,530,149
Trade and other receivables	1,239,033	812,373	1,121,544	1,688,290
	2,549,284	2,456,353	2,424,836	3,344,045

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 perform cash flow forecasting and monitor 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 24) 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.

i) Group	Less than 1 year Shs' 000	Between 1 & 3 years Shs' 000
At 31 December 2016		
Liabilities		
Borrowings	1,747,336	1,378,562
Trade and other payables	3,172,133	-
Amounts due to related parties	190,416	-
Total financial liabilities	5,109,885	1,378,562
Assets		
Cash and bank balances	60,618	-
Amounts due from related parties	1,249,633	-
Trade and other receivables	1,239,033	-
Total financial assets	2,549,284	-
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
	Less than 1 year Shs' 000	Between 1 & 3 years Shs' 000
Assets		
Cash and bank balances	125,606	-
Amounts due from related parties	1,518,374	-
Trade and other receivables	812,373	-
Total financial assets	2,456,353	-

4 Financial risk management (continued)

(c) Liquidity risk (continued)

ii) Company	Less than 1 year Shs' 000	Between 1 & 3 years Shs' 000
At 31 December 2016		
Liabilities		
Borrowings	1,747,336	1,378,562
Trade and other payables	3,027,878	-
Amounts due to related parties	159,752	-
Total financial liabilities	4,934,966	1,378,562
Assets		
Cash and bank balances	55,537	-
Amounts due from related parties	1,247,755	-
Trade and other receivables	1,121,544	-
Total financial assets	2,424,836	-
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	1,688,290	-
Total financial assets	3,344,045	-

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	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
Total borrowings	2,976,976	2,965,006	2,976,976	2,965,006
Less: cash and cash equivalents	(60,618)	(125,606)	(55,537)	(125,606)
Net debt	2,916,358	2,839,400	2,921,439	2,839,400
Total equity	8,796,789	8,853,178	8,796,789	8,853,178
Total capital	11,713,147	11,692,578	11,718,228	11,692,578
Gearing ratio	25.0%	24.3%	25.0%	24.3%

Financial instruments by category

Financial assets:

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

	Group 2016	Group 2015	Company 2016	Company 2015
Trade and other receivables (excluding pre-payments)	2,488,666	2,330,747	2,369,299	3,218,439
Cash and cash equivalents	60,618	125,606	55,537	125,606
	2,549,284	2,456,353	2,424,836	3,344,045

Financial liabilities:

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

	Group 2016	Group 2015	Company 2016	Company 2015
Trade and other payables (excluding statutory liabilities)	3,362,549	3,630,598	3,187,631	2,926,02
Borrowings	2,976,976	2,965,006	2,976,976	2,965,006
	6,339,525	6,595,604	6,164,607	5,891,033

4 Financial risk management (continued)

(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. 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 2016 and 31 December 2015 (Note 18):

	Group		Company	
	2016	2015	2016	2015
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Property, plant and equipment	9,523,799	9,087,923	9,523,799	9,087,923
Total assets	9,523,799	9,087,923	9,523,799	9,087,923

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.

	2016	2015
Analysis of net revenue by geography:	Shs' 000	Shs' 000
Local sales	11,046,135	12,387,223
Export sales	8,803,766	9,869,959
	19,849,901	22,257,182
Analysis of net revenue by product:		
Sale of cigarettes	18,963,855	21,221,949
Sale of cut rag	886,046	1,035,233
	19,849,901	22,257,182

6 Raw materials and manufacturing costs

Raw materials, consumables and other manufacturing costs*	10,384,136	11,215,636
Depreciation of property, plant and equipment	607,685	608,502
	10,991,821	11,824,138

*Raw materials, consumables and other manufacturing costs include employee expenses of Shs 1,130,980,351 (2015: Shs 1,183,621,752)

7 Marketing & distribution costs

Employment expenses	398,091	385,085
Freight & other expenses	1,145,775	1,231,880
	1,543,866	1,616,965

8 Administrative and other expenses

Employment expenses	531,559	580,424
Recharges & other expenses	735,120	900,712
Reorganisation costs	338,160	-
	1,604,839	1,481,136

9 Finance costs

	2016 Shs' 000	2015 Shs' 000
Interest income	(9,301)	(1,560)
Interest expense	324,611	339,508
Net foreign currency exchange losses	(20,638)	195,598
	294,672	533,546

10 Profit before tax

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

Employee benefits expense (Note 11)	2,398,790	2,149,131
Auditor's remuneration	9,740	9,980
Depreciation (Note 18)	759,606	749,219
Profit on sale of property, plant and equipment	(32,624)	(3,989)

11 Employee benefits expense

Salaries and wages	1,971,319	2,059,773
Retirement benefits costs:		
- Defined contribution scheme	86,736	87,219
- National Social Security Fund	2,575	2,139
Reorganisation costs (Note 8)	338,160	-
	2,398,790	2,149,131

12 Income tax

Current income tax		
- Current tax on profits for the year	1,760,091	2,057,068
- Adjustments in respect of prior years	-	(30,142)
Total current tax	1,760,091	2,026,926
Deferred income tax (Note 17)		
- Deferred income tax	(76,593)	105,567
- Adjustments in respect of prior years	(6,522)	30,153
Total deferred income tax	(83,115)	135,720
Income tax expense	1,676,976	2,162,646

12 Income tax (continued)

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:

	2016 Shs' 000	2015 Shs' 000
Profit before income tax	5,911,310	7,138,902
Tax calculated at domestic rate applicable to profit- 30% 2015:30%)	1,773,393	2,141,671
Tax effect of:		
Income subject to tax at 5% (25% variance)	(67,925)	-
Income not subject to tax	(72,594)	-
Expenses not deductible for tax purposes	50,624	20,964
Over-provision of current tax in prior years	-	(30,142)
(Over)/under-provision of deferred tax in prior years	(6,522)	30,153
Income tax expense	1,676,976	2,162,646

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

	2016 Shs' 000			2015 Shs' 000		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Transfer of excess depreciation	43,480	(13,044)	30,436	43,163	(12,949)	30,214

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.

	2016 Shs' 000	2015 Shs' 000
Profit attributable to equity holders of the Company (Shs '000)	4,234,334	4,976,256
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	42.34	49.76

14 Dividends per share

During the year a final dividend in respect of the 2015 financial results of Shs 46.00 (2014: Shs 39.00) and an interim dividend of Shs 3.50 per share (2015: Shs 3.50) was declared and paid. The total dividend paid in the year is therefore Shs 49.5 per share (2015: Shs 42.50), amounting to a total of Shs 4,950,000,000 (2015: Shs 4,250,000,000).

At the Annual General Meeting to be held on 27 April 2017, a final dividend in respect of the year ended 31 December 2016 of Shs 39.50 per share amounting to a total of Shs 3,950,000,000 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

	2016 Shs' 000	2015 Shs' 000
The analysis of Group deferred tax assets and deferred liabilities is as follows		
Deferred tax assets	(7,651)	(14,056)
Deferred tax liabilities	2,127,411	1,999,703
Deferred tax liabilities (net)	2,119,760	1,985,647

Deferred income tax is calculated using the enacted income tax rate of 30% (2015:30%).
The movement on the Group deferred income tax account is as follows:

	2016	2015
At start of year	1,985,647	1,849,927
Charge to statement of profit or loss and other comprehensive income	(76,593)	118,516
Adjustments in respect of prior years	(6,522)	30,153
Credit to equity	260,107	-
Deferred tax on disposal of revalued assets	(42,879)	(12,949)
At end of year	2,119,760	1,985,647

17 Deferred income tax (continued)

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 2016

	1.1.2016 Shs' 000	Charged /credited to P&L Shs' 000	Credited to equity Shs' 000	31.12.2016 Shs' 000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	1,653,769	(113,918)	-	1,539,851
- on revaluation surpluses	514,714	-	260,107	774,821
- on disposal of assets			(42,879)	(42,879)
Unrealised exchange gains	85,075	25,666	-	110,741
	2,253,558	(88,252)	217,228	2,382,534
Deferred income tax assets				
Provisions for liabilities and charges	(156,994)	19,109	-	(137,885)
Unrealised exchange losses	(110,917)	(13,972)	-	(124,889)
	(267,911)	5,137	-	(262,774)
Net deferred income tax liability	1,985,647	(83,115)	217,228	2,119,760

Year ended 31 December 2015

	1.1.2015 Shs' 000	Charged/ credited to P&L Shs' 000	Charged to equity Shs' 000	31.12.2015 Shs' 000
Deferred income tax liabilities				
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

17 Deferred income tax (continued)

Deferred income tax of Shs 13,044,000 (2015: 12,949,000), 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:

	2016 Shs' 000	2015 Shs' 000
Deferred income tax liabilities		
Property, plant and equipment:		
- on historical cost basis	1,533,608	1,643,133
- on revaluation surpluses	774,686	525,351
- on disposal of assets	(42,879)	-
Unrealised exchange gains	(71,874)	84,827
Total deferred income tax liabilities	2,193,540	2,253,311
Deferred income tax assets		
Provisions for liabilities and charges	(137,171)	(142,739)
Unrealised exchange losses	71,042	(110,869)
Total deferred income tax assets	(66,129)	(253,608)
Net deferred income tax liability	2,127,411	1,999,703

18 Property, plant and equipment – Group and Company

	Land and Buildings Shs' 000	Plant and Machinery Shs' 000	Vehicles and Equipment Shs' 000	Construc-tion in Progress* Shs' 000	Total Shs' 000
At 1 January 2015					
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
Year ended 31 December 2016					
Opening net book amount	3,303,272	5,159,213	257,218	368,220	9,087,923
Additions	17,081	341,465	93,591	108,715	560,852
Revaluation	876,505	-	-	-	876,505
Disposals					
- Cost	(216,826)	(210,910)	(120,822)	-	(548,558)
- Accumulated depreciation	25,615	165,020	116,048	-	306,683
Depreciation charge	(74,587)	(567,166)	(117,853)	-	(759,606)
Transfers	13,151	63,108	1,200	(77,459)	-
Closing net book amount	3,944,211	4,950,730	229,382	399,476	9,523,799
At 31 December 2016					
Cost or valuation	4,992,357	9,590,771	1,147,167	399,476	16,129,771
Accumulated depreciation	(1,048,146)	(4,640,041)	(917,785)	-	(6,605,972)
Net book amount	3,944,211	4,950,730	229,382	399,476	9,523,799

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

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

In 2016, 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:

	2016 Shs' 000	2015 Shs' 000
Cost	1,643,710	1,660,375
Accumulated depreciation	(413,480)	(390,472)
Net book amount	1,230,230	1,269,903

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	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
Raw materials and consumables	5,403,667	5,023,236	5,403,667	5,023,235
Finished goods	569,789	1,931,438	550,203	353,042
	5,973,456	6,954,674	5,953,870	5,376,277

21 Receivables and prepayments

	Group		Company	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
Trade receivables	635,815	131,370	-	62,094
Other receivables	603,218	681,003	1,121,544	1,626,196
Prepayments	53,244	168,178	49,028	170,914
Due from related parties	1,249,633	1,518,374	1,247,755	1,530,149
	2,541,910	2,498,925	2,418,327	3,389,353

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

22 Cash and cash equivalents

	Group		Company	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
Cash at bank	60,618	125,606	55,537	125,606

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

	Group	
	2016 Shs' 000	2015 Shs' 000
Cash at bank	60,618	125,606
Bank overdrafts (Note 24)	(1,747,336)	(1,737,406)
	(1,686,718)	(1,611,800)

23 Payables and accrued expenses

	Group		Company	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
Trade payables	901,829	1,176,074	850,874	1,072,460
Due to related companies	190,416	382,416	159,752	281,883
Other payables and accrued expenses	3,447,773	2,825,830	3,349,844	2,258,038
	4,540,018	4,384,320	4,360,470	3,612,381

24 Borrowings

	Group		Company	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
Non-current				
Loan from BATIF	1,229,640	1,227,600	1,229,640	1,227,600
Current				
Bank overdrafts	1,747,336	1,737,406	1,747,336	1,737,406
	2,976,976	2,965,006	2,976,976	2,965,006

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 4.675% 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.

	2016 Shs' 000	2015 Shs' 000
Overdraft facilities	4,948,535	4,257,823
Bond guarantees	1,035,411	823,493
	5,983,946	5,081,316

25 Current tax movement

	Group		Company	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
Opening income tax asset	(357,487)	277,961	(439,402)	140,920
Charge to statement of profit or loss and other comprehensive income	(1,760,091)	(2,026,926)	(411,379)	(759,797)
Income tax paid	2,509,944	1,391,478	1,207,500	179,476
Closing income tax asset/(liability)	392,366	(357,487)	356,719	(439,401)

26 Provisions for liabilities and charges

	Group Shs' 000	Company Shs' 000
Year ended 31 December 2016		
At start of year	121,490	121,490
Additional provisions	-	-
Unused amounts reversed	(57,618)	(57,618)
Credit to statement of profit or loss and other comprehensive income	(57,618)	(57,618)
Utilised during year	(5,266)	(5,266)
At end of year	58,606	58,606
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 the 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

	2016 Shs' 000	2015 Shs' 000
Profit before taxation	5,911,310	7,138,902
Adjustments for:		
Depreciation (Note 18)	759,606	749,219
Profit on sale of property, plant and equipment	(32,624)	(3,989)
Interest received (Note 9)	(9,301)	(1,560)
Interest expense (Note 9)	324,611	339,508
Unrealised foreign exchange losses	2,040	141,000
Changes in working capital:		
-inventories	981,218	(997,741)
-receivables and prepayments	(42,985)	126,448
-payables and accrued expenses	155,698	(1,757,863)
-provisions for liabilities and charges	(62,884)	(74,148)
Cash generated from operations	7,986,689	5,659,776

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 plc 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	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
i) Sale of goods and services				
Subsidiary	-	-	17,622,096	18,750,282
Other related parties	7,161,785	8,552,449	7,161,785	8,552,449
	7,161,785	8,552,449	24,783,881	27,302,731
ii) Purchase of goods and services				
Parent company	337,512	411,085	337,512	411,085
Other related parties	939,710	797,693	939,710	797,693
	1,277,222	1,208,778	1,277,222	1,208,778

iii) Outstanding balances arising from sale and purchase of goods/services

	Group 2016	Group 2015	Company 2016	Company 2015
Receivables from other related parties	1,249,633	1,518,374	1,247,755	1,530,149
Payables to the parent company	7,747	13,871	7,747	13,871
Payables to other related parties	182,669	368,545	152,005	268,012
	190,416	382,416	159,752	281,883

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.

iv) Loans from related parties	Group		Company	
	2016 Shs' 000	2015 Shs' 000	2016 Shs' 000	2015 Shs' 000
Loan from related party (BATIF)	1,229,640	1,227,600	1,229,640	1,227,600

28 Related party transactions (continued)

v) Key management compensation	2016 Shs' 000	2015 Shs' 000
Salaries and other short-term employment benefits	136,065	126,662
Other long-term benefits	59,525	54,925
Total key management compensation	195,590	181,587

vi) Directors' remuneration	2016 Shs' 000	2015 Shs' 000
Fees for services as a director	16,307	17,990
Other emoluments (included in key management compensation above)	52,599	56,865
Total remuneration of directors of the Company	68,906	74,855

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 1,711,709,740 (2015: Shs 2,676,507,054), 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:

	2016 Shs' 000	2015 Shs' 000
Property, plant and equipment	79,250	120,396

Shareholding Structure as at 22 February 2017

Major Shareholders as at 22 February 2017

Shareholder	No of Shares	% Shareholding
Molensteegh Invest BV.	60,000,000	60.00%
Standard Chartered Kenya nominees ltd,A/C KE18993	14,260,614	14.26%
Standard Chartered nominees non-resd. A/C 9866	2,970,023	2.97%
Standard Chartered nomineees non-resd. A/C KE8723	1,340,900	1.34%
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 nomineees resd A/C KE11443	631,523	0.63%
ICEA Lion Life Assurance Company Limited- pooled	468,878	0.47%
Standard Chartered nomineees non-resd. A/C 9913	467,200	0.47%
Standard Chartered nomineees resd A/C KE 11450	452,722	0.45%
Others (4764 Shareholders)	17,723,072	17.72%
Total	**100,000,000**	**100.00%**

Summary of Shareholders as at 22 February 2017

Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Foreign companies	54	83,864,899	83.86%
Foreign individuals	85	266,012	0.27%
Local companies	454	10,070,886	10.07%
Local individuals	4,181	5,798,203	5.80%
Total	**4,774**	**100,000,000**	**100.00%**

Distribution of Shareholders as at 22 February 2017

Shareholding	No. of Shareholders	No. of Shares	% Shareholding
Less than 500	2,403	521,753	0.52%
501 - 5,000	1,970	3,039,377	3.04%
5,001 - 10,000	155	1,098,856	1.10%
10,001 - 100,000	204	6,069,614	6.07%
100,001 - 1,000,000	38	10,698,863	10.70%
Above 1,000,000	4	78,571,537	78.57%
Total	**4,774**	**100,000,000**	**100.00%**

Directors' Shareholding as at 22 February 2017

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

PROXY FORM

To: ....
The Secretary,
British American Tobacco Kenya plc,
P.O. Box 30000-00100,
Nairobi

I/We ....of P.O. Box ....
member/members of British American Tobacco Kenya plc 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 27 April 2017 at 11:00am in the Ball Room, Hotel Intercontinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this ....
day of...2017

....(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 25 April 2017. Duly signed proxy forms may also be emailed to shares@co-opbank.co.ke in PDF format.

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.

We are BAT

Delivering today, Investing in tomorrow

Annual Report **2016**

British American Tobacco Kenya plc
08 Likoni Road, Industrial Area
P.O. Box 30000 - 00100 GPO Nairobi-Kenya
Tel: +254 (0) 711 062 000
Toll Free Number: 0800 720 150
Email: info_ke@bat.com
www.batkenya.com

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