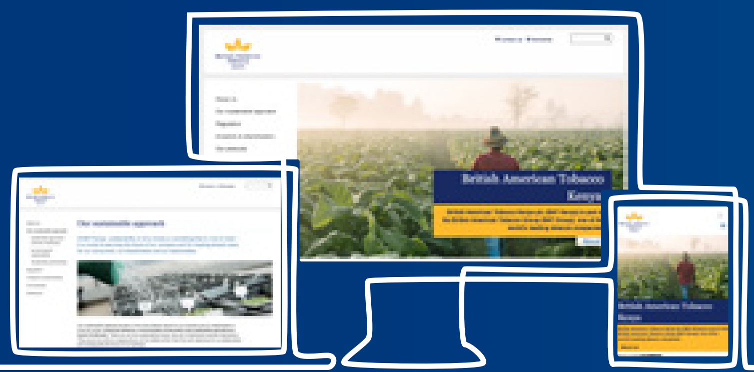
BRITISH AMERICAN TOBACCO
KENYA

Transforming Tobacco

2018 Annual Report & Financial Statements



BRITISH AMERICAN TOBACCO KENYA PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

This is the Annual Report and Financial Statements (Annual Report) of British American Tobacco Kenya plc (BAT Kenya), comprising the Strategic Report, the Governance Report and the Audited Financial Statements for the year ended 31 December 2018. 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 are subject to the limitations and restrictions provided by such law.

A printed copy of the Annual Report is mailed to shareholders on the mail register who have elected to receive it. The Report is also emailed to those shareholders who have at any previous time, provided their email addresses to the Company. A digital copy can also be accessed on our website www.batkenya.com.

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

Cautionary statement

The material in this Annual Report is provided for the purpose of giving information about BAT Kenya to adult shareholders and is not 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 in compliance with the law.

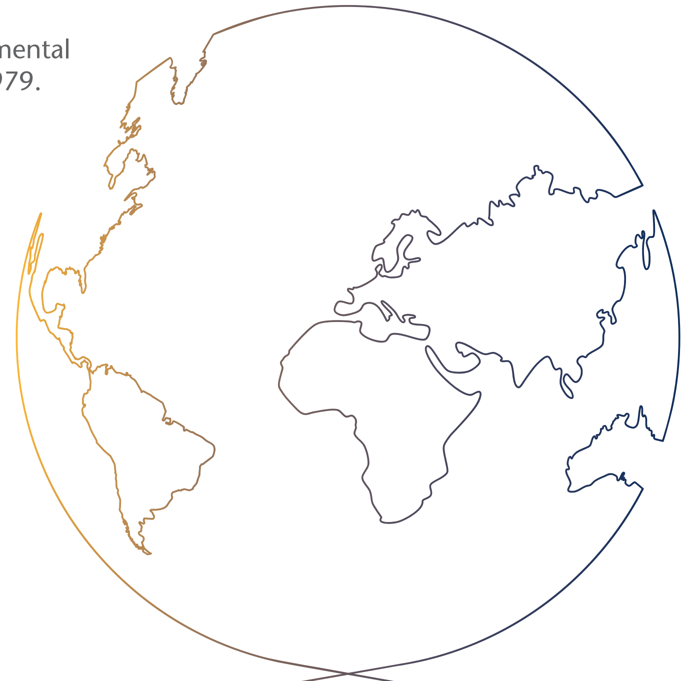
The Strategic Report and certain other sections of the Annual Report contain forward-looking statements that are subject to risk factors associated with, amongst other things, the changing economic and business dynamics affecting the Kenya and export markets. It is believed that the expectations reflected 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.

About us

We are a strong, forward-looking company with a rich heritage spanning over 100 years and a proven strategy that is delivering value for our shareholders. BAT Kenya's diverse strengths – our heritage, our strong brands, our talented people and our sustainability approach – are the foundations of our continuing progress.

We make cigarettes chosen by a majority of Kenya's adult smokers with multiple brands sold in the Kenyan market. We partner with over 5,000 tobacco farmers and 80,000 trade and business partners in Kenya and employ directly and indirectly over 1,800 people. We contribute to socio-economic development through our sustainability agenda, including significant contribution to the country's environmental conservation, having planted over 50 million trees since 1979.

Read more at www.batkenya.com



NOTICE OF THE 2019 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 67th Annual General Meeting of British American Tobacco Kenya plc will be held in the **Mara Ballroom, Hotel Intercontinental Nairobi, on Friday, 10 May 2019, at 10:00 a.m.** to conduct the following business:

Ordinary business

1. To receive, consider and if approved, adopt the Company's audited Financial Statements for the year ended 31 December 2018, together with the reports of the Chairman, Directors and Auditors thereon.

2. To confirm the interim dividend of KSh 3.50 per Ordinary Share paid on 21 September 2018 and to declare a final dividend of KSh 31.50 per Ordinary Share payable, net of Withholding Tax, on 10 May 2019 to shareholders on the Register at the close of business on 14 March 2019.

3. To elect Directors:
   a) Mahmud Janmohamed retires by rotation in accordance with Article 103 of the Articles of Association and being eligible, does not offer himself for re-election as a Director.

   b) Peter Mwangi and Dr. Martin Oduor-Otieno retire by rotation in accordance with Article 103 of the Articles of Association and being eligible, offer themselves for re-election.

   c) Gayling May, having attained the age of 70 in March 2013, retires in line with recommendations of the Capital Markets Authority, Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 and being eligible offers himself for re-election.

   d) Pursuant to the provisions of Section 769 of the Companies Act, 2015, Gayling May, Carol Musyoka and Dr. Martin 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 2018.

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.

Special Business

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

   "That Article 174 of the Company's Articles of Association be amended by the inclusion of subclause (d) as shown below:

   174. Subject to these Articles and the Statutes, the Company may give any notice, circular, information memorandum, annual report and accounts, share certificate or any other document or information issued by the Company or with the authority of the Board to any member:
   (a) by delivering it to him/her personally;

   (b) by leaving it at or sending it by post in a prepaid envelope to such member at his/her registered address as appearing in the Register or the Company's other records;

   (c) by sending it by electronic means to an address for the time being notified to the Company by the member; or

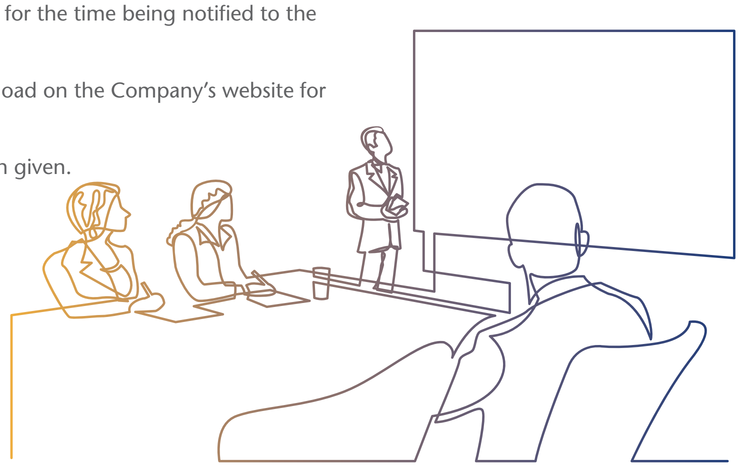
   (d) by making it available for viewing and/or download on the Company's website for the time being notified to the member."

7. To consider any other business of which due notice has been given.

By Order of the Board

Waeni Ngea
Company Secretary
Likoni Road, Industrial Area
P.O. Box 30000 - 00100,
NAIROBI

13 February 2019



NOTES:
1. Any shareholder 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 or from The Co-operative Bank of Kenya Limited Registrars, CIC Plaza B, 1st Floor, Mara Road, Upper Hill, P. O. Box 48231 – 00100, Nairobi, Kenya.

3. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the proxy form to The Co-operative Bank of Kenya Limited Registrars, or alternatively to the Registered Office of the Company so as to arrive not later than 2:30 p.m. on 8 May 2019.

4. Duly signed proxy forms may also be emailed to shares@co-opbank.co.ke in PDF format.

5. 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 Financial Statements 2018

Resolution 1:
THAT the Report of the Directors and the Financial Statements for the year ended 31 December 2018, as audited and reported upon 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 2018.

Agenda item 2:
Declaration of final dividend

Resolution 2:
THAT the interim dividend of KSh 3.50 per Ordinary Share paid on 21 September 2018 be and is hereby confirmed and that a final dividend of KSh 31.50 per Ordinary Share payable, net of Withholding Tax, on 10 May 2019 to shareholders on the Register at the close of business on 14 March 2019 be and is hereby approved.

The Company paid an interim dividend of KSh 3.50 per Ordinary Share on 21 September 2018. The Board recommends a final dividend of KSh 31.50 per Ordinary Share, bringing the total dividend for the year to KSh 35.00 per Ordinary Share. Subject to approval by shareholders, the final dividend will be paid on 10 May 2019 to shareholders on the Register on 14 March 2019.

Agenda item 3:
Directors seeking re-election

Resolution 3:
THAT the re-election of Gayling May, Peter Mwangi and Dr. Martin Oduor-Otieno 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 Companies Act, 2015, if the shareholders agree unanimously, the retiring Directors who have offered themselves for re-election, 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 Gayling May, Peter Mwangi and Dr. Martin Oduor-Otieno be and are hereby re-elected Directors of the Company.

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 they continue to perform effectively and demonstrate 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 32 to 34 of the 2018 Annual Report.

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 Gayling May, Carol Musyoka and Dr. Martin 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(c) offer themselves for election to continue to serve as Members of the Board Audit Committee.

Agenda item 4:
Directors remuneration

Resolution 6:
Resolution 6 is an advisory vote to approve the Directors' remuneration as prescribed by the Capital Markets Authority, Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015. The Remuneration Report is set out on page 58 to 62 of the 2018 Annual Report.

Agenda item 5:
Re-Appointment of Auditors and Auditors' remuneration

Resolution 7:
THAT KPMG Kenya be re-appointed as the External Auditors of the Company and that the Directors be and are hereby authorised to fix their remuneration.

In accordance with Section 721(2) of the Companies Act, 2015, at each general meeting at which the accounts are laid before the shareholders, the Company is required to appoint an auditor to serve until the next such meeting. With KPMG Kenya having expressed their willingness to continue in office, it is proposed that Messrs KPMG Kenya be re-appointed as the External Auditors of the Company and that the Directors be authorised to fix their remuneration.

Agenda item 6:
Special resolution to amend the Company's Articles of Association

Resolution 8:
In line with our Transforming Tobacco agenda and sustainability objectives, it is prudent that relevant business practices evolve accordingly. As such and in fulfilment of our commitment to ensuring that all relevant information is availed to shareholders in real time, it is proposed that henceforth, the Company's Annual Report and Financial Statements be provided to all shareholders via its website: www.batkenya.com.

Amendment of Article 174 of the Company's Articles of Association as recommended will enable the Company to share all future Annual Reports with its shareholders, immediately they become available.

CORPORATE INFORMATION

Board of Directors

George Maina*	(Chairman)
Beverley Spencer-Obatoyinbo	(Managing Director)
Sidney Wafula	(Finance Director)
Gayling May*	
Carol Musyoka*	
Mahmud Janmohamed*	
Peter Mwangi*	
Dr. Martin Oduor-Otieno*	
Waeni Ngea	(Company Secretary)

Audit Committee

Dr. Martin Oduor-Otieno*	(Chairman)
Gayling May*	
Carol Musyoka*	
Mahmud Janmohamed*	
Waeni Ngea	(Secretary)

Nominations Committee

George Maina*	(Chairman)
Gayling May*	
Peter Mwangi*	
Mahmud Janmohamed*	
Waeni Ngea	(Secretary)

Remuneration Committee

Peter Mwangi*	(Chairman)
Carol Musyoka*	
Razeeah Belath	(Secretary)

** Non-Executive Directors*

Auditors

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

Corporate governance auditor

Dorion Associates
Thompson Estate, Diani Close
Off Ole Odume Road
P.O Box 29737 - 00202
NAIROBI

Legal and compliance auditor

Anjarwalla & Khanna Advocates
The Oval, 3rd floor,
Junction of Ring Road and Jalaram Road,
P.O. Box 200 - 00606
NAIROBI

Registrar

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

Principal advocates

Hamilton Harrison & Mathews
Wing A, 1st floor
Delta Office Suites
Waiyaki Way
P.O. Box 30333-00100
NAIROBI

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

Principal bankers

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

Secretary and registered office

Company Secretary
Likoni Road, Industrial Area
P.O Box 30000-00100
NAIROBI

Chairman's Statement

> During what has been another challenging year in Kenya and across our export markets, we have continued to deliver for shareholders and I am very pleased to report a strong set of results for the year ended 31 December 2018.

George Maina
Chairman

Delivering for shareholders

I am very pleased to report a strong set of results for the year ended 31 December 2018. We have continued to deliver value growth for shareholders during what has been another challenging year in Kenya and across our export markets.

Reflecting the confidence in the business and its future prospects, the Board of Directors has recommended a final dividend of KSh 31.50 for 2018, payable net of Withholding Tax on 10 May 2019 to shareholders on the register on 14 March 2019. This takes the total dividend for 2018 to KSh 35.00 per share (2017: KSh 26.00 per share).

Market unpredictability continues

Kenya's economy rebounded in 2018 after a difficult 2017 which was characterised by a slowdown in trading activity, high inflation and an extended election process.

Relative political stability emerged following the March 2018 "handshake" between President Uhuru Kenyatta and Opposition leader Raila Odinga and, according to the World Bank, Kenya's real Gross Domestic Product (GDP) growth was projected to rise from 4.9% in 2017 to 5.7% in 2018. However, this growth is seemingly yet to have a major impact on Kenyan households, who faced high food and energy prices as well as increased costs for common goods during the year. As a result, consumer disposable income continued to be stretched and our cigarette sales in the Kenya market were impacted.

This impact has been exacerbated by the increased prevalence of illicit cigarettes in the Kenyan market which appeared to have now reached 14.1% up from 12.4% during the same period in 2017. The sale of these illicit cigarettes not only deprives the Government of much needed revenue, it places consumers at increased risk as the integrity of the product cannot be confirmed. As such, we will continue to work with the authorities in any way we can, to stem the flow of illicit cigarettes and facilitate a wholly legitimate market.

Our export markets performed well despite challenges including electoral, civil and political uncertainty in markets such as Sudan, the Democratic Republic of Congo and Somalia. Particularly, exports of cut rag (semi-processed) tobacco (CRT) recorded exponential growth, posting an increase in value of 149%. In Somalia, our cigarette exports registered 20% revenue growth compared to 2017.

To combat these uncertainties, our well-balanced portfolio of brands covers all major price points, while our geographic diversity further mitigates the risks. We are very much aware of the challenges of operating in the region, but the inherent strength of our business, our brands and our people continue to make us more resilient than most, with the results delivered in 2018 being further proof of that.

External recognition

It has been another excellent year in terms of the recognition we have received externally. In September 2018, we were independently recognised as Kenya's Best Employer of the Year by the Federation of Kenya Employers (FKE). This fantastic accolade was followed by certification from the internationally recognised Top Employers Institute as a Top Employer in Kenya and Africa. These awards are testimony to our commitment to building a winning organisation and a great place to work for our employees. Combined with the ongoing work to transform our offices within our Nairobi headquarters, we believe we have a workplace that can attract and retain the very best talent, ensuring that we are well placed to deliver for all stakeholders, now and in the future.

BAT Kenya was also recognised at the Think Business investment awards in December 2018, aligned to our strategic pillars of sustainability and growth. We received two awards, as the Winner in the Sustainable Corporate Social Responsibility category and first Runner Up in the Best Quoted Company of the Year category.

Read more about these awards and keep abreast with other business developments via our newly refurbished website www.batkenya.com; which has been designed to not only meet regulatory requirements, but importantly, to provide additional information to shareholders about the Company and its performance.

Changes to the Board of Directors

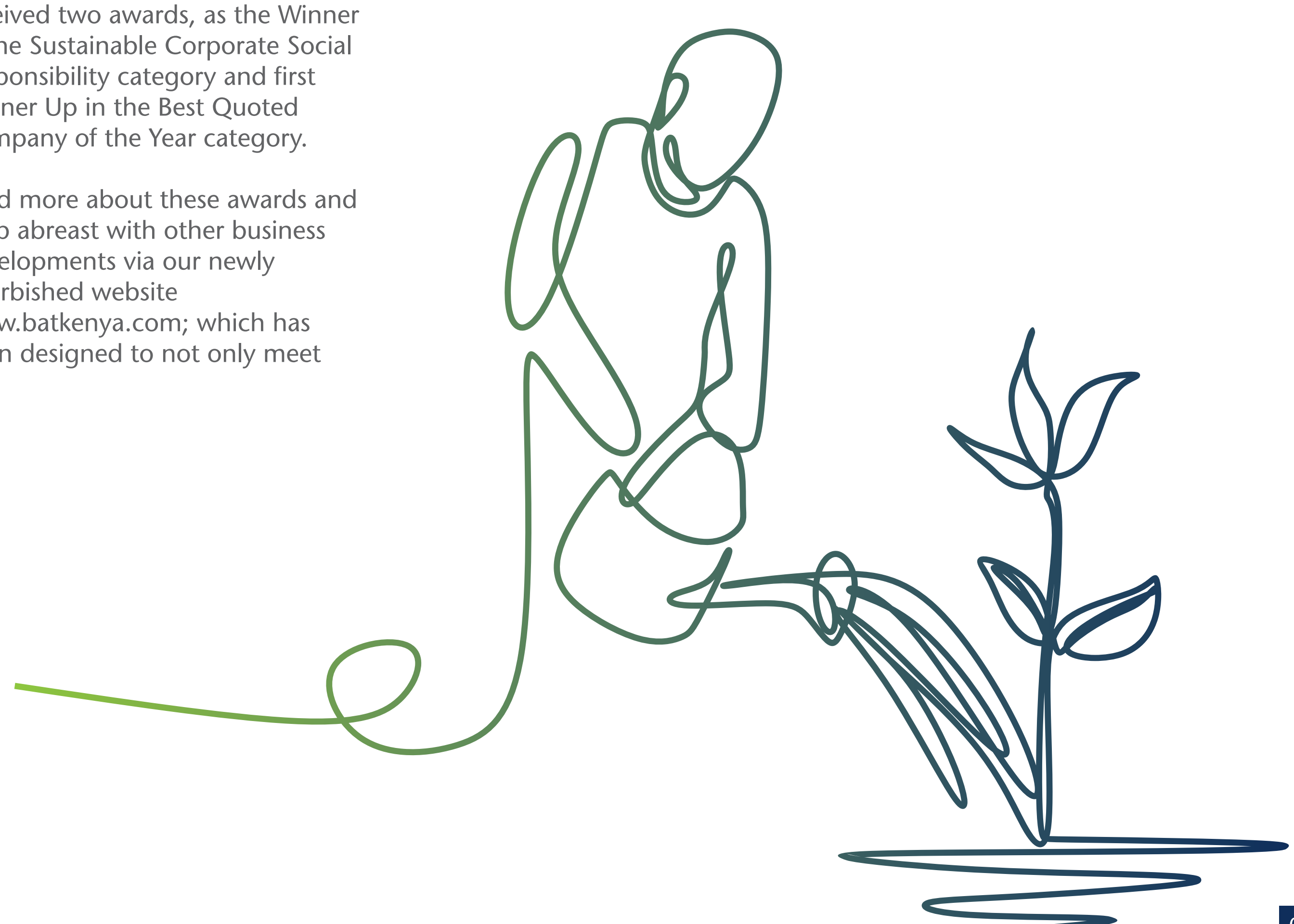
As many shareholders will be aware, earlier this year the Board of Directors announced the resignation of Mrs. Teddy Mapunda as a Non-Executive Director effective 1 July 2018. On behalf of the Board, I would like to take this opportunity to thank to Mrs. Mapunda for her invaluable contribution and wish her the very best in her future endeavours. Profiles of the current membership of the Company's Board can be found on pages 32 to 34.

Outlook

While 2018 was a successful year, it was also a challenging one. As for 2019 and beyond, the Board of BAT Kenya has full confidence in the Leadership team's ability to meet the challenges that lie ahead and to take advantage of new and existing opportunities.

With good progress having been made across all four elements of our strategy - Growth, Productivity, Sustainability and building a Winning Organisation - the Company is well placed to continue building sustainable shareholder value in the years ahead.

George Maina
Chairman



Taarifa ya **Mwenyekiti**

> “Licha ya kuwa ulikuwa mwaka uliokuwa umejawa na changamoto nchini Kenya na katika masoko ya nje, tumeendelea kuwajibikia washikadau wetu na nina furaha kubwa kutangaza matokeo mema sana ya mwaka uliokamilika Desemba 31, 2018.”
>
> George Maina
> Mwenyekiti

Kuwajibikia wanahisa

Licha ya kuwa ulikuwa mwaka uliokuwa umejawa na changamoto nchini Kenya na katika masoko ya nje, tumeendelea kuwawajibikia wanahisa wetu na nina furaha kubwa kutangaza matokeo ya mwaka uliokamilika Desemba 31, 2018.

Kwa kuangazia imani katika biashara hii na matarajio kwa siku zijazo, Bodi ya Wakurugenzi imependekeza mgao wa KSh 31.50 kwa mwaka wa 2018, utakaolipwa baada ya kutozwa ushuru tarehe 10 Mei 2019 kwa wanahisa walio katika sajili kufikia Machi 14 2019. Kwa jumla, mgao wote wa mwaka wa 2018 ni KSh 35.00 kwa hisa moja (ambapo 2017 ilikuwa ni KSh 26.00 kwa hisa moja).

Bado ni vigumu kutabiri soko

Uchumi wa Kenya ulianza kuimarika tena 2018 baada ya mwaka mgumu wa 2017 ambapo biashara ilikuwa chini, bei ya bidhaa juu na muda mrefu wa uchaguzi.

Hali ya kisiasa iliimarika baada ya maafikiano “Handshake” kati ya Rais Uhuru Kenyatta na kiongozi wa upinzani Raila Odinga na kulingana na Benki ya Dunia, uchumi wa Kenya (GDP) ulitarajiwa kukua kutoka asilimia 4.9 mwaka wa 2017 hadi asilimia 5.7 mwaka wa 2018.

Hata hivyo, ukuaji huu bado haujawanufaisha Wakenya, ambao walikabiliwa na bei ya juu ya chakula na kawi na pia ongezeko la bei ya bidhaa.

Kutokana na hilo, mapato ya matumizi ya wateja yaliendelea kuathirika na mauzo yetu ya sigara nchini yaliathiriwa vibaya pia.

Athari hii kwa kiwango cha sigara tulizouza humu nchini ilizidishwa na ongezeko la sigara haramu katika soko la Kenya, lililo onekana kuongezeka kutoka asilimia 14.1 kutoka asilimia 12.4 katika kipindi kilicho sawa mwaka wa 2017.

Mauzo ya sigara haramu yanazuia serikali kupata kodi inayofaa, na pia huwa yanahatarisha maisha ya wavutaji kwa sababu utaratibu wa kutengeneza sigara haujulikani, kumaanisha kuwa hawajui kwa hakika kilicho ndani ya sigara hizo.

Kutokana na hilo, tutaendelea kushirikiana na mamlaka husika katika njia yoyote ile kusaidia katika kukomesha sigara haramu na kuhakikisha kuwa soko ni halali.

Ingawa soko letu la mauzo ya nje lilifanya vyema, hasa mauzo ya tumbaku iliyokatwa na kukaushwa ambayo iliongezeka kwa asilimia 149, kulikuwa na changamoto pia. Kulikuwepo machafuko na mapigano ya kiraia mwaka huo na kutokuwepo na uhakika wa kisiasa Katika Jamhuri ya Kidemokrasia ya Congo na nchi za Sudan na Somalia.

Ili kukabiliana na hali isiyotarajiwa, bidhaa zetu zimefikia peo kuu za bei na tunauza bidhaa katika nchi tofauti ili tuweze kuwakinga wanahisa dhidi ya hali hatari.

Tunajua vyema changamoto za kuhudumu eneo hili, lakini nguvu zetu asilia katika biashara, bidhaa zetu na watu wetu zinaendelea kutufanya imara zaidi ya wengine, na matokeo ya mwaka wa 2018 ni ithibati kamili.

Utambuzi wa nje

Ulikuwa mwaka mzuri kuhusiana na kutambuliwa nje. Mnamo Septemba, kwa mara ya pili mfululizo kwa njia huru tulitambuliwa kama mwajiri mzuri zaidi mwakani na Shirikisho la Waajiri nchini (FKE). Utambuzi huo ulifuatwa na kupewa cheti kutoka kwa shirika la kimataifa la Top Employers Institute kama moja ya makampuni bora zaidi kufanya kazi nchini Kenya na Afrika.

Tuzo hizo ni ithibati kwamba tumejitolea kukuza kampuni iliyo na uwezo wa kushinda chini ya nguzo ya mkakati wetu.

Kwa kuunganisha na kazi inayoendelea ya kuimarisha afisi zetu za kutengenezea sigara Nairobi, tunaamini kuwa tuna eneo la kazi ambalo linaweza kuvutia na kufanya wafanyikazi bora zaidi kukaa, na kuhakikisha kuwa tunaweza kuwashughulikia washikadau wetu sasa na siku zijazo.

BAT Kenya pia ilitambuliwa katika tuzo za Think Business zilizotolewa Desemba 2018. Kuambatisha nguzo zetu za kimkakati za ukuaji endelevu, kampuni yenu ilipokea tuzo mbili, kama mshindi katika tuzo za kampuni iliyowajibika zaidi katika jamii (Sustainable Corporate Social Responsibility) na nambari mbili katika tuzo za kampuni iliyonukuliwa vyema zaidi mwaka huo (Best Quoted Company of the Year).

Tumetangaza nyingi ya tuzo hizo katika tovuti yetu mpya (www.batkenya.com) ambayo imeundwa kuambatana na mahitaji yetu zaidi ya kutoa habari kwa washikadau kuhusiana na kampuni na jinsi inavyofanya.

Mabadiliko katika Bodi ya Wakurugenzi

Washikadau wengi zaidi wanafahamu kuwa mapema mwaka huu, Bodi ya Wakurugenzi ilitangaza kujiuzulu kwa Bi Teddy Mapunda kama Mkurugenzi Mtendaji asiye na mamlaka kuanzia Julai 1, 2018. Alikuwa mwanachama wa Bodi tangu Oktoba 2014.

Kwa niaba ya Bodi, ningependa kuchukua fursa hii kumshukuru Bi Mapunda kwa sababu ya mchango wake mzuri na kumtakia kila lema katika chochote afanyacho siku za usoni. Habari kuhusiana na kamati ya Bodi ya Kampuni zinaweza kupatikana katika kurasa 32 hadi 34.

Mtazamo

Ingawa mwaka wa 2018 ulikuwa mwema, ulikuwa na changamoto. Mwaka wa 2019 na keshoye, Bodi yangu ina imani katika kundi la usimamizi katika Kampuni na changamoto zitakazotukabili na kutwaa nafasi mpya na zilizopo.

Huku tukiwa tumepiga hatua njema katika mikakati yetu minne: Ukuaji, Uzalishaji, Uendelevu na Ukuzaji wa shirika lenye Ushindi, kampuni yenu imo katika hali nzuri kuendelea kukuza thamani endelevu kwa wanahisa katika miaka ijayo.

George Maina
Mwenyekiti

Managing Director's Review

> The progress we have made to date and the results we delivered in 2018 set a good pace for the future.
>
> Beverley Spencer-Obatoyinbo
> Managing Director

Good results in a challenging year

I am pleased to report that 2018 saw us deliver a strong set of results in what were challenging circumstances. Following a difficult 2017 in Kenya and across our export markets, we had committed to improve the financial performance of the business and that is exactly what we have done, with revenue and profit both up and financing costs down.

Our focus during 2018 therefore, was to address the challenges outlined in 2017 and we have met them head-on to deliver for shareholders and grow the top line.

Testing market conditions

Despite Kenya's economic growth in 2018, household income continued to be stretched. This was on the back of an increase in the cost of living as a result of additional tax on basic commodities affecting the consumer basket.

I am very pleased that our export markets delivered great returns for the business in 2018. Despite challenging conditions such as civil unrest and conflict, price rises and shortages of basic commodities, our resilience and business continuity planning was able to ensure sustained supply of relevant products to these markets, enabling the business to deliver for shareholders.

Kenya: a growing illicit market

The illicit market in tobacco is a growing global issue which can involve criminals producing counterfeit cigarettes, smuggling across borders and engaging in large-scale tax evasion.

At the end of 2017, research into illicit trade revealed that 12.4% of the cigarettes sold in the Kenyan market were illicit, either having been smuggled into the country, having been destined for a lower tax market that was never reached, or having been produced in Kenya with counterfeit tax stamps. Worryingly, and despite heightened attention from the authorities, as at the end of 2018 this figure had reached 14.1%. Of this percentage, counterfeit tax stamps accounted for 12.2% while cigarettes smuggled across borders stood at 87.8%.

It is therefore essential that the authorities take urgent action to investigate the source of these products and put in place the necessary measures and safeguards to ensure a wholly legitimate market for cigarettes. At the same time, we welcome and encourage the principle of fair competition which enables a wholly legitimate market to flourish.

It is important to stress that this trade is not a victimless crime. Not only does the illicit trade in cigarettes erode the legitimate market, it denies governments sorely needed revenue while, at the same time, the consumer is denied a quality-certified product. That is why we invest so much time and resources into tracking the issue and working with the authorities, such as the Government's inter-agency taskforce comprising the Anti-Counterfeit Agency, Kenya Revenue Authority (KRA) and Kenya Bureau of Standards (KEBS), to assist the Government to establish ways to stem illicit trade in cigarettes.

The regulatory and tax environment

Like many businesses that operate in a highly regulated industry, we welcome balanced, evidence-based regulations to govern the way we operate. We also believe that a stable regulatory and taxation environment is crucial for business as well as for government and the consumer. It facilitates responsible and sustainable business while supporting the manufacturing pillar of the Government's *Big Four* agenda – enabling the growth and development of over 85,000 adults involved in our business.

That is why we were pleased to see the Government take on board the concerns of business and amend the inflationary adjustment cycle from every two years to annually, providing much needed predictability and stability. However, while it is the last resort, and where we have exhausted all engagement options, we reserve the right to challenge certain issues in court. Regrettably, this was the case following the introduction in April 2017 of an unjustified 87% increase in the cost of tax stamps. In 2018, we filed a petition in relation to this matter due to lack of prior public consultation and that the cost of the excise stamp imposed upon the tobacco industry is completely disproportionate compared to products that have similar costs.

We also continue to await the judgment following our legal challenge against the Tobacco Control Regulations, 2014, which we instituted because we believe that specific elements of these regulations are excessive and unconstitutional.

At a regional level, much like 2017, our focus on developments within the Common Market for Eastern and Southern Africa (COMESA) has concentrated on accession of Free Trade Agreements and the elimination of tariff barriers, which would enable greater market access and further growth.

Delivering for the consumer

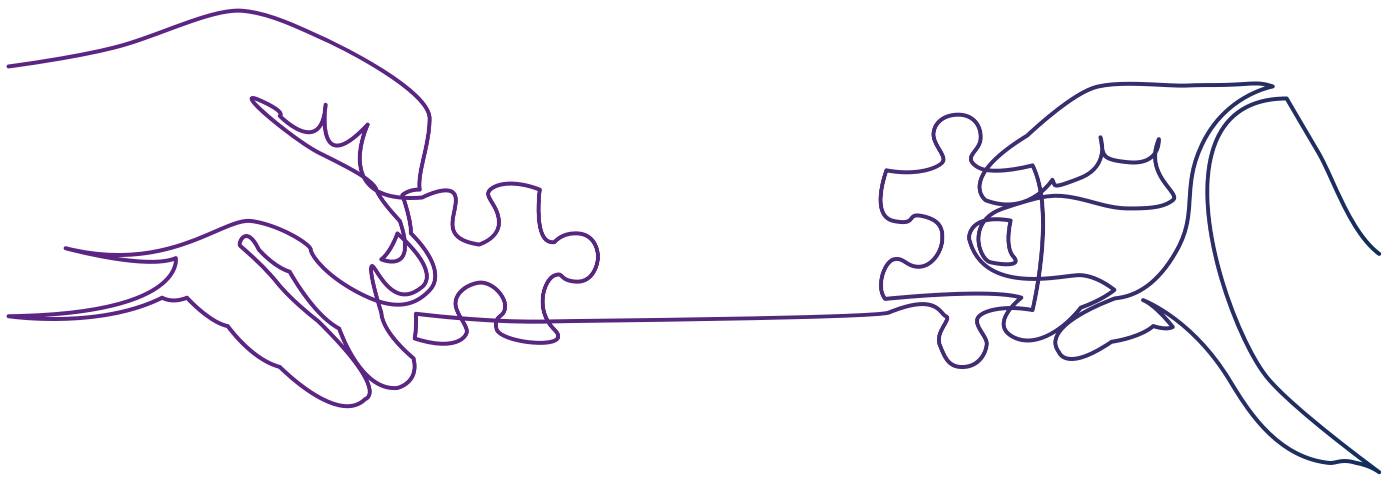
We recognise the consumer landscape is shifting and, in order to succeed, we have to shift with it. 2018 saw the next stage of our portfolio transformation, with the introduction of BAT Group's highest selling and most internationally recognisable cigarette brand, Pall Mall, to the Kenyan market. Through a strategic brand migration, the local Safari brand was transformed into the global Pall Mall brand and is already delivering impressive results.

Delivering excellence for the consumer demands that we hire and retain the very best talent in the market, and I am delighted with the progress we have made under the Winning Organisation pillar of our strategy. Not only have we completed the first phase of our office refurbishment, ensuring that we have one of the best workplaces in Africa, we were once again recognised by the Federation of Kenya Employers (FKE) as the Best Overall Employer of the Year and certified as a Top employer in Kenya and Africa by the global Top Employers Institute.

Confidence in the future

The progress we have made to date and the results we delivered in 2018 set a good pace for the future. My management team and I are confident that we can continue to meet the expectations of our shareholders as a result of the clear strategy and business model in place. With the right products and the right people, working hard to ensure the strategy is executed effectively and efficiently, I look forward to many successful years ahead for our business.

Beverley Spencer-Obatoyinbo
Managing Director



Taththmini ya Mkurugenzi Mkuu

Hatua tulizopiga kwa sasa na matokeo tuliotimiza mwaka wa 2018, zinajenga nguzo mwafaka kwa siku sijazo.

Beverley Spencer-Obatoyinbo
Mkurugenzi Mkuu

Matokeo mema katika mwaka uliokuwa na changamoto

Nina furaha kuripoti kuwa mwaka wa 2018 tulikuwa na matokeo mema katika hali iliyokuwa imejawa na changamoto.

Kutokana na hali ngumu mwaka wa 2017 nchini Kenya na katika masoko ya mauzo ya nje, tulikuwa tumejitolea kuimarisha mapato kutokana na biashara na hivyo ndivyo tumefanya, kwa kuwapa ongezeko la mapato na faida na kupunguza gharama za kukopa.

Lengo letu mwaka wa 2018 hivyo lilikuwa ni kukabiliana na changamoto tulizoshuhudia mwaka wa 2017 na tumekabiliana nazo moja kwa moja ili kuwafaa wanahisa na kukuza mapato ya jumla.

Changamoto za soko

Licha ya ukuaji wa uchumi nchini Kenya mwaka wa 2018, mapato halisi ya wananchi yaliendelea kupunguka. Hii ni kwa sababu kulikuwa na ongezeko la gharama ya maisha kutokana na kuongezwa kwa ushuru kwa bidhaa za kimsingi na kuathiri soko.

Nina furaha kwamba soko letu la mauzo ya nje lilitoa matokeo mazuri kwa biashara mwaka wa 2018. Licha ya changamoto kama vile machafuko ya kiraia na migogoro, ongezeko la bei na uhaba wa bidhaa za kimsingi, uwezo wetu wa kuvumilia na ukuaji wa mipango ya biashara ulihakikisha kuwa bidhaa zimesalia sokoni, na kuwezesha biashara kuwapa washikadau matokeo bora.

Kenya: ukuaji wa soko haramu

Soko haramu la tumbaku linaendelea kukua ulimwenguni na limekuwa suala la kuleta hofu kwani limeweza kushirikisha wahalifu katika kutengeneza sigara ghushi, kulagua sigara kwa kuvukisha mipaka na kuepa kulipa ushuru wa kiwango cha juu.

Kufikia mwishoni wa 2017, utafiti uliofanywa kuhusiana na suala la biashara gushi ulionyesha kuwa asilimia 12.4 ya sigara zilizokuwa zikiuzwa nchini Kenya zilikuwa ni haramu baada ya kutovukishwa mpaka hadi nchini zinazofaa kuuzwa kwa lengo la kulipa ushuru wa kiwango cha chini, au zilizotengenezwa nchini na muhuri wa ushuru gushi ili kuepuka kulipa kodi.

Lakini cha kutia hofu ni kwamba, licha ya hali hiyo kuvutia serikali, kufikia mwishoni mwa 2018, takwimu hizo zilikuwa zimefika asilimia 14.1. Kati ya asilimia hii, kiwango cha sigara zilizo na mihuri za ushuru gushi ni asilimia 12.2 ilihali sigara zilizoingizwa nchini kupitia njia ya ulaguzi wa mipakani kilikuwa ni asilimia 87.8.

Hivyo, ni muhimu kwa mamlaka husika kuchukua hatua za dharura na kuchunguza kiini cha bidhaa hizo na kubuni mikakati ili kuhakikisha kuwa sigara zote zilizomo nchini ni halali. Wakati huo, tunakaribisha na kuhamasisha kuhusiana na kanuni ya mashindano ya haki ambayo huwezesha soko haki kuimarika.

Ni muhimu kusisitiza kuwa biashara hii ina waathiriwa pia. Sigara haramu hutatiza soko halali na kuinyima serikali mapato yanayohitajika sana na pia kukosesha wateja bidhaa bora.

Na ndio maana tunafaa kuwekeza wakati mwingi katika kufuatilia suala hilo kwa kushirikiana na mamlaka husika kama vile jopo la serikali linalohusisha mashirika mbali mbali likiwemo Shirika la Kukabiliana na Bidhaa Ghushi, Mamlaka ya Ukusanyaji Ushuru(KRA), na Shirika la Kutathmini Ubora wa bidhaa (KEBS), kuisaidia serikali katika kubuni njia za kukabiliana na biashara haramu ya sigara.

Sheria na mazingira ya ushuru

Kama biashara nyingi ambazo hufanywa katika mazingira yaliyosimamiwa kisheria, tunakaribisha sheria na kanuni zinazohakikisha kuwa kuna usawa, zilizotungwa kutokana na ithibati kusimamia jinsi tunavyohudumu. Pia tunaamini kuwa mazingira imara ya usimamizi wa kisheria na utozaji ushuru ni muhimu sana kwa biashara, serikali na mteja.

Huwa inarahisisha biashara endelevu pamoja na kuhimili nguzo ya utengenezaji wa bidhaa katika Ajenda Nne za Maendeleo za Serikali – kwa kuwezesha ukuaji na kuimarika kwa zaidi ya watu 85,000 wazima wanaohusika katika biashara yetu.

Na ndio maana tulifurahia sana kuona serikali ikichukulia kwa umuhimu mkubwa maoni ya biashara na kuamua kuongeza ushuru kila mwaka badala ya baada ya miaka miwili kukabiliana na mfumo wa bei ya bidhaa. Hatua hii imewezesha kampuni kuwa na uwezo wa kutabirika na kuwa imara.

Hata hivyo, ingawa hiyo ni hatua ya mwisho, wakati ambapo tumejaribu njia zote za majadiliano, bado tuna haki ya kwenda mahakamani kukabiliana na baadhi ya mambo.

Cha kujutia ni kuwa hali ilikuwa hiyo baada ya gharama ya muhuri wa ushuru kuongezwa kwa asilimia 87 kwa njia isiyo haki.

Mwaka wa 2018, tuliwasilisha kesi mahakamani kuhusiana na suala hilo kutokana na kuwa hakukuwa na mashauriano ya umma na kwamba gharama ya muhuri wa ushuri wa sigara ni ya juu ikilinganishwa na bidhaa zilizo na gharama ya sigara.

Pia, tunaendelea kungoja uamuzi wa mahakama baada ya kuwasilisha pingamizi kuhusu Kanuni za Kudhibiti Tumbaku, 2014, tuliyowasilisha kwa sababu tunaamini kuwa baadhi ya vipengee vimekiuka mipaka na haviambatani na Katiba.

Katika eneo kubwa la Afrika, kama ilivyokuwa 2017, lengo letu katika mambo yaliyokuwa yakiendelea katika Soko la Pamoja la Mashariki na Kusini mwa Afrika (COMESA) limekita katika makubaliano ya soko huru (FTA) na kuendelea kwa vikwazo vya ushuru, hatua itakayotoa nafasi kubwa ya kufikia soko kubwa zaidi na ukuaji zaidi.

Kuwajibikia wateja

Tunatambua kuwa mazingira ya watumiaji yanabadilika, hivyo, ili kufaulu, lazima hata nasi tubadilike. Mwaka wa 2018 pia kulikuwa na mageuzi ya bidhaa ambapo BAT ilianzisha sigara inayotambuliwa sana kimataifa, Pall Mall, nchini Kenya.

Kupitia kwa uhamiaji wa kimkakati kwa bidhaa, sigara ya humu nchini, Safari, iligeuzwa kuwa Pall Mall na inaendelea kufanya vyema sokoni.

Ili kuwapa wateja bidhaa bora, inatubidi kuajiri na kuhifadhi talanta bora zaidi sokoni na nina furaha kuhusiana na maendeleo tuliyopata kutokana na Nguzo la Shirika lenye Ushindi katika mkakati wetu.

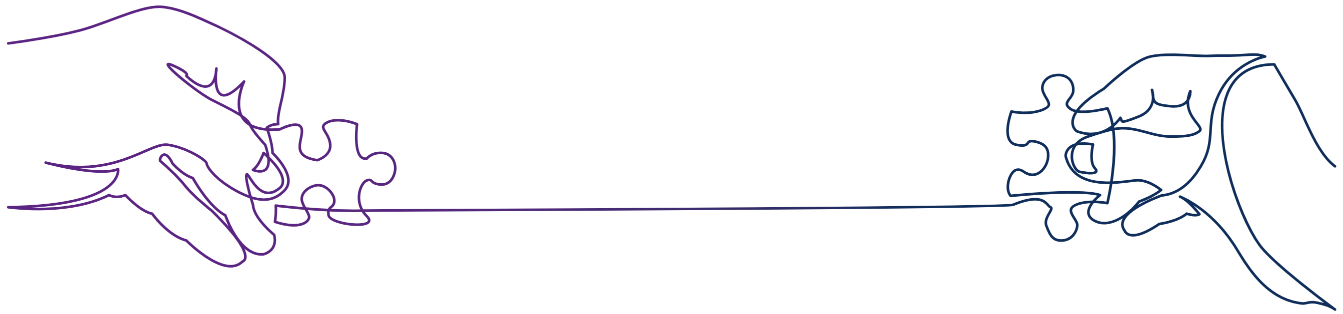
Sio tu tumemaliza awamu ya kwanza ya utengenezaji upya wa afisi yetu, kuhakikisha kuwa tuna mandhari bora zaidi ya kufanyia kazi Afrika, kwa mara nyingine, tulitambuliwa na Shirikisho la Waajiri Kenya (FKE) kama mwajiri bora zaidi mwakani na kuidhinishwa kama mwajiri mwema zaidi Kenya na Afrika na shirika la kimataifa la Top Employers Institute.

Imani katika siku zijazo

Maendeleo tuliyofanikiwa kufikia sasa na matokeo ya 2018 yameweka msingi bora wa siku zijazo.

Kundi langu la usimamizi wa kampuni pamoja nami tuna imani ya kuwa na uwezo wa kuendelea kutimiza matarajio ya wanahisa wetu kutokana na mkakati wazi na mtindo wa kibiashara tulio nao. Tukiwa na bidhaa sawa na watu sawa, kutia bidii kuhakikisha kuwa mkakati unatekelezwa vyema, ninatarajia katika muda wa miaka mingi ijayo itakuwa mafanikio kwa biashara yetu.

Beverley Spencer-Obatoyinbo
Mkurugenzi Mkuu



Finance Director's Overview

Finance Director's Overview

> Our Business delivered a strong set of financial results in 2018, in line with our objective to turn around business performance.
>
> Sidney Wafula
> Finance Director

A good turnaround in financial results

Our Business delivered a strong set of financial results in 2018, in line with our objective to turn around business performance after the reduced set of results in 2017. This was despite a difficult operating environment. Trends on key performance measures are noted below:

Increased revenue and operating profit

Net revenue grew by 11% to KSh 20,750 million. This was driven by excise-led pricing in the Kenya and export markets, together with higher cut rag sales volumes into Sudan.

The pricing and volume benefits described above more than offset the adverse impact of lower sales volume in the Kenya market, where consumer affordability challenges led to a 3.5% drop in volumes.

Operating profit increased by 16% to KSh 6,219 million. The revenue increase and productivity savings of KSh 606 million more than offset incremental investments in marketing and workplace transformation, higher performance incentives and incremental regulatory costs of KSh 162 million due to the unexpected 87% increase in cost of tax stamps in April 2017.

Improved operating margin and profit before tax

The revenue growth more than offset the impact of increased spend and resulted in a 130 bps improvement in our operating margin (operating profit as a percentage of net revenue).

Profit before tax increased by 21% to KSh 5,881 million, in line with the incremental operating profit increase and was boosted by a 32% reduction in financing costs resulting from the strong operating results and better working capital management in 2018.

Tax

The effective corporate tax rate was 30.5% (2017: 31.5%). This was driven by lower disallowed expenses in 2018 and a higher deferred tax charge in 2017 related to land and buildings not eligible for tax allowances.

Major taxes included in our Financial Statements are as shown below:

	2018 KKSh'mns	2017 KKSh'bns
Tobacco Excise	12,064	12,290
Value Added Tax	3,683	3,504
Corporation tax	1,952	1,509
Pay As Your Earn	562	725
Total	18,261	18,028

The decline in tobacco excise taxes is in line with the reduced sales volumes in Kenya, on the back of increased illicit trade in cigarettes and affordability challenges. We continue to engage government agencies to further support the fight against illicit trade which will ultimately result in sustained increases in government revenues in line with our business performance.

Dividends

This year, the Company will pay dividends of 86% of earnings (2017: 78%), calculated with reference to the diluted earnings per share. With the recommended final dividend of KSh 31.50 per share, the total dividends per share for 2018 are KSh 35.00 per share, compared to KSh 26.00 per share in 2017.

Solid cash flow generation

Cash generated from operations increased by 12% to KSh 7,207 million, reflecting the strong business performance and working capital management during 2018.

Alternative cash flow

The IFRS cash flow includes all transactions affecting cash and cash equivalents, including financing. The alternative cash flow included here is presented to illustrate the cash flows before transactions relating to borrowings. The conversion of operating profit to cash generated from operations remains strong and we continue to focus on ensuring this trend remains into the future.

	2018 KSh'mns	2017 KSh'mns
Operating profit	6,219	5,361
Depreciation and amortisation	517	781
Operating profit before depreciation and impairment	6,736	6,142
Increase in working capital	96	284
Capital expenditure*	(858)	(379)
Operating cashflow	5,974	6,047
Net interest paid	(338)	(494)
Tax paid	(1,555)	(1,216)
Cash generated from operations	4,081	4,337
Operating cashflow conversion	96%	113%

* Capital expenditure includes a KSh 389 million investment to upgrade the Nairobi Likoni Road office and transform it into a world class place to work in line with our strategy to deliver a Winning Organisation.

Other matters

Accounting standards and policies

BAT Kenya has prepared its annual Consolidated Financial Statements in accordance with IFRS. The application of the accounting standards and the accounting policies adopted by BAT Kenya are set out in the Group Manual of Accounting Policies and Procedures (GMAPP).

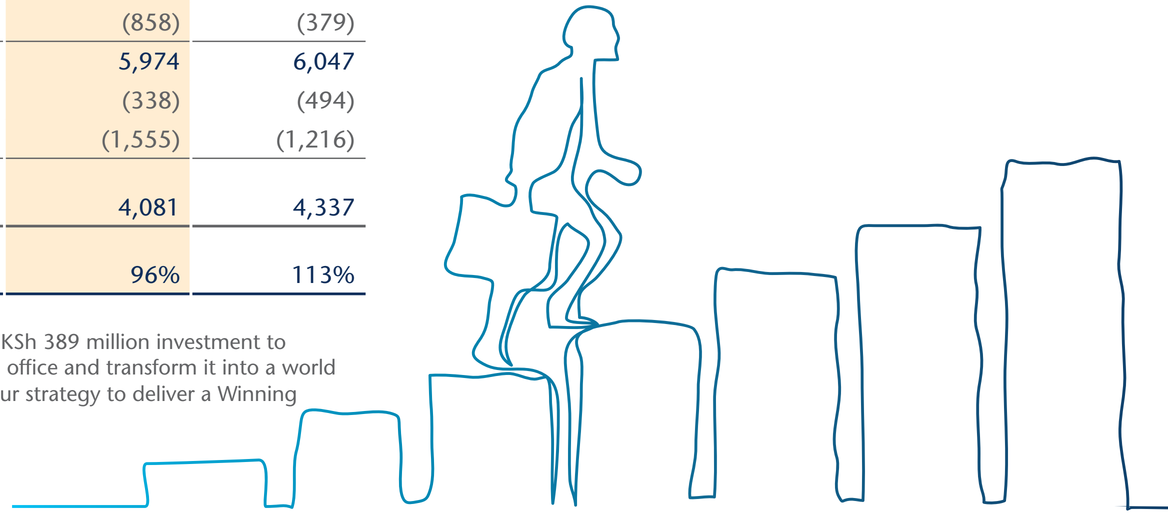
During 2018, new standards governing the accounting and disclosure of Financial Instruments (IFRS 9) and Revenue from contracts with customers (IFRS 15) became effective. The BAT Group adopted IFRS 15 requirements in 2017 under the early adoption option. Under IFRS 9, the recognition of potential impairment of receivables under the expected loss model has resulted in an income statement charge of KSh 9 million.

Future changes in accounting standards to be applied by the Group are set out in the Notes on the Financial Statements (Note 3 - Changes in significant accounting policies). The impact of the standards applicable in 2019 is not expected to be material to the Company's results.

Delivering for the future

Our financial results illustrate our commitment to deliver improved performance and invest in growth opportunities while navigating a challenging operating environment. We will strive to sustain this performance into the future.

Sidney Wafula
Finance Director



Our strategic framework for transforming tobacco

Our strategy enables us to deliver growth today while driving the investment required to deliver our transformational agenda. Our vision remains clear: while combustible tobacco products will remain at the core of our business for some time to come, we understand that long-term sustainability will be delivered by our transforming tobacco ambition.

STRATEGIC REPORT

Our vision

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

Our consumers are at the core of everything we do and our success depends on addressing their preferences, concerns and behaviours.

We know that these are fragmenting and evolving at an unprecedented pace, and consequently, we are clear that to win in this space we need to understand our consumers' preferences and further invest in a pipeline of ever evolving innovations.

Strategic focus areas

Our four key focus areas remain fundamental to our strategy as we focus on our transforming tobacco ambition.

GROWTH

Developing our portfolio while continuing to drive revenue growth from our traditional combustible products.

WINNING ORGANISATION

Ensuring we have great people with the right skill sets in the right teams to drive the transformation of our business.

PRODUCTIVITY

Effectively deploying resources and managing our cost base to release funds for investment.

SUSTAINABILITY

Ensuring a sustainable business that meets the expectations of all our various stakeholders.

Our mission

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

We have long known that, as part of a major international business, we have a responsibility to address societal issues with our tobacco products, and that, as our business continues to grow, so does our influence and the responsibility that comes with it.

We are also clear that we have a duty to our shareholders to ensure we continue to deliver today and invest for a sustainable future and to our consumers to provide high quality tobacco products.

Our transforming tobacco ambition, with its core objective of providing consumers with more choice and more innovation will allow us to: satisfy these consumers; address societal concerns at large and provide a sustainable, profitable future for our shareholders.

Guiding principles

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

Enterprising spirit

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

Freedom through responsibility

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

Open minded

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

Strength from diversity

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

Our business model

At the centre of our business is the manufacture and marketing of superior combustible tobacco products, which we have been doing for more than a century.

Our sustainable approach to sourcing, production, distribution and marketing helps us to create value for a wide range of stakeholders, from farmers to consumers.

We use our unique strengths and employ our resources and relationships to deliver sustainable growth in earnings for our shareholders.

Our people and relationships

We employ over 400 permanent employees, with a workforce that is diverse and multi-cultural. The quality of our people is a substantial contributor to our success. In return, we commit to investing in our people as we do in our brands. We encourage a culture of personal ownership and value our employees' talents and abilities. Their diverse perspectives help us succeed.

We also have excellent relationships with a range of stakeholders, including farmers, retailers and distributors.

We engage with the relevant regulators to support regulation that is based on robust evidence and thorough research, that respects legal rights and livelihoods and delivers on the intended policy aims while recognising unintended consequences.

Source

What we do

While the Company does not own tobacco farms or directly employ farmers, we contract over 5,000 farmers to produce high quality tobacco leaf for our tobacco products.

What makes us different

- We provide on-the-ground support and advice for our contracted farmers to help ensure consistency and quality of tobacco leaf.
- We facilitate crop insurance, health insurance and provide interest-free loans in the form of farm inputs to further support our farmers.
- We use global best practices to ensure we work with reliable, efficient and responsible farmers.

Produce

What we do

We manufacture high quality products in our manufacturing hub which comprises a cigarette factory in Nairobi and a green leaf threshing plant (GLT) in Thika. We also ensure that these products and the tobacco leaf we purchase are in the right place at the right time. We work to ensure that our costs are globally competitive and that we use our resources as efficiently as possible.

What makes us different

- The Kenya manufacturing hub is one of the BAT Group's three strategic factories in Africa. Its location enables us to maximise efficiency and ensure that products for both the domestic and export markets are where they need to be at the right time.
- Our production facilities are designed to meet the needs of an agile and flexible supply chain and provide a world-class operational base that is fit for the future.

Consumers

We place consumers at the centre of our business and invest in world-class research to understand changing consumer preferences and buying behaviour. This drives our leaf sourcing, product development, innovation, brands and trade activities.

We aim to satisfy consumers with a range of inspiring products and address expectations about how we should market them.

Market

What we do

We offer adult consumers a range of high-quality cigarettes. Our portfolio covers all segments, from value for money to premium.

- Our successful portfolio of global and local cigarette brands continues to deliver significant value over the long term and meet a broad array of adult consumer preferences, based on sound consumer insights.

Distribute

What we do

We distribute our products effectively and efficiently using distribution models suited to the respective circumstances and conditions of where we operate. Most of our cigarette volume is sold by retailers, supplied through our distributors.

We continuously review the route to market for our products, including our relationships with wholesalers, distributors and logistics providers.

- Our relationships with, and efficient distribution to, retailers countrywide ensures that we can offer the products our adult consumers wish to buy, where and when they want them.
- Our distribution capability enables new product innovations to be distributed to markets quickly and efficiently.

Resources for success

Innovation

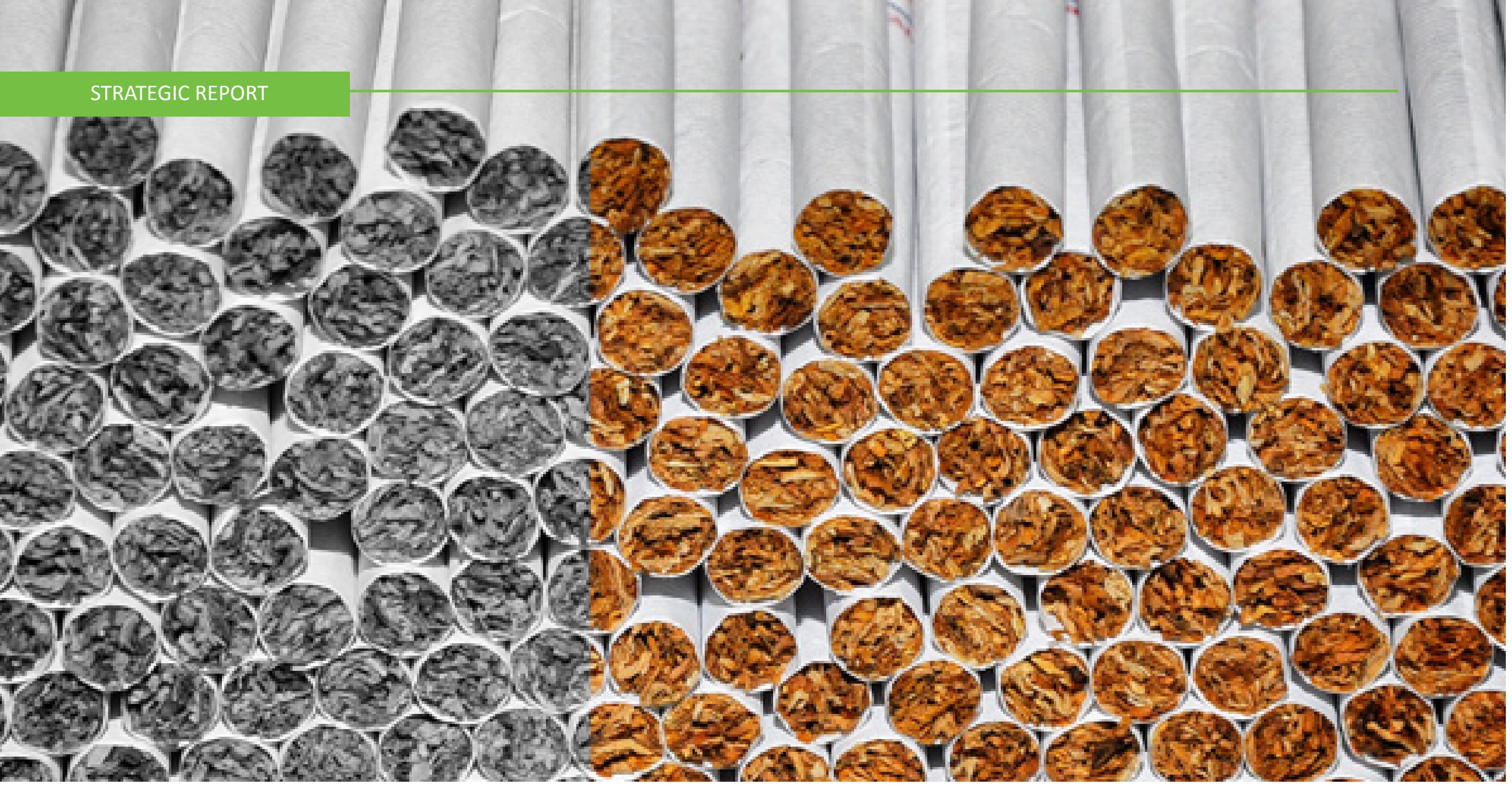
We make significant investments to deliver innovations, such as capsule products, that satisfy or anticipate consumer preferences and generate growth for the business across all categories.

World class science

As part of the BAT Group, we benefit from scientific research programmes in a broad spectrum of scientific fields including molecular biology, toxicology and chemistry.

The BAT Group is transparent about its science and publishes details of its research programmes on its dedicated website www.bat-science.com and the results of its studies in peer-reviewed journals.

Business Review



GROWTH

Delivering sustainable consumer value through portfolio transformation

We consistently strive to offer the highest quality and most innovative product range to satisfy the different preferences of our consumers. In line with this objective, 2018 marked the beginning of a journey to transform our brand portfolio, which consisted of introducing new brand offerings and innovations to the market.

In October 2018, we introduced BAT's global highest selling Value for Money (VFM) cigarette brand, Pall Mall, into the Kenyan market. Through a strategic brand migration, the local Safari brand transformed into the strong global brand, Pall Mall. With Pall Mall already registering a strong performance in the short time it has been in market, this move has set the pace for further initiatives geared towards total portfolio transformation in line with our Strategic Leadership Agenda: deliverasone2022.

Building capabilities to drive growth

The success of our brand portfolio has been enabled by a competent and committed Field Force. To further build their capabilities, we drive various capacity building initiatives including POSITIVE, a global competency framework for our trade, marketing and distribution team. The programme continues to deliver excellent results in building world class trade management skills for our Field Force and has contributed immensely to business growth.

Further, to bolster all round competencies within the brand teams, we rolled out a new way of building brands through a new innovative framework which enables our teams to effectively implement brand objectives.

> Our focus on all round capacity building has resulted in highly competent and engaged teams. Our field force is well equipped to support and build sustainable partnerships with our trade partners which drives excellent execution of trade initiatives, resulting in the achievement of mutual business goals.

Darryn Bassa,
BAT Kenya, Head of Marketing

PALL MALL BY SAFARI RANGE

18 AND ABOVE ONLY

Sale of tobacco products to any person under the age of 18 years is prohibited by law.

WARNING: SMOKING HARMS PEOPLE NEXT TO YOU

ILANI: UVUTAJI WA SIGARA HUDHURU WATU WALIO KARIBU NAWE

PRODUCTIVITY

World class manufacturing capabilities

In line with our ambition to transform tobacco, we continue to invest in our business to build future-fit manufacturing capabilities.

In 2018, our sustained implementation of Integrated Works Systems (IWS) continued to be a key driver of excellent business results. IWS is a structured approach that was introduced in 2015 and has yielded breakthrough results in factory efficiencies, productivity, savings, waste reduction and consistent delivery of quality tobacco products.

We have activated critical pillars of IWS that encourage our manufacturing team members to proactively organise their own work schedules, devise and apply effective machine maintenance practices, eliminate losses, seek appropriate training and ultimately maintain high quality production standards all without compromising on Environment, health and safety.

Our manufacturing efficiencies improved by an average of 5.2% in 2018 compared to 2017. This led to a capital expenditure avoidance of over KSh 200 million. Our supply chain team delivered product to our customers on time and in full to a world class service frequency level of 99%.

Our focused loss elimination approach drove improvements in financial metrics in 2018, with manufacturing cost per unit reducing by 12% and wrapping material waste reducing by 4% versus 2017.

> **In October 2018 and for the first time ever, our Nairobi factory surpassed the 70% mark for Overall Equipment Effectiveness (OEE) which is an excellent milestone for us. This achievement is a result of the ongoing IWS improvement journey at our factory, which has helped us enhance capabilities and passion within our team to deliver and sustain breakthrough results.**
>
> Seyi Adeyemo,
> BAT Kenya Head of Operations

STRATEGIC REPORT

Energy management

We are proud that our investments in energy conservation continue to deliver savings and win accolades. During the 2018 Energy Management Awards, the Kenya Association of Manufacturers (KAM) recognized BAT Kenya as the best company in Sustained High Performance and Fuel Savings.

Our continued investment in energy saving projects coupled with improved factory efficiencies has led to a significant reduction in our total energy consumption per unit of production.

We also continuously work to reduce water consumption through water reticulation projects and improvement of monitoring systems that measure water use at our factory sites.

We are currently commissioning an effluent treatment system to boost water recycling. These initiatives have resulted in a 14% reduction in our water usage per unit of production in the 12 months of 2018.

During the year, we achieved and sustained waste recycling at 100%, thus ensuring zero waste to landfill sites. All solid waste generated at the factory is sold-off for recycling and the sale proceeds are used to manage the costs of running the waste management plant.

Health and safety

The safety of our employees, contractors and visitors to our sites is a top priority for the business. In 2018, we continued to enhance our safety culture through our Incident Elimination Daily Management System; helping us achieve a remarkable milestone in November, of SIX YEARS with no lost time due to injury to an employee.

A WINNING ORGANISATION

Our Strategic Leadership Agenda: *deliverasone2022*

At BAT Kenya, we pride ourselves in providing a line of sight of the business strategy to all our employees. We believe that when teams are engaged and clear on the business deliverables, they are more energised, collaborative and agile and deliver great results. With our five-year business transformation and growth agenda - #deliverasone2022 - having been introduced and articulated to employees in 2017, we continued the journey in 2018, placing more emphasis on employee engagement to further drive energy, collaboration and agility in our ways of working.

Organisational Excellence: *Global certification and local recognition*

Our business has always been guided by the highest standards of excellence. Our reputation for high quality and innovative tobacco products is the result of our commitment to recruiting, developing and retaining outstanding employees and building a great place to work. For this commitment, BAT Kenya was certified as a Top Employer in Kenya and Africa by the globally recognised Top Employers Institute. We were also named for the 2nd consecutive year, as Kenya's Overall Best Employer of the Year by the Federation of Kenya Employers.

top EMPLOYER KENYA 2018
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

top EMPLOYER AFRICA 2018
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

Building a legacy of leaders

Investing in our key talent remains a priority and enables us to provide a superior employee value proposition, whilst at the same time ensuring a solid talent pipeline for the future.

BAT Kenya continues to be a proud exporter of talent within the BAT Group, with 14 employees currently on assignment in Asia-Pacific, Europe and across Africa.

In 2018, we sustained our investment in the next generation of talent - #nextgentalent - through our Global Graduate Programme, with an intake of 12 graduates (four men and eight women) across the Business. These graduates are undergoing a robust twelve-month leadership and business training programme and upon successful completion, they will join our first level management team.

Further efforts to build the next generation of talent - #nextgentalent - saw BAT Kenya

participate in the much-acclaimed BAT Group's 2018 Global internship competition – Battle of Minds. This is an exciting business challenge aimed at attracting university students to join BAT through a team-based competition, focused on finding the brightest fresh business minds around the globe. The Kenya team made it to the finals at Regional level (Americas & Sub-Saharan Africa) and the team's three finalists are currently part of our Global Graduate Programme.

A great place to work

Our people strategy is underpinned by our Guiding Principles: strength from diversity, open minded, enterprising spirit and freedom through responsibility. These principles provide certainty about what we stand for and act as a compass to guide our behaviour. We have gone a step further in defining our culture and ways of working through a powerful set of behaviours - #energisedcollaborativeagile. These were a key driver of a major workplace rejuvenation of our Nairobi headquarters, transforming it into a modern, bright and world-class place of business. Our new workplace now provides a more open space, opportunities for collaboration and improved face-to-face interaction, culminating in enhanced productivity.

Another vital pillar of building a great place to work is diversity. It goes a long way in driving sustainable employee engagement. For us, diversity means embracing the differences brought about by a rich mix of employees, across multiple facets such as gender, nationalities and professional experience and skills. We currently have over 10 nationalities, with 38% of women in managerial positions, and employees with over 15 years of service accounting for 27% of the population.

> **We are committed to providing an energised, collaborative and agile workplace culture that lets people embrace their unique differences and grow within the organisation. As a result, we continue to recruit and retain the best and brightest talent.**
>
> Razeeah Belath,
> BAT Kenya, Head of Human Resources

OUR SUSTAINABILITY APPROACH

Enhancing farmer livelihoods

In 2018, we continued to partner with approximately 5,000 tobacco farmers who are mainly concentrated in Migori, Bungoma, Busia and Meru counties. Our long and proud history of building sustainable relationships with these contracted farmers has yielded mutual benefit. We continued to facilitate crop and health insurance for our farmers. Over 43% are now members of the National Hospital Insurance Fund (NHIF) - allowing them access to medical care for themselves and their dependents. Our crop insurance scheme paid out KSh 48 Million to farmers who suffered crop failure as a result of harsh weather during the 2017/18 tobacco season.

> **“Going forward, our leaf operations will continue to deliver high quality leaf through sustainable partnership with our farmers, while maintaining a positive social, financial, physical, human and natural impact in the communities where we operate.”**
>
> Simukai Munjanganja,
> BAT Kenya,
> Head of Legal & External Affairs

Despite ever-changing climate conditions, our partnership with our farmers yielded 8.9 million kilogrammes of tobacco, earning them a net pay of KSh 1.5 billion representing a 28.8% revenue increase over 2017. Farming yields per unit area increased by 20%. To drive crop diversification and food security, farmers were also issued with 25.7 tons of certified maize seeds to promote food security and provide extra income from sale of any surplus maize harvested, which is part of our sustainable agriculture program “THRIVE” and aligned with the global Sustainable Development Goals.

The farmer Savings and Co-operative Societies (SACCOs) introduced in 2016 continue to thrive, with farmers now able to save and generate additional income to empower themselves.

Our socio – economic contribution

Our operations in Kenya span over 100 years. Throughout this period, we have consistently contributed to the socio-economic development of the country. BAT Kenya generates direct and indirect employment and business opportunities for more than 85,000 Kenyans in tobacco farming and processing, cigarette manufacturing, tobacco product distribution, urban and rural retailing, wholesale trade, transport, logistics and domestic procurement amongst others. This has further benefited thousands of people in the communities where we operate.

Our year-on-year investments and tax remittances to the Exchequer have further contributed to the Country’s economic growth. Over the past five years, we have invested more than KSh 8 billion in tobacco farming, leaf processing and our cigarette manufacturing factory in Nairobi, and paid over KSh 87 billion to the Exchequer in the form of various taxes. We are also a leading exporter in Kenya, making us a significant foreign currency earner for the country.

We protect the environment in which we operate

Reducing the environmental impacts of what we do is a key priority for us and as such, we work with local communities and relevant authorities to address impacts from our business activities as well as environmental pressures caused by the evolution of our ecosystems such as climate change and impacts of human activity.

In the last five years, we have planted over 6.5 million trees across the country in partnership with tree farmers and local stakeholders. On the biodiversity front, we partner with South Nyanza Sugar Company Limited (Sony Sugar) on a bagasse briquetting plant to provide alternative fuel for tobacco curing. Currently, the briquetting plant has a capacity to produce briquettes to cure up to 40% of the tobacco we will grow in the next five years thus saving millions of trees.

Our approach to regulation

During 2018, we continued to operate within a challenging regulatory environment. In December 2014, the Cabinet Secretary for Health gazetted the Tobacco Control Regulations, 2014 (TCR 2014) which were intended to guide the implementation of the Tobacco Control Act, 2007. We filed a legal challenge against some of the provisions of the TCR 2014, including the introduction of the solatium compensatory contribution, extension on public place smoking and restrictions on government and industry interaction. Our challenge was premised on a number of grounds including the unconstitutionality of some of the provisions and failure of the Ministry of Health to promptly release the required technical information for the implementation of the TCR 2014. The challenge was heard by the Supreme Court on 25 April 2018 we now await the court’s judgment on notice.

We reiterate that we are not opposed to regulation. We support regulation that is balanced, evidence-based and will actually help to achieve the intended objectives. Regulation that is ill-thought through might have unintended consequences such as stimulating illicit trade and the harassment of members of the public and traders. We will therefore continue to seek opportunities to contribute to the debate and work constructively with the relevant regulators to address industry issues.

Working with counties

The devolved system of Government continues to evolve. From a regulatory front, this system has presented challenges for the Business as some counties seek to introduce new business levies and regulations, which are bound to add cost and complexity to our business. One such example of this is the Nairobi City County Tobacco Control Bill, 2018. The Bill was tabled before the County Assembly for first reading on 4 December 2018 and is now undergoing review by the Health Services Committee.

In addition to the increased cost and complexity, we are concerned that several provisions in the Bill are unnecessarily duplicated in the Tobacco Control Act, 2007 and the TCR 2014; and that it lacks a Regulatory Impact Statement which is critical given that it contains several proposals with significant economic impact.

We'll be seeking to address these challenges through engaging our stakeholders including the Nairobi City County, to highlight the potential impact of this approach on the sustainability of our operations.

As we continue our work to transform tobacco, 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 continued to devote considerable resources to stem the illicit trade in tobacco products and engage with relevant stakeholders to ensure sustainability of industry revenues, which in turn results in sustainable government revenues.

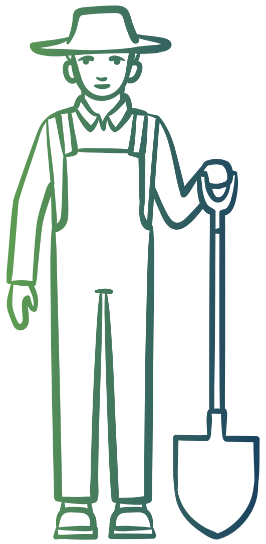
In 2018, we welcomed the Government’s decision to prioritise illicit trade with the appointment of a dedicated multi-agency team to deal with the issue and will continue to engage with this team and other relevant stakeholders with a view to widen the scope of the current initiatives so as to better identify the source of manufacture for illicit cigarettes and activity.

We are concerned, however, that despite heightened attention from the authorities, the illicit trade in cigarettes continues to grow. At the end of 2017, we commissioned research which found that 12.4% of the cigarettes sold in the Kenyan market were illicit. These cigarettes were predominantly tax evaded, denying government much needed revenue. At the end of 2018 this figure had reached 14.1%, meaning that the Government was denied approximately KSh 2.5 billion in taxes.

We call for urgent action to investigate the source of these products and put in place the necessary measures and safeguards to ensure a wholly legitimate market for cigarettes.

A tree for every Kenyan:

To date, we have recorded over **50 million** surviving trees planted in partnership with our farmers since 1978.



Corporate Governance

Board of Directors

George Maina
Independent Non-Exec Chairman

Nationality: Kenyan

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

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

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

Beverley Spencer-Obatoyinbo
Executive Managing Director

Nationality: British/Nigerian

Position: Managing Director since 2 May 2017.

Skills and experience: Beverley most recently held the position of BAT Area Director Swiss Cluster based in Switzerland. She joined BAT in 1996 from the pharmaceutical industry. She has held various senior roles within the BAT Group including, Marketing Director BAT Nigeria, General Manager BAT Egypt, Area Director for BAT West Africa Area and Head of Human Resources for BAT East Europe, Africa and Middle East Region.

Key Appointments: She is currently also the Area Director for BAT East and Central Africa Area based in Nairobi and is Chair of the Kenya Association of Manufacturers (KAM) Multinational CEOs Caucus.

Sidney Wafula
Executive Finance Director

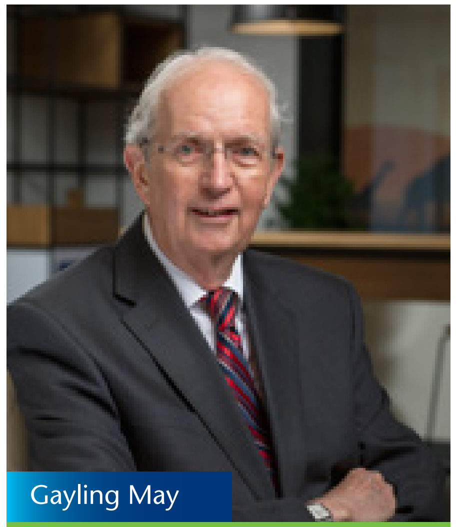
Nationality: Kenyan

Position: Executive Finance Director since 2 May 2017.

Skills and experience: Sidney joined BAT Kenya in 2006 as Head of Audit. He has subsequently held other senior management roles in Finance within the BAT Group including Head of Operations Finance then Head of Marketing Finance for BAT West Africa Area based in Lagos, Head of Finance BAT Egypt based in Cairo and most recently Head of Finance for BAT Group's Southern Africa Markets operations, based in Mozambique until May 2017.

He is a Certified Public Accountant of Kenya and holds a Bachelor of Commerce (Accounting) Degree from the Catholic University East Africa (Kenya). He is a Member of the Institute of Certified Public Accountants of Kenya.

Key Appointments: He is currently also the Area Head of Finance for BAT East and Central Africa Area based in Nairobi.



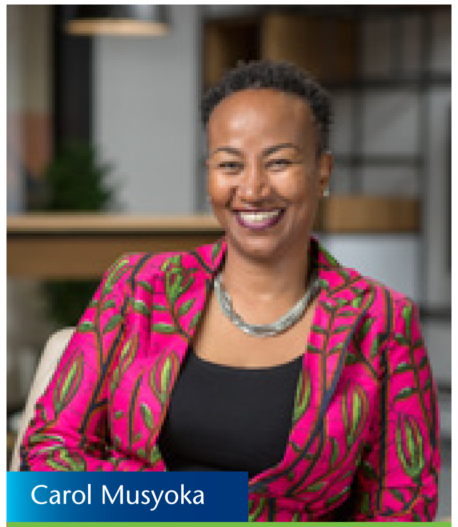
Gayling May
Non-Executive Director

Nationality: British

Position: Non-Executive Director since September 2005. Member of the Audit, Governance and Corporate Social Responsibility Committee and a Member of the Nominations Committee.

Skills and experience: Gayling 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 Kenya Holdings Limited, Liberty Life Assurance Kenya Limited, and The Heritage Insurance Company Kenya Limited.



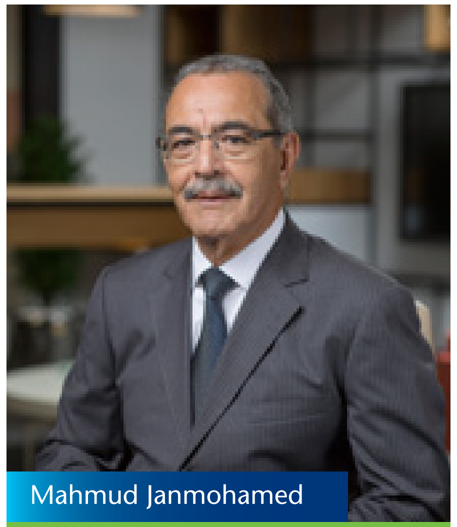
Carol Musyoka
Non-Executive Director

Nationality: Kenyan

Position: Non-Executive Director since February 2011 and a Member of the Audit, Governance and Corporate Social Responsibility Committee as well as the Remuneration Committee.

Skills and experience: Carol is a lawyer and a banker by profession. She has several years of corporate and consulting experience working in Kenya and the United States. Her executive management experience includes her role as Corporate Director of Barclays Bank of Kenya Ltd. She currently provides consulting and training services for various local and public listed entities, private companies and not for profit organizations. She is also a popular weekly columnist in the Business Daily.

Key Appointments: She is a Non-Executive Director of East African Breweries Limited, Kenya Airways Limited and the Competition Authority of Kenya.



Mahmud Janmohamed
Non-Executive Director

Nationality: Kenyan

Position: Non-Executive Director since November 2012. Member of the Audit, Governance and Corporate Social Responsibility Committee.

Skills and experience: Mahmud is currently the Managing Director for Serena Hotels Africa and head of the Tourism Department of the Aga Khan Fund for Economic Development (AKFED). He is responsible for 35 Hotels, Lodges and Safari resorts located in nine countries in Africa and Asia. His 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 also a member of the Eastern Africa Association Advisory Board.

Board of Directors (continued)

Peter Mwangi

Non-Executive Director

Nationality: Kenyan

Position: Non-Executive Director since February 2015. Chairman of Remunerations Committee and Member of the Nominations Committee.

Skills and experience: Peter is currently the Chief Executive Officer of the UAP Old Mutual Group in East Africa. Before this appointment, he was the 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. Prior to this, he was the Chief Executive Officer of Centum Investment Company Plc between 2004 and 2008. He has over 20 years of proven business and leadership experience. He holds a Bachelor of Science degree in Electrical Engineering from the University of Nairobi and is also a CFA® charter holder. Additionally, he is a member of ICPAK, ICPSK and KIM.

Key Appointments: He serves on the Board of Directors of the Central Depository and Settlement Corporation (CDSC), Funguo Investments Limited and as an Executive Director on the boards of several subsidiaries of the UAP Old Mutual Group in East Africa.

Dr. Martin Oduor-Otieno

Non-Executive Director

Nationality: Kenyan

Position: Non-Executive Director since August 2016 and a Member of the Audit, Governance and Corporate Social Responsibility Committee.

Skills and experience: Martin is currently an independent Business Advisor, Governance Auditor and Executive Coach. Prior to this, he worked with Deloitte East Africa as Partner and with Kenya Commercial Bank Group as Chief Executive Officer. He has held Senior positions in Barclays Bank Kenya Ltd and in the Public Sector.

He holds an Executive MBA and Bachelor of Commerce degree and is an alumnus of the Harvard Business School's AMP. He has been awarded an Honorary Doctor of Business Leadership degree by KCA University as well as the National recognition, CBS. He is a Fellow of the Kenya Institute of Bankers, Institute of Certified Public Accountants of Kenya, Institute of Directors of Kenya and a Member of the Institute of Certified Public Secretaries of Kenya.

Key Appointments: He holds Directorships in Standard Bank Group, Standard Bank of South Africa, East African Breweries Limited, Kenya Airways Limited and GA Life Assurance Limited as well being a member of the International Senate of SOS KDI.

Waeni Ngea

Company Secretary

Nationality: Kenyan

Position: Company Secretary since May 2018

Skills and experience: Waeni is a practicing advocate and is currently the Head of Legal, BAT Kenya, having previously held the roles of Legal Counsel – Operations and Legal Counsel Marketing within BAT. Prior to joining BAT, she worked with Unilever Kenya as Legal Counsel, supporting the then East & Southern Africa Area and as a Senior Associate with Muri Mwaniki & Wamiti Advocates.

She holds a Bachelor of Laws Degree (LL. B) from the University of Nairobi, a diploma in law from Kenya School of Law and is a member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya.

Key Appointments: She is also the Company Secretary for British American Tobacco Area Limited.

Leadership Team

Seyi Adeyemo

Head of Operations

Seyi joined BAT in 2013 from Procter and Gamble. He has extensive experience in Supply Chain Operations Management and Lean Six-Sigma.

Prior to his current appointment, he worked with BAT South Africa as Area Head of Supply Chain where he demonstrated strong leadership and led the transformation and integration of the primary and secondary supply chain.

Seyi is also the Area Head of Operations for BAT East & Central Africa based in Nairobi.

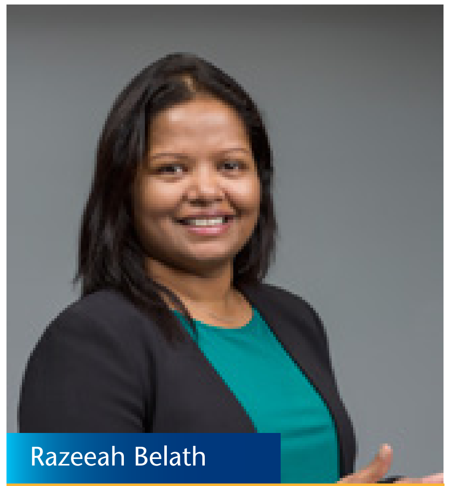
Darryn Bassa

Head of Marketing

Darryn joined BAT South Africa in 2013 as Marketing Manager, having previously worked for Unilever and in the Telecom industry for 12 years.

He has vast experience in Brand and Customer Management, with a solid background in delivering marketing strategies and trade / category plans with some of the biggest FMCG firms globally. Prior to joining BAT Kenya in 2016, he was Senior International Brand Manager for Dunhill based in London.

Darryn is also the Area Head of Marketing for BAT East & Central Africa based in Nairobi.



Razeeah Belath

Head of Human Resources

Razeeah has a wealth of experience in HR Management, having worked with BAT Group for over 15 years.

She joined BAT Mauritius as a Management Trainee-HR in 2001 (BAT Mauritius) and has since held various Head of HR roles in La Reunion, Angola and Indian Ocean Islands (IOI) Cluster. She has also held HR Specialist roles as above market Talent and Organisational Effectiveness Manager in Sub-Saharan Africa, Africa Middle-East, Eastern Europe Africa and Middle East in the Group's Head Office.

Razeeah is also the Area Head of Human Resources for BAT East & Central Africa based in Nairobi.

Simukai Munjanganja

Head of Legal and External Affairs

Simukai is a corporate lawyer and business executive with over 19 years of experience managing Legal, Corporate and Regulatory issues.

He joined the BAT Group in Zimbabwe in 2000, where he held several roles including, Company Secretary and Legal Manager Zimbabwe and Head of Legal, Corporate and Regulatory Affairs Malawi, Mozambique, Zambia and Zimbabwe. Prior to joining BAT Kenya, he was Global Regulation Counsel based in London.

Simukai is also the Area Head of Legal & External Affairs for BAT East & Central Africa based in Nairobi.

Beverley Spencer–Obatoyinbo

Managing Director

Beverley has a wealth of experience in Leadership and General Management.

Having joined BAT Group in 1996, she has held various senior roles within the BAT Group including, General Manager BAT Egypt, Area Director for BAT West Africa Area and Area Director Swiss Cluster based in Switzerland, which is her immediate former role prior to joining BAT Kenya in May 2017.

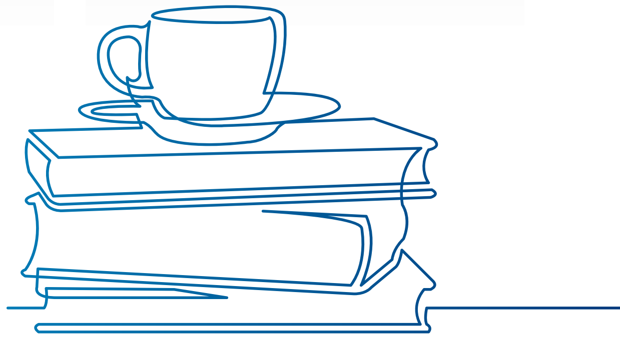
Beverley is also the Area Director for BAT East & Central Africa based in Nairobi and is Chair of the Kenya Association of Manufacturers (KAM) Multinational CEOs Caucus.

Sidney Wafula

Finance Director

Sidney has been with BAT Group for over 12 years. Sidney joined BAT Kenya in 2006 as Head of Audit. He has subsequently held other senior management roles in Finance within the BAT Group including Head of Operations Finance then Head of Marketing Finance for BAT West Africa Area based in Lagos, Head of Finance BAT Egypt based in Cairo and most recently Head of Finance for BAT Group's Southern Africa Markets operations, based in Mozambique until May 2017.

Sidney is also the Area Head of Finance for BAT East & Central Africa based in Nairobi.



Governance Auditor's Report

The focus on Corporate Governance continues to gain momentum in Kenya. Boards are keen on ensuring that they have adopted high standards and practices of Corporate Governance in the interest of Stakeholders as a whole, in the realization that good Corporate Governance is a key pillar for sustainability. The Code of Corporate Governance Practices for Issuers of Securities in Kenya, 2015 (“the Code”), sets out the principles and specific recommendations on structures and processes, which companies should adopt in making good Corporate Governance an integral part of their business dealings and culture. The Code further specifically requires listed companies to engage the services of an independent and accredited Governance Auditor to establish the extent to which the Board and the Company have applied Corporate Governance principles.

The annual Governance Audit (“GA”) should be conducted by a competent and recognized professional accredited for that purpose by the Institute of Certified Secretaries (ICS). The Company, in compliance with the Companies Act, 2015 (“Act”) and Code, retained FCS. Catherine Musakali of Dorion Associates (“the Auditor”) to conduct a Governance Audit of the governance structures, procedures and processes of the Company in order to assure the Board that its goals, structure and operations are consistent with the law, the Code, as well as the latest developments in Corporate Governance; and that the Company has adopted best practices in Corporate Governance as a means of ensuring sustainability. The Code further requires that after undergoing the Governance Audit, the Board should provide an explicit statement on the level of compliance.

The scope of the Audit is derived from the Code, the Companies Act, 2015 and the Governance Audit Tool developed by the ICS. More specifically, the Audit covers the following broad areas;

1. Leadership and strategic management;
2. Transparency and disclosure;
3. Compliance with laws and regulations;
4. Communication with stakeholders;
5. Board independence and governance;
6. Board systems and procedures;
7. Consistent shareholder and stakeholders’ value enhancement; and
8. Corporate social responsibility and investment.

Statement of the responsibilities of the Directors

The Board of Directors of British American Tobacco Kenya plc (“the Company” or “BAT”) recognizes that it is responsible for formulating policies, procedures, standards and guidelines, which ensure that the Company is governed in line with the best Corporate Governance standards and that all decisions by the Board and Management are made in accordance with prudent Corporate Governance practices.

In this regard therefore, the Board is committed to the highest standards of Corporate Governance and strives to ensure that not only is it fully aware of the legal and regulatory requirements in Corporate Governance, but that it has adopted global best practice. Recognising the role of Management, the Board also ensures that Management is fully aware of Corporate Governance requirements and that the same are implemented in all spheres of the business.

Being fully aware of its fiduciary duties under the Act, the Board has taken steps to ensure that all Directors promote the success of the Company, that they act in good faith, at all times exercise reasonable care, skill and diligence, while ensuring that conflicts of interest are avoided or where they occur and that there is a process for managing them.

Governance Auditor's Report (continued)

It is on this premise that the Board commissioned a Governance Audit for the year ended 31st December 2018 with a view to identifying any loopholes and gaps in the Company's governance structures and processes and in order to satisfy itself that the Corporate Governance framework adopted by the Company is appropriate and will support the achievement of the strategy as approved by the Board.

The Directors of BAT have therefore adopted this Governance Audit Report for the year ended 31st December 2018, which discloses the state of Governance within the Company.

Governance Auditor's responsibility

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the organization in accordance with best governance practices as envisaged within the legal and regulatory framework. We conducted our audit in accordance with ICS Governance Audit Standards and Guidelines, which conform to global Standards. These standards require that we plan and perform the Governance Audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems, practices and processes. The Audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the Board has put in place a sound governance framework in compliance with the Corporate Governance framework, and in this regard, we issue an unqualified opinion.

FCS. Catherine Musakali, ICPSK GA. No 006
For Dorion Associates

For more information about this GAR, please contact:
Catherine Musakali – cmusakali@dorion.co.ke

Statement of the Legal and Compliance Auditor

British American Tobacco Kenya plc (the Company), a publicly listed entity on the Nairobi Securities Exchange, is regulated under the Capital Markets Act by the Capital Markets Authority. The Company's Board is responsible for establishment of internal procedures and monitoring systems to promote compliance with applicable laws, regulations and standards. The Board is also responsible for ensuring that the compliance strategy is aligned to the operations of the Company.

In compliance with the provisions of the Corporate Governance Code for Issuers of Securities to the Public, 2015, an independent legal and compliance audit for the financial year ending 31 December 2018 was undertaken with the objective of ascertaining the Company's state of compliance with applicable laws, regulations and standards.

The independent legal and compliance audit was carried out by Anjarwalla & Khanna Advocates, led by Ms. Rosa Nduati-Mutero, an Advocate of the High Court of Kenya in good standing with the Law Society of Kenya. The legal and compliance audit confirmed that during the year ending 31 December 2018 the Company was generally in compliance with applicable laws and regulations including the Companies Act, 2015, the Tobacco Control Act, 2007, and the Occupational Safety and Health Act, 2007.

Ms. Rosa Nduati-Mutero
Anjarwalla & Khanna Advocates

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 2018 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 applied the principles in the Code.

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, Director and Supplier attests their adherence.

As a good corporate citizen, the Company complies with the Constitution of Kenya, various applicable laws and regulations and is committed to maintaining high ethical standards and integrity to ensure delivery of sustainable business results.

The role of the Board

The Board is comprised of eight (8) Directors, six (6) Non-Executive Directors including the Chairman and two (2) Executive Directors. The Board is collectively responsible for the Company's vision, 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 and sustainability of the Company. It provides the leadership necessary for the Company to meet its performance objectives within a framework of internal checks and controls.

The key responsibilities of the Board include:

- Approving the Company's business strategy;
- Establishing and agreeing an appropriate governance framework;
- Reviewing risk management and internal control systems;
- Approving the Company's performance objectives and monitoring their achievement;
- Agreeing the Company's budget;
- Reviewing periodic financial and governance reports;
- Approving the Annual Report, Company results and public announcements;
- Declaring an interim and recommending a final dividend;
- Approving company policies and monitoring compliance with the Standards of Business Conduct;
- Approving major corporate activities; and
- Agreeing Board succession plans and approving Non-Executive Director appointments.

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. She provides leadership to facilitate successful planning and execution of the objectives and strategies agreed by the Board. She is also responsible for stewardship of the Company's assets

Leadership and responsibilities (continued)

and, jointly with the Chairman, for representation of the Company externally.

Non-Executive Directors

The Board had six (6) Non-Executive Directors as at 31 December 2018 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, bring an external perspective to the Board, monitor reporting of performance and be available to meet with major shareholders 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 2018, grouped under the Company's four strategy pillars, are set out on pages 48 and 49.

The Board devotes considerable attention to corporate governance matters relating to the Company's internal controls and compliance activities. It receives 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 dissemination information 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 38 to 39 of this Annual Report.

The key responsibilities of the Leadership Team include:

- Developing the Company's business strategy for approval by the Board;
- Monitoring Company operating performance;
- Developing guidelines for the Company's Functions;
- Ensuring collective effort and resources are balanced, effective and properly focused;
- Managing Functions and ensuring that functional strategies are effective and aligned;
- Reviewing Functional budgets and activities; and
- Overseeing the management and development of talent.

The composition of the Board

The composition of the Board as at 31 December 2018 and as at the date of this Annual Report is set out on page 32 to 34.

Board and AGM meeting attendance in 2018

Name	Attended/ Eligible to attend
George Maina	5/5
Beverley Spencer-Obatoyinbo	5/5
Sidney Wafula	5/5
Gayling May	5/5
Carol Musyoka	5/5
Mahmud Jan Mohamed	2/5
Peter Mwangi	4/5
Dr. Martin Oduor-Otieno	5/5
Waeni Ngea	2/2

The following changes to the Board composition occurred in 2018:

1. Teddy Mapunda, resigned as Director, effective 1st July 2018.
2. Ruth Ngobi resigned as Company Secretary effective 12th May 2018.
3. Waeni Ngea was appointed Company Secretary effective 12th May 2018.

Leadership and responsibilities (continued)

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.

Risk management and internal control

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

Risk registers, based on a standardised methodology, are used to identify, assess and monitor the key risks (both financial and non-financial) faced by the business. Information on prevailing trends, for example whether a risk is 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 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. The purpose of the Control Navigator tool is to enable a self-assessment into the internal control environment, assist in identifying any controls which may require strengthening and set out monitoring action plans to address control weaknesses. This checklist of controls is reviewed annually to ensure that it remains relevant to the business and covers all applicable key controls.

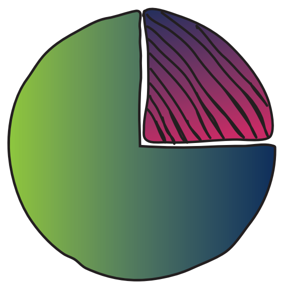
The Board, with advice from its Audit Committee, has completed its annual review of the effectiveness of the system of risk management and internal control for the period since 1 January 2018. No significant failings or weaknesses were identified, and the Board is satisfied that, where specific areas for improvement have been identified, processes are in place to ensure that the necessary remedial action is taken and that progress is monitored.

Board effectiveness

Board diversity

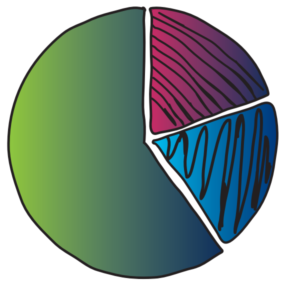
The Board recognizes and embraces the benefits of having a diverse Board and views increasing diversity as an essential element in maintaining a competitive advantage. Our Non-Executive Directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business. Short biographies of the Directors, including details of nationalities, relevant skills and experience, are set out in the Board of Directors pages 32 to 34.

The Board's Diversity Policy can be read on the Company's website www.batkenya.com



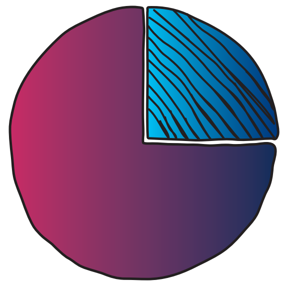
Balance of Non-Executive Directors and Executive Directors

- Non-Executive Directors comprise 75%
- Executive Directors comprise 25%



Length of tenure of Non-Executive Directors

- 0-3 Yrs (1 Director)
- 3-6 Yrs (1 Director)
- 6->9 Yrs (3 Directors)



Gender split of Directors

- Male 75%
- Female 25%

Independence and conflicts of interest

Independence

The Chairman and four (4) of the Non-Executive Directors are Independent as defined in the Code and accordingly most of the Board is constituted of Independent Directors.

Conflicts of interest

The Board has formal procedures for managing compliance with the conflict of interest provisions of the Companies Act, 2015 and the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 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 who have an interest in a matter are excluded from the quorum and vote in respect of that matter. No material conflicts were reported by Directors in 2018.

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.

Training and development

Non-Executive Directors received functional presentations which are built into the Annual Board Work Plan so that they gain a good sense of the Company's operations and central functions. They are also invited to attend scheduled

Board effectiveness (continued)

market visits to gain exposure to the Company's business on the ground.

The Board and its Committees receive regular briefings on legal and regulatory developments with particular emphasis on regulations that directly impact the operations of the Company.

The Chairman is tasked to meet each Non-Executive Director individually to discuss their individual training and development plans. During 2018, each Director was able to secure at least twelve (12) hours of training on areas of governance and regulatory compliance from the Company and other credible sources as prescribed by the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public.

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 receive questions from shareholders. The Chairmen of the Audit, Nominations and Remuneration Committees are normally available at the AGM to take any relevant questions. 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. The Managing Director and Finance Director are among senior management on hand at Investor Briefs to respond to stakeholder queries.

During the AGM held in May 2018 and at the two Investor Briefs held in February and July 2018, shareholders and stakeholders were keen to hear more on the dividend policy, latest developments in industry regulation and the Company's sustainability initiatives.

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 as prescribed by the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015.

The evaluation is conducted by each Director completing a Board Effectiveness Evaluation Form. Respondents are requested to rank the Board against several outcomes. They also have the opportunity to elaborate their replies by providing specific comments. 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.

Recommendations from the 2017 Board evaluations were implemented in 2018 and a further Board Evaluation process approved by the Board for 2018 to assess the current effectiveness and efficiency of the Board and its Committees relative to prior year's findings.

An assessment by the Nominations Committee in 2018 found that the Board and its committees continue to function/perform well and have sufficient balance of skills, expertise, knowledge and diversity including gender and nationality. The wide range of skills and diverse backgrounds of members is a key strength of the Board, as is effective leadership from the Chairman. The Nominations Committee also found that Board members have a good understanding of the business and receive the information they need to inform decisions.

Constructive feedback

Individual feedback was given by the Chairman to all Board members following a peer review. 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, Managing Director and Company Secretary's own performance was given to them by the Nominations Committee.

Governance audit

In compliance with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, the Board appointed Ms. Catherine Musakali of Dorion Associates LLP to conduct the Company's 2018 Governance Audit. The Report of the Independent Governance Auditor is set out on page 41.

Legal and compliance audit

In compliance with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, the Board appointed the firm of Anjarwalla & Khanna Advocates led by Ms. Rosa Nduati-Mutero to conduct the Company's 2018 Legal and Compliance Audit. The Report of the audit is set out on page 42.

Strategic Board activities in 2018

GROWTH

Growth remains the Board's key strategic focus.

Activities in 2018

- Reviewing and agreeing 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;
- Continuing the Company's product portfolio transformation in view of new consumer trends and insights, to strengthen its product proposition;
- Keeping the Company's trading and performance under review, particularly the performance of the Company's key local brand, Sportsman and its Global Strategic Drive Brands;
- Focusing on the competitive and external environment by engaging government on a sustainable excise framework and enforcement action to tackle illicit trade in cigarettes;
- 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.

PRODUCTIVITY

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

Activities in 2018

- Monitoring operational key performance indicators;
- Continued roll-out of the Integrated Work System (IWS) to drive operational excellence and quality;
- Supporting quality product developments such as Pall Mall Tyson launched in 2018;
- Capacity and capability upgrades in the factory;
- Review of revenue opportunities from export products and cutrag sales;
- Continued safety at both Nairobi and Thika factories; and
- Savings and productivity opportunities.

Strategic Board activities in 2018 (continued)

SUSTAINABILITY

The Board is committed to operating responsibly and sustainably, to meet the expectation of stakeholders and inform the Company's commitments to society.

Activities in 2018

- Reviewing the Company's regulatory strategy in the context of the current regulatory landscape, including engagements on excise, tax stamps and NEMA licensing of industrial plastics packaging;
- Monitoring the status of the Company's litigation proceedings including updates on the Kenya Tobacco Control Regulations Case which commenced in April 2015;
- Environmental, Health and Safety performance across all Company sites;
- Partnering with farmers for increased revenue, sustainable agriculture and health insurance schemes; and
- Monitoring compliance with the Company's Standards of Business Conduct and internal controls. Several allegations were made via the media in September 2018 regarding misconduct and malpractices in the tobacco leaf growing process. The Board was updated on findings on these allegations.

WINNING ORGANISATION

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

Activities in 2018

- Reviewing succession planning at Board level and monitoring the progress of Leadership team development plans;
- Reviewing the development of senior executives in the Company, in particular activities to drive a high-performance leadership culture;
- Receiving updates on the ability to attract and retain talent and factoring this into consideration in the revised talent and remuneration policies;
- Reviewing the application and continuing impact of the Remuneration Policy during 2018;
- Receiving updates on the Collective Bargaining Agreement negotiations with the Union; and
- Supporting "Project Ignite" which involves transformation of the Nairobi headquarters to build "a great place to work" and an energized, collaborative and agile team to transform the BAT brand.

Board Committees

Nominations Committee

Current Members

- George Maina (Chairman)
- Gayling May
- Peter Mwangi
- Mahmud Janmohamed
- Waeni Ngea (Secretary)*

Attendance at meetings in 2018

Name	Attended/Eligible to attend
George Maina	2/2
Gayling May	2/2
Peter Mwangi	1/2
Mahmud Janmohamed	1/2
Waeni Ngea*	1/1

* Waeni Ngea was appointed as Secretary of the Nominations Committee from 12 May 2018. She took over from Ruth T. Ngobi.

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 and Board committees, to ensure they have 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 with 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.

The Committee is also charged with the responsibility of evaluating and reporting to the Board on an annual basis, the effectiveness and performance of the Board and the Directors in the discharge of their responsibilities.

For the Committee's terms of reference visit www.batkenya.com

Key Nominations Committee activities in 2018

- Reviewing succession planning for the Board and the Leadership Team including appointment of emergency alternates for the following key board roles identified: Board Chairman, Board Committee Chairmen and Company Secretary;
- Directors' annual appointment and re-election at the AGM including renewal of the appointment of George Maina, Beverley Spencer-Obatoyinbo, Sidney Wafula, Gayling May and Carol Musyoka;
- Reviewing the effectiveness of the Board and its Committees following the Board Evaluation exercise and making recommendations to the Board on actions to be adopted towards improvement;
- Assessment and confirmation of the current adequacy of the Board with respect to the balance of skills, expertise, knowledge, age and diversity including gender and nationality;
- Assessment of directors' independence and submitting a report on directors' independence to the Board;
- Reviewing the Corporate Governance Report for the 2018 Annual Report;
- CMA Corporate Governance Compliance Reporting requirements; and
- Review of the Boards' Diversity Policy and the Nominations Committee's Terms of Reference.

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

Board Committees (continued)

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 10 May 2019, the Company will submit the following eligible Directors for re-election: Mahmud Janmohamed, Peter Mwangi and Dr. Martin Oduor-Otieno. 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 including commitment of the necessary time for Board and Committee meetings and other duties.

Audit Committee

Current Members

- Dr. Martin Oduor-Otieno (Chairman)
- Gayling May
- Carol Musyoka
- Mahmud Janmohamed
- Waeni Ngea (Secretary to Committee)*

Attendance at meetings in 2018

Name	Attended/ Eligible to attend
Dr. Martin Oduor-Otieno (Chairman)	3/3
Gayling May	3/3
Carol Musyoka	3/3
Mahmud Janmohamed	2/3
Waeni Ngea (Secretary)*	2/2

* Waeni Ngea was appointed as Secretary of the Audit Committee from 12 May 2018. She took over from Cecile Leperrier the Internal Audit Manager.

Mandate and role of the Audit Committee

The Audit Committee is primarily responsible for ensuring that the Company has proper and satisfactory internal operating control systems to identify and contain business risks and that the Company's business is conducted in an appropriate, economically sound, sustainable and ethical manner. The Audit Committee monitors the integrity of the Financial Statements and any formal announcements relating to the Company's performance; reviews the consistency of the accounting policies and systems applied by 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, corporate governance principles and the law and monitoring and reviewing the performance, effectiveness, independence and objectivity of the Company's external auditors. The Audit Committee makes recommendations as to the external Auditor's reappointment/change, terms of engagement and the level of audit fees payable to them.

The Audit Committee has established and maintains an appropriate and transparent relationship with the external auditors who attend each meeting and are heard on any matter raised.

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 and presents a report to the Committee on the audit plan for the year and updates on ongoing and completed audits.

In line with the Code of Corporate Governance for Issuers of Securities to the Public, 2015, the Audit Committee is comprised of at least three (3) independent and non-executive directors. It is chaired by an independent and non-executive director with at least one (1) committee member holding a professional qualification in audit or accounting and in good standing with a relevant professional body.

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 each quarter. 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 quarterly basis.

Board Committees (continued)

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 to address control weaknesses.

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 2018. 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 2018

The following items were considered by the Committee:

- The Company's 2017 full year and 2018 half year financial results;
- The external auditor's report and 2018 external auditor's work plan;
- Progress on the 2018 internal audit plan and proposed 2019 internal audit plan;
- Updates from the Internal Audit Manager on both local and global process audits, the management responses and plans being put in place to address any concerns raised;
- Updates on the quarterly risk heat map, including deep dives into specific risk topics;
- Quarterly reports on security risks, frauds and losses;
- Updates on regulatory developments, corporate social investment matters, significant legal cases, and environment, health and safety issues;
- Reports on compliance with the Company's Standards of Business Conduct;
- Training of members on International Financial Reporting Standards 9 and 15;
- Annual review of external auditors' effectiveness and independence;
- Progress on the 2018 compliance plan and proposed 2019 compliance plan;
- Finance Director's Reports;
- Progress of actions arising from the 2017 Governance Audit; and
- Reviewing and assessing compliance with the CMA Corporate Governance Practices for Issuers of Securities to the Public, 2015.

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.

Standards of Business Conduct

The BAT Standards of Business Conduct (SoBC) express the high standards of integrity that BAT Kenya is committed to upholding. Every employee and member of the Board is expected to live up to the Standards of Business Conduct and each annually signs a declaration to comply with the SoBC. Guidance on compliance is provided through training and awareness programmes.

The SoBC also sets out the BAT Group's whistleblowing policy, which enables employees, directors and third parties dealing with the Company, to raise concerns in confidence and without fear of reprisal, about possible improprieties in financial and other matters. Any whistleblowing incidents are tabled at the Audit Committee and procedures implemented to ensure independent investigation and appropriate follow-up actions. The Standards of Business Conduct and reporting hotline are available on www.batkenya.com.

Remuneration Committee

Current Members

- Peter Mwangi (Chairman)
- Carol Musyoka
- Beverley Spencer-Obatoyinbo
- Sidney Wafula
- Razeeah Belath (Secretary to Committee)

Board Committees (continued)

Attendance at meetings in 2018

Name	Attended/Eligible to attend
Peter Mwangi (Chairman)	1/1
Carol Musyoka	1/1
Beverley Spencer-Obatoyinbo	1/1
Sideny Wafula	1/1
Razeeah Belath (Secretary)	1/1

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 in line with business needs, is performance-driven and appropriately benchmarked against other peer companies in Kenya.

The Remuneration Committee is responsible for:

- Ensuring that all aspects of the Company's remuneration offering are sufficiently competitive to attract and retain the desired talent pool, comply with the BAT Group's reward policy and reflect the Company as an employer of choice;
- 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 remuneration 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 for 2018

- Review of 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.

Governance Policies

Board Charter

The BAT Kenya Board is governed by a Board Charter, which stipulates the roles and responsibilities of the Board and its members, composition of the Board and its committees, and their respective Terms of Reference. The Board Charter is reviewed annually to ensure that it remains current.

Statement on insider dealing

As a listed company, BAT Kenya is obliged under the Kenya Companies Act, 2015 to require that Directors and certain other employees with inside information to not abuse or place themselves under suspicion of abusing insider information that they may have or thought to have. This is especially so in periods leading up to an announcement of financial results. To this end, the Company has a Code of Share Dealing policy document, which sets out the requirements for BAT Kenya insiders, in dealing in shares of the Company.

To ensure compliance with the Kenya Companies Act, 2015 in this regard, the Company communicates 'open' and 'closed' periods for trading in its shares to its employees and Directors twice annually. To the best of the Company's knowledge, there was no insider dealing in the BAT Kenya 2018 financial year.

Whistleblowing policy

BAT Kenya's Standards of Business Conduct (SoBC) is a statement of the Company's values in its day-to-day activities. This policy covers BAT Kenya's commitments on issues such as bribery, corruption and human rights, in addition to setting out the Company's whistleblowing procedures.

Governance Policies (continued)

The whistleblowing policy provides the platform for employees to raise concerns for any suspected wrongdoing, and the policy details how such concerns will be addressed. The Board ensures that risks arising from any ethical issues are identified and managed in the risk management process.

Information Technology policy

BAT Kenya invests heavily in information technology systems, to support the delivery of the company's commercial goals. BAT Kenya's information technology (IT) systems are covered under an IT policy which aims to protect the Company's investment in information technology infrastructure (including IT equipment, mobile facilities, data/ telecommunications networks and software) and maintain the highest standards of cyber security, while protecting the Company's confidential and sensitive information.

The policy aims to facilitate ease of use of IT systems by staff, business partners and other stakeholders while mandating the responsible use of IT systems. In delivering on its objectives, BAT Kenya leverages on IT expertise within the BAT Group, taking learnings from economies of scale in purchase of IT equipment and services.

Procurement policy

BAT Kenya maintains a procurement policy that governs the procurement of goods and services within the Company. This policy and the related procedures are necessary to ensure that business procurement is able to generate value by satisfying the needs of the business with respect to service and cost associated with acquisition of goods and services, with the exception of tobacco, salaries and strategic machinery.

The policy also ensures that the most appropriate and effective controls are applied in the purchase of goods and services for the company's needs. The Company periodically reviews this policy as may be necessitated by market conditions, legal requirements or other factors.

Environmental, health and safety policies

The Board is committed to ensuring that the Company operates responsibly, sustainably, ethically and as a good corporate citizen. In that regard, BAT Kenya has robust Environmental, health and safety policies aimed at providing a safe and healthy working environment for its employees and any other person within the Company's sphere of operations.

The Company also maintains an Energy policy, aimed at achieving the highest practicable levels of energy conservation and reducing CO^2 emissions, for the conservation of the environment and the sustainability of natural resources.

The Company has put in place conservation initiatives that help farmers preserve natural forests through diverse afforestation programmes to replenish depleted resources in the country.

Corporate Social Investment (CSI) and Responsibility Framework

BAT Kenya has a comprehensive and effective Corporate Social Investment (CSI) and Responsibility framework underpinned by five core beliefs:

a) Creating long-term shareholder value;

b) Engaging constructively with our stakeholders;

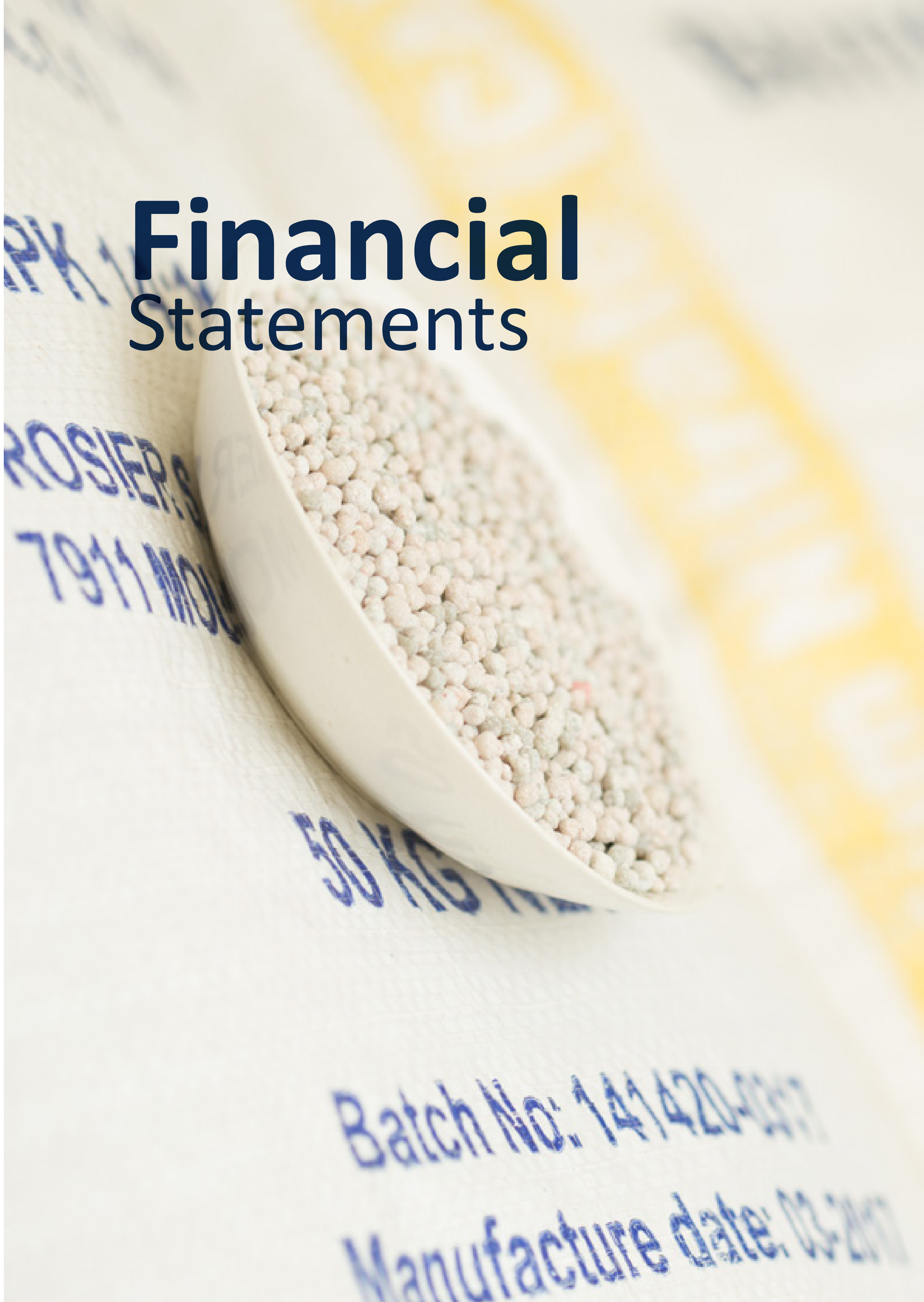
c) Creating inspiring working environments for our people;

d) Adding value to the communities in which we operate; and

e) Suppliers, and other business partners should have the opportunity to benefit from their relationship with the Company.

The CSI strategy is derived from our belief in adding value to the communities in which we operate and at BAT Kenya, our CSI framework focuses on sustainable agriculture and environmental conservation. As such at least 70% of our CSI spend is driven towards this pillar (currently focusing on afforestation and biodiversity), while 30% is allocated to other relevant initiatives.

Further details on our policies are available on our website www.batkenya.com



Financial Statements

DIRECTORS' REPORT

The Directors submit their report together with the audited Financial Statements for the year ended 31 December 2018, which disclose the financial position 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 KSh 4,084,523,000 (2017: KSh 3,336,006,000) has been added to retained earnings. During the year an interim dividend of KSh 350,000,000 (2017: KSh 350,000,000) was paid. The Directors recommend the approval of a final dividend of KSh 3,150,000,000 (2017: KSh 2,250,000,000).

Directors
The Directors who held office during the year and to the date of this report are set out on page 4.
The following change has taken place in the Board of Directors since the last Annual General Meeting:

- Teddy Mapunda resigned as a Director on 1 July 2018.

Business overview
The Company performed well in Kenya and across its export markets to deliver a strong set of results in 2018. However, the performance was dampened by the negative impact of illicit trade in cigarettes in Kenya, the incidence of which rose from 12.4% in December 2017 to 14.1% in December 2018 – reducing sales volumes in Kenya and denying government much needed revenue.

Gross revenue increased by 6% to KSh 36.5 billion, driven by excise-led pricing in the Kenya and export markets coupled with an increase in cut rag (semi-processed tobacco) sales volumes. This was partially offset by lower sales volumes in Kenya due to consumer affordability challenges and the adverse impact of illicit trade. Net revenue increased in line with growth in gross revenue, with excise duty and value added tax (VAT) marginally decreasing due to the drop in sales volumes in Kenya as explained above.

The cost of operations increased by 9% to KSh 14.5 billion, driven by the higher cut rag sales volumes, investments in portfolio and work place transformation, the full year impact of incremental cost of tax stamps as well as inflationary cost increases which were partially offset by productivity initiatives.

The growth in net revenues was reflected in operating profit with operating margin increasing by 1.3% to 30.0%. Finance costs reduced by 32% to KSh 338 million driven by higher profitability and better working capital management in 2018, resulting in lower overdraft utilisation in the period under review. Cash generated from operations increased to KSh 7.2 billion, driven by the improved profitability and further gains from working capital management.

Taxes in the form of Excise Duty, VAT, Pay As You Earn (PAYE) and Corporation Tax increased by KSh 233 million (1.3%) to KSh 18.3 billion in 2018 as a result of the higher corporation tax and VAT due to improved profitability, which were partially offset by lower excise duty payments in line with the drop in sales volumes in Kenya.

Auditors
The auditors, KPMG Kenya, are eligible and hereby offer themselves for re-appointment in accordance with the requirements of Section 721 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 he or she 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 set out on pages 66 to 108 were approved and authorised at a meeting of the Directors held on 13 February 2019.

By order of the Board

Waeni Ngea
Company Secretary | **13 February 2019**

RIPOTI YA WAKURUGENZI

Wakurugenzi wanawasilisha ripoti yao pamoja na taarifa za fedha zilizokaguliwa za mwaka uliokamilika Desemba 31 2018, ambazo zinafichua hali ilivyo ndani ya Shirika na Kampuni.

Shughuli Kuu
Shughuli kuu la Shirika ni kutengeneza na kuuza sigara na tumbaku

Matokeo na mgao
Faida baada ya kutozwa ushuru mwaka huo ilikuwa ni KSh 4,084,523,000 (2017: KSh 3,336,006,000) zimeongezwa kwa mapato yaliyohifadhiwa. Mwaka huo, mgao wa mpito wa KSh 350,000,000 (2017: KSh 350,000,000) ulilipwa. Wakurugenzi wanapendekeza kuidhinishwa kwa mgao wa mwisho wa KSh 3,150,000,000 (2017: KSh 2,250,000,000).

Wakurugenzi
Wakurugenzi waliokuwa afisini mwaka huo na kufikia tarehe ya kutolewa kwa ripoti hii wamechapishwa katika ukarasa 4.
Mabadiliko yafuatayo yalifanyika katika Bodi ya Wakurugenzi tangu mkutano mkuu uliopita:

- Teddy Mapunda alijiuzulu kama Mkurugenzi Julai 1, 2018.

Maelezo ya jumla ya biashara
Kampuni ilifanya vyema Kenya na katika masoko yake ya nje, hali iliyopelekea matokeo mema mwaka wa 2018. Hata hivyo, hali ya biashara ilififizwa na athari mbaya za biashara haramu ya sigara nchini Kenya, iliyoongezeka kutoka 12.4% Desemba 2017 hadi 14.1% Desemba 2018 – na kupunguza kiwango cha mauzo Kenya na kuinyima serikali mapato iliyohitaji sana.

Mapato ya jumla yaliongezeka kwa 6% hadi KSh 36.5 bilioni, yakiongozwa na kuongezeka kwa bei ya sigara baada ya ushuru kuongezeka nchini Kenya na kwa masoko ya nje na ongezeko la kiwango cha mauzo ya tumbaku iliyokaushwa na kukatwa. Hata hivyo, hili lilikabiliwa kwa kiwango na mauzo ya chini Kenya kutokana na kutokuwa na uwezo wa kununua miongoni mwa wateja, na athari mbaya za biashara haramu.

Faida baada ya kutozwa ushuru iliongezeka kuambatana na ongezeko la ukuaji wa mapato ya jumla, ambapo ushuru katika utengenezaji na uuzaji wa bidhaa na ushuru ya thamani ya kodi (VAT) ulipungua kidogo kutokana na kupungua kwa mauzo nchini Kenya kama ilivyoelezwa hapo awali.

Gharama ya operesheni iliongezeka kwa 9%, hadi KSh 14.5 bilioni, kutokana na mauzo yaliyoongezeka ya tumbaku iliyokaushwa na kukatwa, uwezekezaji katika ukuzaji wa kampuni na marekebisho katika eneo la kufanyia kazi, athari za mwaka mzima za ongezeko la gharama ya muhuri wa ushuru, pamoja na mfumko wa gharama ambao ulidhibitiwa na mipango ya uzalishaji.

Ukuaji wa mapato baada ya kutozwa ushuru ulionyeshwa katika pambizo ya faida ya operesheni iliyoongezeka kwa 1.3% hadi 30.0%. Gharama za kifedha zilipungua kwa 32% hadi KSh 338 milioni kutokana na ongezeko la faida na usimamizi mwema wa mtaji wa operesheni mwaka wa 2018, hali iliyosababisha kupungua kwa matumizi ya fedha zaidi ya ilivyopangwa katika muda huo. Pesa taslimu zilizotokana na operesheni ziliongezeka hadi KSh 7.2 bilioni, kutokana na kuimarika kwa faida na mapato zaidi, na usimamizi mwema wa mtaji wa operesheni.

Ushuru katika utengenezaji na uuzaji wa bidhaa, ushuru wa thamani ya kodi (VAT) na ushuru utozwao wafanyikazi pamoja na ushuru wa shirika uliongezeka kwa KSh 233 milioni (1.3%) hadi KSh 18.3 bilioni 2018 kutokana na kuongezwa kwa ushuru wa shirika na ushuru wa thamani ya kodi kwa sababu ya ongezeko la faida, ambalo lilidhibitiwa na kupungua kwa malipo ya ushuru wa utengenezaji na uuzaji wa bidhaa kuambatana na kupungua kwa mauzo Kenya.

Wakaguzi
Wakaguzi, KPMG Kenya, wana uwezo, hivyo wamejitolea kuteuliwa tena kuambatana na mahitaji ya Kipengee cha 721 cha Sheria ya Kampuni za Kenya, 2015.

Habari muhimu kuhusu ukaguzi
Wakurugenzi waliokuwa afisini siku ya kutolewa kwa ripoti hii wanathibitisha kuwa:

- Hakuna habari muhimu ya ukaguzi ambayo mkaguzi wa Kampuni hajui; na
- Kila mkurugenzi amechukua hatua zote ambazo alifaa kuchukua kama mkurugenzi ili kuwa na ufahamu kuhusiana na habari zozote za ukaguzi na kuhakikisha kwamba mkaguzi amefahamishwa.

Kuidhinishwa kwa taarifa za kifedha
Taarifa za kifedha zilizoorodheshwa katika ukurasa wa 66 hadi 108 zilikubaliwa na kuidhinishwa wakati wa mkutano wa Wakurugenzi uliofanyika Februari 13, 2019.

Kuambatana na agizo la Bodi

Waeni Ngea
Katibu wa Kampuni | **13 February 2019**

DIRECTORS' REMUNERATION REPORT

Our remuneration policy 2018
The Remuneration Policy and Remuneration Report for the Executive Directors and the Non-Executive Directors applicable in 2018 were approved by shareholders at the 2018 Annual General Meeting held on 11 May 2018. The Report has been prepared in accordance with the relevant provisions of both the Capital Markets Authority (CMA) Code of Corporate Governance guidelines on Directors' remuneration and the Kenyan Companies Act, 2015.

Our principles of remuneration
The group and company's remuneration principles seek to reward the delivery of the Group's strategy in a simple and straightforward manner which is aligned to shareholders' long-term sustainable interests. The remuneration structure is designed to recognise the skills and experience of the Directors and ensure a market competitiveness for talent.

Executive Directors
Executive Directors' remuneration comprises fixed and variable elements. The fixed elements comprise base salary, pension and other benefits. The variable elements are provided to Executive Directors and Senior Managers via two performance-based incentive schemes; (a single cash and share incentive annual bonus plan (IEIS), and a single long-term incentive scheme (LTIP). The key elements are summarised below to facilitate the understanding of the Annual Report on remuneration in 2018.

The following table reflects the main elements of the remuneration packages of the executive directors as compensation for their role as key management within the British American Tobacco Kenya plc (BAT) group.

Reward	Purpose and link to strategy	Mechanics of reward	Performance metrics
Basic salary	Attract and retain high calibre individuals to deliver the Group's strategic plans by offering market competitive remuneration to reflect an individual's skills and experience.	■ Paid in 12 equal monthly instalments during the year and is pensionable. ■ Reviewed annually with salary changes effective from April depending on performance.	Individual and business performance.
Pension	Provide competitive post-retirement benefit arrangements so as to attract and retain high calibre talent to drive delivery of Group strategy.	Annual contribution up to 35% of base salary for International Assignees and 9% of base salary for local staff.	None
Other benefits	Provide market competitive benefits which: ■ facilitate the attraction and retention of high calibre talent to deliver the Group's strategic plans; and ■ recognise that such talent is global in source and that the availability of certain benefits are key enablers for attraction and retention.	Range of benefits include: ■ Car allowance ■ Driver and domestic allowance ■ Medical insurance ■ Personal life and accident insurance ■ Security ■ Education allowances For international assignees additional benefits include: ■ Travel allowance ■ Housing allowance ■ Relocation expense ■ Tax advice and ■ Tax equalization payments	None

DIRECTORS' REMUNERATION REPORT (continued)

Reward	Purpose and link to strategy	Mechanics of reward	Performance metrics
Short term incentives	Incentivise the attainment of corporate targets aligned to the strategic objectives of the Group on an annual basis.	■ Targets are set annually based on the group and company business plans. ■ Payout is done annually in March after measurements and approval of results. ■ 60% of the bonus is paid in cash, 40% is awarded as shares in the Parent Company (BAT plc). ■ Bonus ranges from 0-100% of annual Salary for Managing Director, 0-90% for Finance Director.	■ Market share growth – 10% (2017: 20%); ■ Net revenue growth – 30% (2017: n/a); ■ Volume of global drive brands sold – n/a (2017: 20%); ■ Operating profit – 50% (2017: 40%); and ■ Cash conversion – 10% (2017: 20%).
Long term Incentives	Incentivise and promote the long-term sustainable success of the Group.	■ Targets are set covering a three-year period for BAT Group UK results. ■ The award vests on the third anniversary of the award; ■ The number of shares that ultimately vest will depend on the extent to which the performance conditions of the BAT Group (UK) have been met during the three-year performance period.	■ Earnings per share (EPS); ■ Total shareholder return (TSR); ■ Net Turnover; and ■ Cash conversion.

During the year, the performance metrics for the short-term incentives were enhanced to reflect the focus on delivering incremental value to shareholders year-on-year.

Chairman and Non-Executive Directors
The quantum and structure of Non-executive Directors' remuneration are assessed primarily against the same remuneration comparator group of companies used for setting the remuneration for executive directors.

The table below summarises the elements of reward for Non-Executive Directors.

Reward	Purpose and link to strategy	Mechanics of reward	Performance metrics
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.	■ Fixed monthly retainer. ■ Sitting allowance for every committee or board meeting. ■ Reviewed annually and adjusted as required.	As per Annual Board Evaluation.
Travel and related expenses	Recognise that high calibre talent is global in source and it is necessary to reimburse cost of travel to avoid it being an inhibitor to accepting the role.	Non-Executive Directors based out of the country are reimbursed for cost of travel and related expenses incurred by them as Directors of the Company in respect of attendance at Board, Committee and General meetings.	None

DIRECTORS' REMUNERATION REPORT (continued)

Other terms – Non Executive Directors

<table>
<tr><td>Shareholding requirements</td><td>■ 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 scheme, bonus schemes or incentive plans and are not members of any Company pension plan.</td></tr>
<tr><td>Terms of appointment</td><td>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.</td></tr>
<tr><td>Terms of termination</td><td>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.</td></tr>
</table>

The Remuneration Committee conducts an annual review to ensure application and alignment of the Policy with the business needs to promote the long-term success of the Company.

Service contracts – Executive Directors

<table>
<tr><td>Duration of current contracts</td><td>The Managing Director has signed a three year contract while the Finance Director is on a permanent and pensionable contract with the following execution dates:
<table><tr><th>Executive director</th><th>Execution date</th></tr><tr><td>Beverley Spencer-Obatoyinbo</td><td>2 May 2017</td></tr><tr><td>Sidney Wafula</td><td>2 May 2017</td></tr></table></td></tr>
<tr><td>Notice period</td><td>Thirty (30) days</td></tr>
<tr><td>Provision for early termination of contracts</td><td>On early termination of contracts, the Executive Directors are eligible for redundancy packages as follows:

■ 1 month salary in lieu of notice;

■ 2 months' salary; and

■ 4 days' worth of salary for every month worked.

In the event that the contract is terminated for cause (such as gross misconduct), the Company may terminate the contract with immediate effect and no compensation would be payable.</td></tr>
</table>

Financial Statements

DIRECTORS' REMUNERATION REPORT (continued)

Directors' remuneration and compensation as key management for the year ended 31 December 2018
The following table shows a summary of remuneration for the Executive Directors in respect of qualifying services as directors and compensation as key management for the year ended 31 December 2018 together with comparative figures for 2017:

Executive Director	Salary		Taxable benefits		Short-term incentives		Long-term incentives		Pension		Early retirement		Total	
	KSh'000		KSh'000		KSh'000		KSh'000		KSh'000		KSh'000		KSh'000	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Beverley Spencer-Obatoyinbo (from 2 May 2017)	19,229	12,080	9,519	8,281	8,564	4,384	20,322	12,883	2,723	1,815	-	-	60,357	39,443
Keith Gretton (Up-to 1 May 2017)	-	5,854	-	2,785	-	-	-	6,254	-	1,355	-	-	-	16,248
Sidney Wafula (from 2 May 2017)	9,202	5,833	1,908	1,961	5,063	1,888	6,726	3,316	828	521	-	-	23,727	13,519
Philip Lopokoiyit (Up-to 1 May 2017)	-	3,449	-	1,238	-	-	-	2,344	-	310	-	32,806	-	40,147
Total remuneration	28,431	27,216	11,427	14,265	13,627	6,272	27,048	24,797	3,551	4,001	-	32,806	84,084	109,357

In the year 2018, as part of their compensation as key management, the Executive Directors were awarded shares in the parent company, BAT Group (UK). Beverley Spencer-Obatoyinbo was awarded 5,859 shares (2017: 2,925 shares) and Sidney Wafula was awarded 1,941 shares (2017: 779 shares).

The values of these shares have been included in the table above under Long-term incentives.

The following table shows a summary of remuneration for the Non-Executive Directors in respect of qualifying services for the year ended 31 December 2018 together with comparative figures for 2017:

Non-Executive Directors	Fixed retainer		Sitting allowance		Chairman's Honoraria		Total	
	KSh'000		KSh'000		KSh'000		KSh'000	
Name	2018	2017	2018	2017	2018	2017	2018	2017
George Maina	3,483	3,286	350	262	2,500	2,500	6,333	6,048
Gayling May	1,881	1,775	325	288	-	-	2,206	2,063
Carol Musyoka	1,881	1,775	225	310	-	-	2,106	2,085
Mahmud Janmohamed	1,881	1,775	175	185	-	-	2,056	1,960
Teddy Mapunda	887	1,775	50	166	-	-	937	1,941
Peter Mwangi	1,881	1,775	175	191	-	-	2,056	1,966
Dr. Martin Oduor-Otieno	1,881	1,775	275	263	-	-	2,156	2,038
Total remuneration	**13,775**	**13,936**	**1,575**	**1,665**	**2,500**	**2,500**	**17,850**	**18,101**

DIRECTORS' REMUNERATION REPORT (continued)

Other required disclosures

Payments to former Directors and payments for loss of office
The Company did not make any payments of money or other assets to former Directors. There were no other sums paid to third parties in respect of directors' services.

Voting on the remuneration report at the 2018 AGM and engagement with shareholders
During the 2018 AGM, held on 11th May 2018, there were no votes cast against or votes held with respect to the Directors' remuneration policy and report.

Director's shareholding
Director's shareholding in British American Tobacco Kenya plc as at 31 December 2018 is as follows:

Director	2018	2017
Sidney Wafula	300	300
Carol Musyoka	200	200

Waeni Ngea
Company Secretary

13 February 2019

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 66 to 108 which comprise the consolidated and company statements of financial position as at 31 December 2018, 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 Kenya Companies Act, 2015 the Directors are required to prepare Financial Statements for each financial year which give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of the profit or loss 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 Kenya Companies Act, 2015. The Directors are of the opinion that the Financial Statements give a true and fair view of the financial position of the Group and Company and Group profit or loss.

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 and authorised for issue by the Board of Directors and were signed on its behalf by:

George Maina Chairman	**Beverley Spencer-Obatoyinbo** Managing Director	**Sidney Wafula** Finance Director

13 February 2019

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion
We have audited the Financial Statements of British American Tobacco Kenya Plc and its subsidiaries (the Group) set out on pages 66 to 108, which comprise the consolidated and company statements of financial position as at 31 December 2018, 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 Financial Statements, including 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 at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Kenya 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 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 Financial Statements of the current period. These matters were addressed in the context of our audit of the consolidated Financial Statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Provisions and contingent liabilities in respect of litigations
The Group/Company is/are subject to claims, which could have an impact on the Group's and/or 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 operated over litigations by the Group and Company. 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 and 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 Group and Company. 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 4 (i) – Critical accounting estimates and judgments and disclosure note 31 - Contingent liabilities.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements but does not include the Financial Statements and our auditors' report thereon.

Our opinion on the 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 Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements
As stated on page 63, the Directors are responsible for the preparation of the Financial Statements that give a true and fair view in accordance with IFRSs and in the manner required by the Kenya 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 misstatement, whether due to fraud or error.

In preparing the consolidated 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 to cease operations, or have no realistic alternative but to do so. The directors are responsible for overseeing the financial reporting process.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the 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 and Company to express an opinion on the 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 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 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. in our opinion, the information given in the report of the Directors on pages 56 is consistent with the Financial Statements;

ii. in our opinion, the auditable part of the Directors' Remuneration Report on pages 58 to 62 has been properly prepared in accordance with the Kenyan Companies Act, 2015 ; and

iii. we have issued an unqualified audit report on the Financial Statements.

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

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

13 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2018 KSh'000	2017 KSh'000
Gross revenue		36,495,757	34,467,704
Excise duty and Value Added Tax (VAT)		(15,745,622)	(15,794,407)
Net revenue	6	20,750,135	18,673,297
Raw materials and manufacturing costs	7	(11,316,681)	(10,731,063)
Marketing and distribution costs	8	(1,928,162)	(1,349,409)
Administration and other expenses	9	(1,647,330)	(1,708,638)
Other income		361,095	476,823
Operating profit		6,219,057	5,361,010
Finance costs	10	(338,311)	(494,067)
Profit before tax	11	5,880,746	4,866,943
Income tax expense	13	(1,796,223)	(1,530,937)
Profit for the year		4,084,523	3,336,006
Other comprehensive income			
Items that may be reclassified to profit or loss – net fair value (loss)/gain		(1,098)	7,428
Total comprehensive income for the year		4,083,425	3,343,434
Earnings per share:			
Basic and diluted (KSh per share)	14	40.85	33.36

The notes on pages 74 to 108 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Year ended 31 December 2018 KSh'000	2017 KSh'000
Capital and reserves attributable to the company's equity holders			
Share capital	16	1,000,000	1,000,000
Share premium	16	23	23
Hedging reserve	16	6,330	7,428
Revaluation surplus	17	1,820,734	1,861,435
Retained earnings		3,332,167	2,721,337
Proposed dividend	15	3,150,000	2,250,000
Total equity		9,309,254	7,840,223
Non-current liabilities			
Borrowings	26	1,222,200	1,239,000
Deferred income tax	18	2,014,780	2,151,722
Total non-current liabilities		3,236,980	3,390,722
Total equity and non-current liabilities		12,546,234	11,230,945
Non-current assets			
Property, plant and equipment	19	9,097,413	9,133,893
Deferred income tax	18	25,271	6,443
		9,122,684	9,140,336
Current assets			
Inventories	21	6,183,918	5,674,768
Receivables and prepayments	22	2,824,409	2,803,043
Derivative financial instruments	23	16,989	17,900
Current income tax	27	-	140,668
Cash and cash equivalents	24	190,257	28,873
		9,215,573	8,665,252
Current liabilities			
Payables and accrued expenses	25	5,440,923	4,757,921
Borrowings	26	99	1,680,724
Derivative financial instruments	23	7,947	7,289
Current income tax	27	297,400	41,332
Provisions for liabilities and charges	28	45,654	87,377
		5,792,023	6,574,643
Net current assets		3,423,550	2,090,609
Total assets		12,546,234	11,230,945

The notes on pages 74 to 108 are an integral part of these Financial Statements. The Financial Statements on pages 66 to 108 were approved and authorised for issue by the Board of Directors on and signed on its behalf by:

George Maina
Chairman

Beverley Spencer-Obatoyinbo
Managing Director

Sidney Wafula
Finance Director

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	Year ended 31 December 2018 KSh'000	2017 KSh'000
Capital and reserves attributable to the company's equity holders			
Share capital	16	1,000,000	1,000,000
Share premium	16	23	23
Hedging reserve	16	6,330	7,428
Revaluation surplus	17	1,820,734	1,861,435
Retained earnings		3,341,733	2,721,337
Proposed dividend		3,150,000	2,250,000
Total equity		9,318,820	7,840,223
Non-current liabilities			
Borrowings	26	1,222,200	1,239,000
Deferred income tax	18	2,014,780	2,149,535
Total non-current liabilities		3,236,980	3,388,535
Total equity and non-current liabilities		12,555,800	11,228,758
Non-current assets			
Property, plant and equipment	19	9,097,413	9,133,893
Investment in subsidiaries	20	12,000	12,000
		9,109,413	9,145,893
Current assets			
Inventories	21	6,004,667	5,633,189
Receivables and prepayments	22	2,414,218	2,834,757
Derivative financial instruments	23	16,989	17,900
Cash and cash equivalents	24	187,675	28,873
		8,623,549	8,514,719
Current liabilities			
Payables and accrued expenses	25	4,994,656	4,615,132
Borrowings	26	99	1,680,724
Derivative financial instruments	23	7,947	7,289
Current income tax	27	128,806	41,332
Provisions for liabilities and charges	28	45,654	87,377
		5,177,162	6,431,854
Net current assets		3,446,387	2,082,865
Total assets		12,555,800	11,228,758

The notes on pages 74 to 108 are an integral part of these Financial Statements. The Financial Statements on pages 66 to 108 were approved and authorised for issue by the Board of Directors on and signed on its behalf by:

George Maina
Chairman

Beverley Spencer-Obatoyinbo
Managing Director

Sidney Wafula
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018	Notes	Share capital KSh'000	Share premium KSh'000	Hedging reserve KSh'000	Revaluation surplus KSh'000	Retained earnings KSh'000	Proposed dividends KSh'000	Total equity KSh'000
Balance as at 31 December 2017, as previously reported		1,000,000	23	7,428	1,861,435	2,721,337	2,250,000	7,840,223
Accounting policy change (IFRS 9)	3(b)	-	-	-	-	(20,563)	-	(20,563)
Deferred tax in respect of accounting policy change (IFRS 9)	3(b)	-	-	-	-	6,169	-	6,169
Adjusted balance as at 1 January 2018		1,000,000	23	7,428	1,861,435	2,706,943	2,250,000	7,825,829
Comprehensive income for the year								
Profit for the year		-	-	-	-	4,084,523	-	4,084,523
Transfer of excess depreciation	13	-	-	-	(58,145)	58,145	-	-
Deferred income tax on transfer	13	-	-	-	17,444	(17,444)	-	-
Fair value gain recognised through OCI		-	-	174,628	-	-	-	174,628
Fair value loss from OCI to P&L		-	-	(176,197)	-	-	-	(176,197)
Deferred tax in respect of fair value loss		-	-	471	-	-	-	471
Net loss recognised directly in equity		-	-	(1,098)	-	-	-	(1,098)
Transactions with owners								
Distribution to owners (dividends):								
- Final for 2017 paid	15	-	-	-	-	-	(2,250,000)	(2,250,000)
- Interim for 2018 paid	15	-	-	-	-	(350,000)	-	(350,000)
- Proposed final for 2018	15	-	-	-	-	(3,150,000)	3,150,000	-
Total transactions with owners		-	-	-	-	(3,500,000)	900,000	(2,600,000)
At end of year		1,000,000	23	6,330	1,820,734	3,332,167	3,150,000	9,309,254

The notes on pages 74 to 108 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2017	Notes	Share capital KSh'000	Share premium KSh'000	Hedging reserve KSh'000	Revaluation surplus KSh'000	Retained earnings KSh'000	Proposed dividends KSh'000	Total equity KSh'000
At start of year		1,000,000	23	-	1,902,130	1,944,636	3,950,000	8,796,789
Comprehensive income for the year								
Profit for the year		-	-	-	-	3,336,006	-	3,336,006
Transfer of excess depreciation	13	-	-	-	(58,136)	58,136	-	-
Deferred income tax on transfer	13	-	-	-	17,441	(17,441)	-	
Fair value gain recognised through OCI		-	-	10,611	-	-	-	10,611
Deferred tax in respect of fair value gain		-	-	(3,183)	-	-	-	(3,183)
Net gains recognised directly in equity		-	-	7,428	-	-	-	7,428
Transactions with owners								
Distribution to owners (dividends):								
Final for 2016 paid	15	-	-	-	-	-	(3,950,000)	(3,950,000)
Interim for 2017 paid	15	-	-	-	-	(350,000)	-	(350,000)
Proposed final for 2017	15	-	-	-	-	(2,250,000)	2,250,000	-
Total transactions with owners		-	-	-	-	(2,600,000)	(1,700,000)	(4,300,000)
At end of year		1,000,000	23	7,428	1,861,435	2,721,337	2,250,000	7,840,223

The notes on pages 74 to 108 are an integral part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018	Notes	Share capital KSh'000	Share premium KSh'000	Hedging reserve KSh'000	Revaluation surplus KSh'000	Retained earnings KSh'000	Proposed dividends KSh'000	Total equity KSh'000
Balance as at 31 December 2017, as previously reported		1,000,000	23	7,428	1,861,435	2,721,337	2,250,000	7,840,223
Accounting policy change (IFRS 9)	3(b)	-	-	-	-	(6,897)	-	(6,897)
Deferred tax in respect of accounting policy change (IFRS 9)	3(b)	-	-	-	-	2,069	-	2,069
Adjusted balance as at 1 January 2018		1,000,000	23	7,428	1,861,435	2,716,509	2,250,000	7,835,395
Comprehensive income for the year								
Profit for the year		-	-	-	-	4,084,523	-	4,084,523
Transfer of excess depreciation	13	-	-	-	(58,145)	58,145	-	-
Deferred income tax on transfer	13	-	-	-	17,444	(17,444)	-	-
Fair value gain recognised through OCI		-	-	174,628	-	-	-	174,628
Fair value loss from OCI to P&L		-	-	(176,197)	-	-	-	(176,197)
Deferred tax in respect of fair value loss		-	-	471	-	-	-	471
Net loss recognised directly in equity		-	-	(1,098)	-	-	-	(1,098)
Transactions with owners								
Distribution to owners (dividends):								
Final for 2017 paid	15	-	-	-	-	-	(2,250,000)	(2,250,000)
Interim for 2018 paid	15	-	-	-	-	(350,000)	-	(350,000)
Proposed final for 2018	15	-	-	-	-	(3,150,000)	3,150,000	-
Total transactions with owners						(3,500,000)	900,000	-
At end of year		1,000,000	23	6,330	1,820,734	3,341,733	3,150,000	9,318,820

The notes on pages 74 to 108 are an integral part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2017	Notes	Share capital KSh'000	Share premium KSh'000	Hedging reserve KSh'000	Revaluation surplus KSh'000	Retained earnings KSh'000	Proposed dividends KSh'000	Total equity KSh'000
At start of year		1,000,000	23	-	1,902,130	1,944,636	3,950,000	8,796,789
Comprehensive income for the year								
Profit for the year		-	-	-	-	3,336,006	-	3,336,006
Transfer of excess depreciation	13	-	-	-	(58,136)	58,136	-	-
Deferred income tax on transfer	13	-	-	-	17,441	(17,441)	-	
Fair value gain recognised through OCI		-	-	10,611	-	-	-	10,611
Deferred tax in respect of fair value gain		-	-	(3,183)	-	-	-	(3,183)
Net gains recognised directly in equity		-	-	7,428	-	-	-	7,428
Transactions with owners								
Distribution to owners (dividends):								
■ Final for 2016 paid	15	-	-	-	-	-	(3,950,000)	(3,950,000)
■ Interim for 2017 paid	15	-	-	-	-	(350,000)	-	(350,000)
■ Proposed final for 2017	15	-	-	-	-	(2,250,000)	2,250,000	-
Total transactions with owners		-	-	-	-	(2,600,000)	(1,700,000)	(4,300,000)
At end of year		1,000,000	23	7,428	1,861,435	2,721,337	2,250,000	7,840,223

The notes on pages 74 to 108 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2018 KSh'000	2017 KSh'000
Capital and reserves attributable to the company's equity holders			
Cash flows from operating activities			
Cash generated from operations	29	7,206,895	6,419,072
Interest received	10	520	1,798
Interest paid	10	(352,403)	(491,827)
Income tax paid	27	(1,554,786)	(1,215,571)
Net cash generated from operating activities		5,300,226	4,713,472
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(861,954)	(391,281)
Proceeds from disposal of property, plant and equipment		3,737	12,676
Net cash used in investing activities		(858,217)	(378,605)
Cash flows from financing activities			
Dividends paid to the company shareholders	15	(2,600,000)	(4,300,000)
Net cash used in financing activities		(2,600,000)	(4,300,000)
Net movement in cash and cash equivalents		1,842,009	34,867
Cash and cash equivalents at beginning of year		(1,651,851)	(1,686,718)
Cash and cash equivalents at end of year	24	190,158	(1,651,851)

The notes on pages 74 to 108 are an integral part of these 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, Industrial Area
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 (KSh), 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 their 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 4.

New standards and interpretations

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

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment transactions (Amendments to IFRS 2)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Transfer of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRS's 2014 – 2016 cycle (Amendments to IFRS 1 and IAS 28)

IFRS 9: Financial Instruments
On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaced 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 periods beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

Details of these new requirements as well as their impact on the Group's and Company's Financial Statements are described under note 3.

IFRS 15: Revenue from Contracts with Customers (Effective 31 December 2018)
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.

Details of these new requirements as well as their impact on the Group's and Company's Financial Statements are described under note 3.

NOTES (continued)

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)

The following new standards that became effective during the year did not have a significant impact on the Group and Company Financial Statements:

- Classification and Measurement of Share-based Payment transactions (Amendments to IFRS 2)
- IFRS 15 Revenue from Contracts with Customers
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Transfer of Investment Property (Amendments to IAS 40)
- Transfer of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRS's 2014 – 2016 cycle (Amendments to IFRS 1 and IAS 28)

(ii) New and amended standards and interpretations in issue but not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018 and have not been early adopted by the Group and Company. The Group and Company are in the process of assessing the impact of these standards on the Group and Company Financial Statements.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 16 Leases	1-Jan-19
IFRIC 23 Income tax exposures	1-Jan-19
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1-Jan-19
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1-Jan-19
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1-Jan-19
Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards	1-Jan-19
Amendments to References to Conceptual Framework in IFRS Standards	1-Jan-20
Definition of a Business (Amendments to IFRS 3)	1-Jan-20
Definition of Material (Amendments to IAS 1 and IAS 8)	1-Jan-20
IFRS 17 Insurance Contracts	1-Jan-21
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS10 and IAS 28)	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity). It is unlikely that IFRIC 23, IFRS 17, amendments to IFRS 9, IAS 28, IFRS 10, IAS 19, annual improvements to IFRS 2015–2017 cycle, amendments to references to conceptual framework in IFRS, IFRS 3, IAS 1 and IAS 8 will have an impact on the Financial Statements.

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

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

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

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

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

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

NOTES (continued)

2. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

(ii) New and amended standards and interpretations in issue but not yet adopted (continued)

IFRS 16: Leases (Continued)

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

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

(ii) leases of low-value assets (i.e. less than KSh 500,000).

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 and Company has assessed the potential impact on its Financial Statements resulting from the application of this standard. The anticipated impact from restatement on the Group's and Company's reported profit and net assets for 2018 is not expected to be material, although the assets and liabilities would have been grossed up by KSh 372 million based on the current leasing commitments in place.

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.

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.

NOTES (continued)

2. Summary of significant accounting policies (continued)

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 (KSh), 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 Managing Director who makes operational decisions.

(e) Revenue recognition

Revenue is measured at the 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.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of a product or service to a customer.

The Group will recognise revenue in accordance with that core principle by applying the following five steps:

Step 1:
Identify the contract(s) with a customer;

Step 2:
Identify the performance obligations in the contract;

Step 3:
Determine the transaction price;

Step 4:
Allocate the transaction price to the performance obligations in the contract;

Step 5:
Recognise revenue when (or as) the entity satisfies a performance obligation.

(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. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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	5% per annum
Vehicles and computers	20% - 33% per annum
Furniture, fittings & equipment	10% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date. During the year, the useful life for plant and machinery was reviewed from 14 years to 20 years.

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

NOTES (continued)

2. Summary of significant accounting policies (continued)

f) Property, plant and equipment (continued)

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 non-financial 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 instruments – under IAS 39

(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

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.

(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.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(j) Financial instruments – under IAS 39 (continued)

(iv) Impairment of financial assets (continued)

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.

Financial instruments – under IFRS 9

(i) Recognition and initial measurement

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(ii) Recognition and initial measurement

The Group and Company classify their financial assets in the following categories; amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The classification of financial assets and their subsequent accounting will be determined by the application of dual tests examining the contractual cash flow characteristics of the financial instruments and the Group's business model for managing the assets.

Financial assets may be held at amortised cost only where both:

- the asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the financial asset give rise on specified dates to cash flows that consist solely of principal and interest on the outstanding principal.

Under IAS 39, all financial liabilities were initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate (EIR) model, unless the option to fair value liabilities was taken. This accounting is the essentially the same under IFRS 9.

(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

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVOCI, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The "incurred loss" model is replaced by the "expected credit loss" model in IFRS 9. This applies to all financial assets not held at fair value through profit and loss (FVTPL) – certain investments, loans, trade receivables and other receivables.

For financial assets carried at amortised cost (including loans and other receivables such as trade debtors), impairment losses are recognised under the "expected loss model", building up a debtors' provision / allowance account against credit losses over the life of the financial asset (including an estimate of initial credit risk), rather than the "incurred loss model" used under IAS 39, where a loss was recognised only if there was a specific event (such as default) triggering an impairment review.

Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, the Group accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

(v) De-recognition of financial assets

The Group de-recognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and

NOTES (continued)

2. Summary of significant accounting policies (continued)

(j) Financial instruments – under IFRS 9 (continued)

(v) De-recognition of financial assets (continued)

rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(k) Derivative financial instruments and hedge accounting

Fair value hedges

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.

Cashflow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

(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) Cash and cash equivalents

Pension obligations

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

Other entitlements

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

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

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Bonus plans

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

(q) Current and deferred income tax

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

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

NOTES (continued)

2. Summary of significant accounting policies (continued)

(q) Current and deferred income tax (continued)

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 arm's 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.

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.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(x) Finance income and finance costs (continued)

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. Changes in significant accounting policies

The Group and Company has applied IFRS 9 and IFRS 15 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's and Company's Financial Statements.

Due to the transition method chosen by the Group in applying these standards, comparative information throughout these Financial Statements has not been restated to reflect the requirements of the new standards, except for separately presenting the impairment loss on trade receivables and presentation of the marketing expenses deducted from revenue.

The effect of initially applying these standards is mainly attributed to the following:

- A change in the way the Group accounts for consideration payable to customers, and requires certain payments to indirect customers, previously shown as marketing expenses, to be shown as deductions from revenue.
- An increase in impairment losses recognised on financial assets.

a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time requires judgement.

With effect from 1 January 2017, the Group had early adopted IFRS 15 Revenue from Contracts with Customers. The early adoption, as permitted by the Standard, was to ensure comparability of the income statement across periods when the Standard came into effect on 1 January 2018. This Standard has changed the way the Group accounts for consideration payable to customers, and requires certain payments to indirect customers, previously shown as marketing expenses, to be shown as deductions from revenue. This has reduced revenue for the year ended 31 December 2018 and the twelve months to 31 December 2017 by KSh 290 million and KSh 234 million, respectively, with a corresponding reduction in marketing and distribution costs.

Impact on consolidated statement of profit or loss and other comprehensive income

Impact on net revenue:	2018 KSh'000	2017 KSh'000
Revenue	21,039,972	18,907,234
Accounting policy change (IFRS 15)	(289,837)	(233,937)
Net revenue as reported	20,750,135	18,673,297
Impact on Marketing and distribution costs:		
Marketing and distribution costs	2,217,999	1,583,346
Accounting policy change (IFRS 15)	(289,837)	(233,937)
Marketing and distribution costs as reported	1,928,162	1,349,409

IFRS 15 did not have an impact on the Group's accounting policies with respect to the other revenue streams.

NOTES (continued)

3. Changes in significant accounting policies (continued)

b) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurements.

The Group has adopted IFRS 9 Financial Instruments with no revision of prior periods, as permitted by the Standard. The cumulative impact of adopting the Standard has been recognised as a revision of opening reserves in 2018, and is KSh 20.6 million arising from the impairment of financial assets under the expected loss model required under IFRS 9, which accelerates recognition of potential impairment on loans and trade receivables when compared with the incurred loss model under IAS 39. A simplified "lifetime expected loss model" has been used for balances arising as a result of revenue recognition, as permitted by the Standard, by applying a standard rate of provision on initial recognition of trade receivables based upon the Group's historical experience of credit loss modified by expectations of the future, and increasing this provision to take account of overdue receivables. Applying the requirements of IFRS 9 has resulted in a decrease of trade and other receivables of KSh 20.6 million as at 1 January 2018.

IFRS 9 also changes the classification and measurement of financial assets. The category of available-for-sale investments (where fair value changes were deferred in reserves until disposal of the investment) has been replaced with the category of financial assets at Fair Value through Profit and Loss (for most investments) and the category of financial assets at Fair Value through Other Comprehensive Income (for qualifying equity investments).

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings.

Group	31 December 2017 as reported KSh'000	Impact of IFRS 9 (expected loss impairment) KSh'000	1 January 2018 Revised for IFRS 9 KSh'000
Assets			
Trade and other receivables	2,167,369	(20,563)	2,146,806
Liabilities			
Deferred income tax	2,151,722	(6,169)	2,145,553
Equity			
Retained earnings	2,721,337	(14,394)	2,706,943

Company	31 December 2017 as reported KSh'000	Impact of IFRS 9 (expected loss impairment) KSh'000	1 January 2018 Revised for IFRS 9 KSh'000
Assets			
Trade and other receivables	2,753,073	(6,897)	2,746,176
Liabilities			
Deferred income tax	2,149,535	(2,069)	2,147,466
Equity			
Retained earnings	2,721,337	(4,828)	2,716,509

NOTES (continued)

3. Changes in significant accounting policies (continued)

b) IFRS 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets and liabilities

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

Group	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KSh'000	New carrying amount under IFRS 9 KSh'000
Financial assets					
Derivative financial instruments		Fair value – Hedging instrument	Fair value – Hedging instrument	17,900	17,900
Trade and other receivables	3(b) (ii)	Loans and receivables	Amortised cost	2,167,369	2,146,806
Cash and cash equivalents		Loans and receivables	Amortised cost	28,873	28,873
				2,214,142	2,193,579
Financial liabilities					
Derivative financial instruments		Fair value – Hedging instrument	Fair value – Hedging instrument	7,289	7,289
Borrowings		Other financial liabilities	Other financial liabilities	1,680,724	1,680,724
Payables and accrued expenses		Other financial liabilities	Other financial liabilities	3,400,525	3,400,525
				5,088,538	5,088,538

Company	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KSh'000	New carrying amount under IFRS 9 KSh'000
Financial assets					
Derivative financial instruments		Fair value – Hedging instrument	Fair value – Hedging instrument	17,900	17,900
Trade and other receivables	3(b) (ii)	Loans and receivables	Amortised cost	2,753,073	2,746,176
Cash and cash equivalents		Loans and receivables	Amortised cost	28,873	28,873
				2,799,846	2,792,949
Financial liabilities					
Derivative financial instruments		Fair value – Hedging instrument	Fair value – Hedging instrument	7,289	7,289
Borrowings		Other financial liabilities	Other financial liabilities	1,680,724	1,680,724
Payables and accrued expenses		Other financial liabilities	Other financial liabilities	3,257,738	3,257,738
				4,945,751	4,945,751

NOTES (continued)

3. Changes in significant accounting policies (continued)

b) IFRS 9 Financial Instruments (continued)

(ii) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of KSh 20,563,000 (Company – KSh 6,897,000) in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9. The allowance for impairment losses as at 31 December 2017 was nil based on IAS 39.

4. 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.

5. Financial risk management

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.

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 and Company manages foreign exchange risk arising from future commercial transactions and recognises assets and liabilities by regularly reviewing prices and robust working capital management.

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

31 December 2018	USD KSh'000	GBP KSh'000	EUR KSh'000
Assets			
Receivables and prepayments	587,298	26,396	392,020
Cash and cash equivalents	9,400	4,220	601
	596,698	30,616	392,621
Liabilities			
Payables and accrued expenses	1,843,978	75,803	96,619
Borrowings	1,222,200	-	-
	3,066,178	75,803	96,619

NOTES (continued)

5. Financial risk management (continued)
a) Market risk (continued)
(i) Foreign exchange risk (continued)

31 December 2017	USD KSh'000	GBP KSh'000	EUR KSh'000
Assets			
Receivables and prepayments	500,870	-	13,664
Cash and cash equivalents	1,404	2,457	222
	502,274	2,457	13,886
Liabilities			
Payables and accrued expenses	1,452,910	89,770	63,885
Borrowings	1,239,000	-	-
	2,691,910	89,770	63,885

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

	USD KSh'000	GBP KSh'000	EUR KSh'000
2018			
Average rates	101.28	135.25	119.63
Closing rates	101.85	129.72	116.43
2017			
Average rates	103.41	133.27	116.82
Closing rates	103.23	138.75	123.28

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.

	2018 KSh'000	2017 KSh'000
Currency – USD		
10% movement effect (higher/lower)	246,948	218,964
Currency – GBP		
10% movement effect (higher/lower)	4,519	8,731
Currency – EUR		
10% movement effect (higher/lower)	29,600	5,000

NOTES (continued)

5. Financial risk management (continued)
a) Market risk (continued)
(i) Foreign exchange risk (continued)

The following table shows the maturity periods for the cash flows associated with derivative financial instruments and the expected impact to profit or loss on undiscounted contractual basis. These relate to the derivative financial instruments as disclosed under note 23.

	2018			2017		
Forward foreign Currency contracts	Assets KSh'000	Liabilities KSh'000	Total KSh'000	Assets KSh'000	Liabilities KSh'000	Total KSh'000
Carrying amounts	16,989	(7,947)	9,042	17,900	(7,289)	10,611
Expected cashflows						
1-6 months	38,440	-	38,440	37,964	-	37,964
7-12 months	20,935	52,973	73,908	43,055	29,343	72,398
More than 1 year	-	-	-	-	-	-
Total	59,375	52,973	112,348	81,019	29,343	110,362

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

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 2018, an increase/decrease of 1% would have resulted in a change of KSh 12,153,600 (2017: KSh 12,409,200) 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 and management does not expect any losses from non-performance by these counterparties.

The amount that best represents the Group and Company's maximum exposure to credit risk at 31 December 2018 and 31 December 2017 is made up as follows:

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Cash and cash equivalents	190,257	28,873	187,675	28,873
Amounts due from related parties	601,629	677,444	1,732,483	1,999,133
Trade and other receivables	1,433,597	1,489,925	588,067	753,940
Derivative financial instruments	16,989	17,900	16,989	17,900
	2,242,472	2,214,142	2,525,214	2,799,846

NOTES (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

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. As at 31 December 2017, none of the above assets were either past due or impaired.

Expected credit loss (ECL) assessment as at 1 January and 31 December 2018

The Group uses a provision matrix to measure the ECLs of trade receivables from customers. The loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region and the type of product purchased.

For Inter-company receivables and farmer balances, the Group has calculated the ECL based on a factor of the following: probability of default, exposure at default and the loss given default. The probability of default is based on the average loss rate for the past 5 years with an adjustment for forward looking information.

The following table provides information about the exposure to credit risk and ECLs for trade receivables, loans and advances to farmers and intercompany receivables as at 31 December 2018.

(i) Trade receivables

Group

Aging bucket	Loss rate	Carrying amount KSh'000	Loss allowance KSh'000	Credit impaired
Current (not past due, 0–30 days)	-	889,681	-	No
4–30 days past due	1.39%	463	(6)	No
31–60 days past due	2.78%	185	(5)	No
61–90 days past due	4.17%	410	(17)	No
More than 90 days past due	5.56%	55,495	(3,087)	No
		946,234	(3,115)	

Company

Aging bucket	Loss rate	Carrying amount KSh'000	Loss allowance KSh'000	Credit impaired
Current (not past due, 0–30 days)	-	104,057	-	No
4–30 days past due	1.39%	21	-	No
31–60 days past due	2.78%	185	(5)	No
61–90 days past due	4.17%	410	(17)	No
More than 90 days past due	5.56%	547	(30)	No
		105,220	(52)	

Loss rates are based on actual credit loss experience over the past five years, current conditions plus the Group's view of economic conditions such as inflation, commercial bank interest rates and growth in the economy's gross domestic product.

NOTES (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

(ii) Intercompany receivables

For Group and Company, the calculated ECL which represents the probability of default was 0.43% which considers historical experience over the last five years, current conditions, exchange rates and country risk. This was applied to the gross outstanding amount and resulted in a loss allowance of KSh 3,924,107 for the year ended 31 December 2018.

(iii) Loans and advances to farmers

For Group and Company, the calculated ECL which represents the probability of default was 0.57% which considers historical experience over the last five years, current conditions and forecasted uninsured losses. This was applied to the gross outstanding amount and resulted in a loss allowance of KSh 2,381,037 for the year ended 31 December 2018.

(iv) Cash and cash equivalents

The Group and company held cash and cash equivalents of KSh 190,257,000 and KSh 187,675,000 respectively (2017: Group and Company - KSh 28,873,000). The cash and cash equivalents are held with banks and financial institution counterparties, which are rated between A1 to Ba1, based on Moody's ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected credit loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, the impairment allowance for cash balances as at 1 January and December 2018 was not significant.

(v) Derivatives

The derivatives are entered into with bank and financial institution counterparties, which are rated between A1 to Baa2, based on Moody's ratings.

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 26) 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.

NOTES (continued)

5. Financial risk management (continued)
c) Liquidity risk (continued)

(i) Group

At 31 December 2018	Less than 1 year KSh'000	Between 1 & 3 years KSh'000
Liabilities		
Borrowings	99	1,222,200
Trade and other payables	3,986,861	-
Amounts due to related parties	185,925	-
Derivative financial instruments	7,947	-
Total financial liabilities	4,180,832	1,222,200
Assets		
Cash and bank balances	190,257	-
Amounts due from related parties	601,629	-
Trade and other receivables	1,433,597	-
Derivative financial instruments	16,989	-
Total financial assets	2,242,472	-
At 31 December 2017		
Liabilities		
Borrowings	1,680,724	1,239,000
Trade and other payables	3,226,554	-
Amounts due to related parties	173,971	-
Derivative financial instruments	7,289	-
Total financial liabilities	5,088,538	1,239,000
Assets		
Cash and bank balances	28,873	-
Amounts due from related parties	677,444	-
Trade and other receivables	1,489,925	-
Derivative financial instruments	17,900	-
Total financial assets	2,214,142	-

NOTES (continued)

5. Financial risk management (continued)
c) Liquidity risk (continued)

(i) Company

At 31 December 2018	Less than 1 year KSh'000	Between 1 & 3 years KSh'000
Liabilities		
Borrowings	99	1,222,200
Trade and other payables	3,566,723	-
Amounts due to related parties	161,584	-
Derivative financial instruments	7,947	-
Total financial liabilities	3,736,353	1,222,200
Assets		
Cash and bank balances	187,675	-
Amounts due from related parties	1,732,483	-
Trade and other receivables	588,067	-
Derivative financial instruments	16,989	-
Total financial assets	2,525,214	-
At 31 December 2017		
Liabilities		
Borrowings	1,680,724	1,239,000
Trade and other payables	3,100,691	-
Amounts due to related parties	157,047	-
Derivative financial instruments	7,289	-
Total financial liabilities	4,945,751	1,239,000
Assets		
Cash and bank balances	28,873	-
Amounts due from related parties	1,999,133	-
Trade and other receivables	753,940	-
Derivative financial instruments	17,900	-
Total financial assets	2,799,846	-

NOTES (continued)

5. Financial risk management (continued)

d) Capital risk management

For both Group and Company, there are no financial assets or liabilities older than 3 years.

Capital comprises all components of equity as shown in the statement of changes in equity plus net debt. The Group's and Company's objectives when managing capital are to safeguard the Group's and Company'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	
	2018	2017	2018	2017
	KSh'000	KSh'000	KSh'000	KSh'000
Total borrowings	1,222,299	2,919,724	1,222,299	2,919,724
Less: cash and cash equivalents	(190,257)	(28,873)	(187,675)	(28,873)
Net debt	1,032,042	2,890,851	1,034,624	2,890,851
Total equity	9,309,254	7,840,223	9,318,820	7,840,223
Total capital	10,341,296	10,731,074	10,353,444	10,731,074
Gearing ratio	10%	27%	10%	27%

Financial instruments by category

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

Financial Assests	Group		Company	
	2018	2017	2018	2017
	KSh'000	KSh'000	KSh'000	KSh'000
Trade and other receivables (excluding pre-payments)	2,035,226	2,167,369	2,320,550	2,753,073
Cash and cash equivalents	190,257	28,873	187,675	28,873
Derivative financial instruments	16,989	17,900	16,989	17,900
	2,242,472	2,214,142	2,525,214	2,799,846

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

NOTES (continued)

5. Financial risk management (continued)

c) Capital risk management (continued)

Financial liabilities	Group		Company	
	2018	2017	2018	2017
	KSh'000	KSh'000	KSh'000	KSh'000
Trade and other payables (excluding statutory liabilities)	4,172,786	3,400,525	3,728,307	3,257,738
Borrowings	1,222,299	2,919,724	1,222,299	2,919,724
Derivative financial instruments	7,947	7,289	7,947	7,289
	5,403,032	6,327,538	4,958,553	6,184,751

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 and Company'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 and Company'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 and Company'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.

NOTES (continued)

5. Financial risk management (continued)

d) Capital risk management

The following table shows an analysis of non-financial assets held at fair value as at 31 December 2018 and 31 December 2017

	Group		Company	
	2018	2017	2018	2017
	KSh'000	KSh'000	KSh'000	KSh'000
Property, plant and equipment (Note 19)	9,097,413	9,133,893	9,097,413	9,133,893
Forward exchange contracts (Note 23)	16,989	17,900	16,989	17,900
Total assets	9,114,402	9,151,793	9,114,402	9,151,793

6. Segment information

The Managing Director is the Group's chief operating decision-maker. The Managing Director and Leadership team consider 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.

	2018	2017
	KSh'000	KSh'000
Analysis of net revenue by geography:		
Local sales	10,790,608	9,518,057
Export sales	9,959,527	9,155,240
	20,750,135	18,673,297
Analysis of net revenue by product:		
Sale of cigarettes	19,230,760	18,059,817
Sale of cut rag	1,519,375	613,480
	20,750,135	18,673,297

7. Raw materials and manufacturing costs

	2018	2017
	KSh'000	KSh'000
Raw materials, consumables and other manufacturing costs*	10,903,471	10,106,590
Depreciation of property, plant and equipment	413,210	624,473
	11,316,681	10,731,063

**Raw materials, consumables and other manufacturing costs include employee expenses of KSh 1,108,734,000 (2017: KSh 1,198,942,000).*

NOTES (continued)

8. Marketing and distribution costs

	2018	2017
	KSh'000	KSh'000
Employment expenses	466,675	414,697
Freight and other expenses	1,461,487	934,712
	1,928,162	1,349,409

9. Administration and other expenses

	2018	2017
	KSh'000	KSh'000
Employment expenses	733,425	566,117
Recharges and other expenses	780,755	594,881
Depreciation	103,303	156,118
Reorganisation costs	29,847	391,522
	1,647,330	1,708,638

10. Finance costs

	2018	2017
	KSh'000	KSh'000
Interest income	(520)	(1,798)
Interest expense	352,403	491,827
Net foreign currency exchange (gains)/losses	(13,572)	4,038
	338,311	494,067

11. Profit before tax

	2018	2017
	KSh'000	KSh'000
The following items have been charged in arriving at the profit before income tax:		
Employee benefits expense (Note 12)	2,338,681	2,571,278
Auditors' remuneration	12,136	9,740
Depreciation (Note 19)	516,513	780,591
Gain on disposal	(3,737)	(12,080)
Loss on decommissioned property, plant and equipment	381,921	-

NOTES (continued)

12. Employee benefits expense

	2018 KSh'000	2017 KSh'000
Salaries and wages	2,219,891	2,081,691
Retirement benefits costs:		
■ Defined contribution scheme	86,859	95,907
■ National Social Security Fund	2,084	2,158
Reorganisation costs (Note 9)	29,847	391,522
	2,338,681	2,571,278

13. Income tax

	2018 KSh'000	2017 KSh'000
Current income tax		
Current tax on profits for the year	1,951,522	1,508,601
Total current tax	1,951,522	1,508,601
Deferred income tax (Note 18)		
■ Deferred income tax	(156,382)	(326)
■ Prior year under provision of deferred tax	1,083	22,662
Total deferred income tax	(155,299)	22,336
Income tax expense	1,796,223	1,530,937
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:		
Profit before income tax	5,880,746	4,866,943
Tax calculated at domestic rate applicable to profit- 30% (2017:30%)	1,764,224	1,460,083
Tax effect of: Income not subject to tax	-	(96)
Expenses not deductible for tax purposes	30,916	48,288
Prior year under provision of deferred tax	1,083	22,662
Income tax expense	1,796,223	1,530,937

NOTES (continued)

13. Income tax (continued)

The tax charge relating to components of equity is as follows:

	2018 KSh'000			2017 KSh'000		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Transfer of excess depreciation	58,145	(17,444)	40,701	58,136	(17,441)	40,695

14. 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.

	2018 KSh'000	2017 KSh'000
Profit attributable to equity holders of the Company (KSh '000)	4,084,523	3,336,006
Weighted average number of Ordinary Shares in issue (thousands)	100,000	100,000
Basic earnings per share (KSh)	40.85	33.36

15. Dividends per share

During the year a final dividend in respect of the 2017 financial results of KSh 22.50 (2016: KSh 39.50) and an interim dividend of KSh 3.50 per share (2017: KSh 3.50) was declared and paid. The total dividend paid in the year is therefore KSh 26.00 per share (2016: KSh 43.00), amounting to a total of KSh 2,600,000,000 (2017: KSh 4,300,000,000).

At the annual general meeting to be held on 10 May 2019, a final dividend in respect of the year ended 31 December 2018 of KSh 31.50 per share amounting to a total of KSh 3,150,000,000 (2017: KSh 2,250,000,000) 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.

16. Capital and reserves

(i) Share capital – Group and Company

	Number of shares (Thousands)	Ordinary Shares KSh'000	Share premium KSh'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 KSh 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.

(ii) Share premium

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

(iii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss, or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

NOTES (continued)

17. 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.

18. Deferred income tax

	2018 KSh'000	2017 KSh'000
The analysis of Group deferred tax assets and deferred liabilities is as follows		
Deferred tax assets	(25,271)	(6,443)
Deferred tax liabilities	2,014,780	2,151,722
Deferred tax liabilities (net)	1,989,509	2,145,279
Deferred income tax is calculated using the enacted income tax rate of 30% (2017:30%). The movement on the Group deferred income tax account is as follows:		
At start of year	2,145,279	2,119,760
Charge to statement of profit or loss and other comprehensive income	(156,382)	(326)
Prior year under provision of deferred tax	1,083	22,662
(Debit)/credit to equity	(471)	3,183
At end of year	1,989,509	2,145,279

Consolidated Group 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 2018	1.1.2018 KSh'000	Charged /(credited) to P&L KSh'000	Charged /(credited) to equity KSh'000	31.12.2018 KSh'000
Deferred income tax liabilities				
Property, plant and equipment:				
on historical cost basis	1,459,778	(99,652)	-	1,360,126
on revaluation surpluses	795,370	(17,444)	-	777,926
Unrealised exchange gains	8,772	(5,396)	-	3,376
Deferred tax in respect of fair value gain on hedge reserve	5,370	-	(273)	5,097
	2,269,290	(122,492)	(273)	2,146,525
Deferred income tax assets				
Provisions for liabilities and charges	(112,453)	(32,054)	-	(144,507)
Unrealised exchange losses	(9,371)	(753)	-	(10,124)
Deferred tax in respect of fair value loss on hedge reserve	(2,187)	-	(198)	(2,385)
	(124,011)	(32,807)	(198)	(157,016)
Net deferred income tax liability	2,145,279	(155,299)	(471)	1,989,509

NOTES (continued)

18. Deferred income tax (continued)

Year ended 31 December 2017	1.1.2017 KSh'000	Charged /(credited) to P&L KSh'000	Charged /(credited) to equity KSh'000	31.12.2017 KSh'000
Deferred income tax liabilities				
Property, plant and equipment:				
on historical cost basis	1,539,851	(80,073)	-	1,459,778
on revaluation surpluses	774,821	20,549	-	795,370
on disposal of assets	(42,879)	42,879	-	-
Unrealised exchange gains	110,741	(101,969)	-	8,772
Deferred tax in respect of fair value gain on hedge reserve	-	-	5,370	5,370
	2,382,534	(118,614)	5,370	2,269,290
Deferred income tax assets				
Provisions for liabilities and charges	(137,885)	25,432	-	(112,453)
Unrealised exchange losses	(124,889)	115,518	-	(9,371)
Deferred tax in respect of fair value loss on hedge reserve	-	-	(2,187)	(2,187)
	(262,774)	140,950	(2,187)	(124,011)
Net deferred income tax liability	2,119,760	22,336	3,183	2,145,279

Deferred income tax of KSh 17,444,000 (2017: 17,441,000) 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.

NOTES (continued)

18. Deferred income tax (continued)

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

	2018 KSh'000	2017 KSh'000
The analysis of Company deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax liabilities (net)	2,014,780	2,149,535
Deferred income tax liabilities		
Property, plant and equipment:		
■ on historical cost basis	1,360,126	1,459,778
■ on revaluation surpluses	777,926	795,370
■ on disposal of assets		-
Deferred tax in respect of fair value gain on hedge reserve	5,097	5,370
Unrealised exchange gains	3,340	8,772
Total deferred income tax liabilities	2,146,489	2,269,290
Deferred income tax assets		
Provisions for liabilities and charges	(119,395)	(108,197)
Unrealised exchange losses	(9,929)	(9,371)
Deferred tax in respect of fair value loss on hedge reserve	(2,385)	(2,187)
Total deferred income tax assets	(131,709)	(119,755)
Net deferred income tax liability	2,014,780	2,149,535

NOTES (continued)

19. Property, plant and equipment – Group and Company

	Land and Buildings KSh'000	Plant and Machinery KSh'000	Vehicles and Equipment KSh'000	Construction in Progress* KSh'000	Total KSh'000
Year ended 31 December 2018					
Opening net book amount	3,865,537	4,839,377	172,907	256,072	9,133,893
Additions	-	828	33,823	827,303	861,954
Disposals/impairment					
■ Cost	(189,054)	(669,650)	(26,186)	-	(884,890)
■ Accumulated depreciation	57,875	419,596	25,498	-	502,969
Depreciation charge	(91,819)	(348,669)	(76,025)	-	(516,513)
Transfers	450,726	292,117	57,841	(800,684)	-
Closing net book amount	4,093,265	4,533,599	187,858	282,691	9,097,413
At 31 December 2018					
Cost or valuation	5,264,665	9,684,178	1,212,118	282,691	16,443,652
Accumulated depreciation	(1,171,400)	(5,150,579)	(1,024,260)	-	(7,346,239)
Net book amount	4,093,265	4,533,599	187,858	282,691	9,097,413
Year ended 31 December 2017					
Opening net book amount	3,944,211	4,950,730	229,382	399,476	9,523,799
Additions	10,636	183,392	36,128	161,125	391,281
Disposals					
■ Cost	-	(13,658)	(40,806)	-	(54,464)
■ Accumulated depreciation	-	13,250	40,618	-	53,868
Depreciation charge	(89,310)	(594,715)	(96,566)	-	(780,591)
Transfers	-	300,378	4,151	(304,529)	-
Closing net book amount	3,865,537	4,839,377	172,907	256,072	9,133,893
At 31 December 2017					
Cost or valuation	5,002,993	10,060,883	1,146,640	256,072	16,466,588
Accumulated depreciation	(1,137,456)	(5,221,506)	(973,733)	-	(7,332,695)
Net book amount	3,865,537	4,839,377	172,907	256,072	9,133,893

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

NOTES (continued)

19. Property, plant and equipment – Group and Company (continued)

In 2016, Knight Frank Valuers Limited, professionally valued the Group's and Company's land and buildings. The valuation was on an open market value basis. The valuer used the Comparable 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:

	2018 KSh'000	2017 KSh'000
Cost	1,916,018	1,654,346
Accumulated depreciation	(421,413)	(445,614)
Net book amount	1,494,605	1,208,732

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

During the year, property, plant and equipment with a net book value of KSh 381,921,262 were decommissioned following the conclusion of a fixed assets verification, tagging and reconciliation exercise.

20. Investment in subsidiaries

Subsidiary	Principal activity	Cost KSh'000
BAT Kenya Tobacco Company Limited	Selling of cigarettes	12,000
East Africa Tobacco Company (Kenya) Limited	Dormant	-
	Totals	12,000

NOTES (continued)

21. Inventories

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Raw materials and consumables	5,426,545	5,165,105	5,426,545	5,165,105
Finished goods	757,373	509,663	578,122	468,084
	6,183,918	5,674,768	6,004,667	5,633,189

22. Receivables and prepayments

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Trade receivables	946,234	788,973	105,220	52,244
Statutory receivables	732,047	402,223	36,532	-
Other receivables	487,363	700,952	482,847	701,696
Prepayments	57,136	233,451	57,136	81,684
Due from related parties	601,629	677,444	1,732,483	1,999,133
	2,824,409	2,803,043	2,414,218	2,834,757

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

23. Derivative financial instruments – Group and Company

The fair values of derivatives are determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair value is based on the quoted market price of similar derivatives. The fair value measurement has been categorized as level 1 based on the inputs to the valuation techniques.

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Forward foreign currency contracts	16,989	7,947	17,900	7,289
Current	16,989	7,947	17,900	7,289
Non-current	-	-	-	-
	16,989	7,947	17,900	7,289

These derivatives principally consist of forward foreign currency contracts which have been designated as hedges due to their value changes offsetting with other components of net finance costs relating to financial assets and financial liabilities. The derivatives are undertaken for risk management purposes.

NOTES (continued)

24. Cash and cash equivalents

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Cash at bank	190,257	28,873	187,675	28,873

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

	Group	
	2018 KSh'000	2017 KSh'000
Cash at bank	190,257	28,873
Bank overdrafts (Note 26)	(99)	(1,680,724)
	190,158	(1,651,851)

25. Payables and accrued expenses

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Trade payables	2,470,578	2,166,104	2,408,478	2,098,687
Statutory payables	1,268,133	1,357,396	1,266,349	1,357,394
Due to related companies	185,925	173,971	161,584	157,047
Other payables and accrued expenses	1,516,283	1,060,450	1,158,245	1,002,004
	5,440,923	4,757,921	4,994,656	4,615,132

NOTES (continued)

26. Borrowings

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Non-current				
Loan from BATIF	1,222,200	1,239,000	1,222,200	1,239,000
Current				
Bank overdrafts	99	1,680,724	99	1,680,724
	1,222,299	2,919,724	1,222,299	2,919,724

The loan from BATIF is an unsecured US Dollar denominated floating rate loan repayable by 31 July 2021 at an interest rate of USD LIBOR plus 4.675% up to 28 September 2017. The floating interest rate changed to USD LIBOR plus 2.00% on 29 September 2017 for the remaining period to 31 July 2021. 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:

	2018 KSh'000	2017 KSh'000
Overdraft facilities	8,088,423	6,097,716
Bond guarantees	37,265	453,336
	8,125,688	6,551,052

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

27. Current tax movement

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Opening income tax asset	99,336	392,366	(41,332)	356,719
Charge to statement of profit or loss and other comprehensive income	(1,951,522)	(1,508,601)	(705,101)	(528,759)
Income tax paid	1,554,786	1,215,571	617,627	130,708
Closing income tax (liability)/asset	(297,400)	99,336	(128,806)	(41,332)
Current asset	-	140,668	-	-
Current liability	(297,400)	(41,332)	(128,806)	(41,332)
Closing income tax (liability)/asset	(297,400)	99,336	(128,806)	(41,332)

NOTES (continued)

28. Provisions for liabilities and charges

	Group KSh'000	Company KSh'000
Year ended 31 December 2018		
At start of year	87,377	87,377
Additional provisions	-	-
Unused amounts reversed	(2,800)	(2,800)
Utilised during the year	(38,923)	(38,923)
At end of year	45,654	45,654
Year ended 31 December 2017		
At start of year	58,606	58,606
Additional provisions	38,923	38,923
Unused amounts reversed	(10,152)	(10,152)
Credit to statement of profit or loss and other comprehensive income	28,771	28,771
At end of year	87,377	87,377

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

29. Cash generated from operations

	2018 KSh'000	2017 KSh'000
(a) Reconciliation of profit before taxation and cash generated from operations		
Profit before taxation	5,880,746	4,866,943
Adjustments for:		
Depreciation (Note 19)	516,513	780,591
Loss on decommissioned property, plant and equipment	381,921	-
Profit on disposal of property, plant and equipment	(3,737)	(12,080)
Interest received (Note 10)	(520)	(1,798)
Interest expense (Note 10)	352,403	491,827
Unrealised foreign exchange (gain)/losses on borrowings	(16,800)	9,360
Changes in working capital:		
■ inventories	(509,150)	298,688
■ receivables and prepayments (Note 29(b))	(35,760)	(261,133)
■ payables and accrued expenses	683,002	217,903
■ provisions for liabilities and charges	(41,723)	28,771
Cash generated from operations	7,206,895	6,419,072
(b) Reconciliation of movement in trade and other receivables		
Net decrease in trade and other receivables	(21,366)	-
Adjustment on initial application of IFRS 9 (Note 3(b))	(14,394)	-
Net change in receivables & prepayments	(35,760)	-

NOTES (continued)

30. 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	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
(i) Sale of goods and services				
Statutory payables	-	-	18,609,106	18,656,394
Other payables and accrued expenses	7,509,229	7,124,808	7,509,229	7,124,808
	7,509,229	7,124,808	26,118,335	25,781,202
(ii) Purchase of goods and services				
Parent company	416,015	308,768	416,015	308,768
Other related parties	1,300,661	992,929	1,300,661	992,929
	1,716,676	1,301,697	1,716,676	1,301,697
(iii) Outstanding balances arising from sale and purchase of goods/services				
Receivables from other related parties	601,629	677,444	1,732,483	1,999,133
Payables to the parent company	10,086	38,512	10,086	38,512
Payables to other related parties	175,839	135,459	151,498	118,535
	185,925	173,971	161,584	157,047

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.

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
(iv) Loans from related parties				
Loan from related party (BATIF)	1,222,200	1,239,000	1,222,200	1,239,000

NOTES (continued)

30. Related party transactions (continued)

	2018 KSh'000	2017 KSh'000
(v) Key management compensation		
Salaries and other short-term employment benefits	113,896	135,526
Other long-term benefits	82,736	85,261
	196,632	220,787

	2018 KSh'000	2017 KSh'000
(vi) Directors' remuneration		
Fees for services as a director	17,850	18,101
Other emoluments (included in key management compensation above)	84,084	109,357
Total remuneration of directors of the Company	101,934	127,458

31. 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 KSh 2,005,446,052 (2017: KSh 1,793,522,940), issued on its behalf in the normal course of business from which it is anticipated that no material liabilities will arise.

32. Capital commitments

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

	2018 KSh'000	2017 KSh'000
Property, plant and equipment	68,524	171,670

Principal shareholders and share distribution

Principal shareholders and share distribution as at 13 February 2019

Shareholder	No. of Shares	% Shareholding
Molensteegh Invest Bv.	60,000,000	60.00%
Standard Chartered Kenya Nominees Ltd,A/C Ke18993	10,065,024	10.06%
Standard Chartered Nominees Non-Resd. A/C 9866	5,217,729	5.22%
Standard Chartered Kenya Nominees Ltd A/C Ke003847	2,475,500	2.47%
Standard Chartered Nominees Non-Resd. A/C Ke8723	1,340,900	1.34%
Stanbic Nominees Ltd A/C Nr1030824	1,300,900	1.30%
Kenya Commercial Bank Nominees Limited A/C 915a	965,223	0.97%
Standard Chartered Kenya Nominees Ltd A/C Ke23050	906,215	0.91%
Kenya Commercial Bank Nominees Limited A/C 915b	730,045	0.73%
Standard Chartered Nominees Resd A/C Ke11443	605,923	0.61%
Others (4,723 Shareholders)	16,392,541	16.39%
TOTAL	100,000,000	100.00%

Summary of Shareholders as at 13 February 2019

Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Foreign Companies	39	84,292,780	84.29%
Foreign Individuals	89	240,854	0.24%
Local Companies	457	9,809,682	9.81%
Local Individuals	4,148	5,656,684	5.66%
TOTAL	4,733	100,000,000	100.00%

Distribution of Shareholders as at 13 February 2019

Shareholder	No. of Shareholders	No. of Shares	% Shareholding
1-500	2,539	557,260	0.56%
501 - 5,000	1,810	2,871,479	2.87%
5,001- 10,000	146	1,050,332	1.05%
10,001 - 100,000	200	5,935,671	5.94%
100,001 - 1,000,000	32	9,185,205	9.18%
Above 1,000,000	6	80,400,053	80.40%
TOTALS	4,733	100,000,000	100.00%

Directors' Shareholding as at 13 February 2019

Director's Name	Shareholdings
Carol Musyoka	200
Sidney Wafula	300

BAT Kenya Board chairman, George Maina, plants a tree at our leaf centre in Malakisi.

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/her, 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 **10 May 2019 at 10:00am in the Ball Room, Hotel Intercontinental Nairobi, or at any adjournment thereof.**

As witness my/our hand/s this ------------------------------ day of ------------------------------ 2019

CDS Account Number -------------------------------- Number of Shares held --------------------------------

----
(Signature)

NOTES:

1. If a member is unable to attend this meeting personally this Form of Proxy should be completed and returned to The Co-operative Bank of Kenya Limited, Registrars Services, 1st Floor CIC Plaza II, Mara Road, Upper Hill, Nairobi or alternatively to the Registered Office of the Company so as to arrive **not later than 2:30 p.m. on 8 May 2019.**

   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 regard.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WITH A
GROW BEYOND

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