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2019 Annual Report & Financial Statements

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OVERVIEW

BRITISH AMERICAN TOBACCO KENYA PLC
2019 ANNUAL REPORT AND Financial Statements

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 2019.

This Annual Report has been drawn up and is presented in accordance with, and reliance upon, applicable Kenyan company law and the Companies Act, 2015. The liabilities of the Directors in connection with this Report shall be subject to the limitations and restrictions provided by such law.

A soft copy of the Annual Report is emailed to shareholders on the email database who have elected to receive it and have at any previous time indicated their email addresses. A digital copy can also be accessed on our website www.batkenya.com.

References in this publication to 'the Company', 'BAT Kenya', 'the Business' '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 provided for tobacco or nicotine 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 or nicotine products. Our products are sold in compliance with the laws of Kenya.

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 proven strategy that is delivering value for our shareholders. BAT Kenya's diverse strengths - our strong heritage, our innovative brands, our new product innovations and our talented people – are the foundations of our continuing progress.

We make cigarettes chosen by a majority of Kenya's adult smokers and also sell LYFT, a tobacco-free modern oral nicotine pouch. We partner with approximately 5,000 tobacco farmers and 80,000 trade and business partners in Kenya and directly and indirectly employ over 1,800 people.

We contribute to socio-economic development through our corporate responsibility and sustainability agenda. This includes our signficant contribution to the country's environmental conservation, having planted over 50 million trees since 1978, with 2.3million planted in 2019.

Read more at
www.batkenya.com

NOTICE OF THE 2020 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 68th Annual General Meeting of British American Tobacco Kenya plc will be held via **electronic communication (virtual/online meeting) on Wednesday, 24 June 2020, at 9:00 a.m.** to conduct the following business:

Due to the ongoing restrictions on public gatherings by the Government, shareholders will not be able to attend the AGM in person but will have the opportunity to register for the virtual meeting, access information on the Annual Report and Audited Financial Statements for the year ending 31 December 2019, the amended Articles of Association of the Company, participate in the meeting in the manner detailed below and vote electronically in person or by proxy. Shareholders may ask questions in advance of the meeting as detailed in the Notes below.

Ordinary business

1. To receive, consider and if approved, adopt the Company's Audited Financial Statements for the year ended 31 December 2019, 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 20 September 2019 and to declare and ratify the Final Dividend of KSh. 30.00 per ordinary share paid in advance, net of Withholding Tax on 29 April 2020, to shareholders on the Register at the close of business on 20 March 2020

3. To elect Directors:
   a) Sidney Wafula 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) Beverley Spencer-Obatoyinbo and Carol Musyoka retire by rotation in accordance with Article 103 of the Articles of Association and being eligible, offer themselves for re-election.

   c) Dr. Macharia Irungu, Samuel Onyango, Philemon Kipkemoi, Andre Willem Joubert and Marion Gathoga-Mwangi retire by rotation in accordance with Article 102 of the Articles of Association having been appointed by the Board and being eligible, offer themselves for re-election.

   d) Pursuant to the provisions of Section 769 of the Companies Act 2015, Dr. Martin Oduor-Otieno, Samuel Onyango, Carol Musyoka and Marion Gathoga-Mwangi being Members of the Board Audit & Risk 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 2019.

5. To ratify the appointment of Messrs KPMG Kenya as External Auditor of the Company, by virtue of Section 721(2) of the Companies Act 2015 and to authorise the Directors to fix their remuneration for the year ending 31 December 2020.

Special Business

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

   "That the existing Articles of Association of the Company be deleted in their entirety and replaced with the new amended Articles of Association attached as Annexure 1 to this resolution."

By Order of the Board

Waeni Ngea (Ms.)
Company Secretary

2nd June 2020

NOTES:

1. Owing to the ongoing Coronavirus 2019 (COVID-19) pandemic and the related Public Health Regulations and directives passed by the Government restricting public gatherings, it is impossible for the Company to hold a physical AGM in the manner envisaged under the Company's Articles of Association and section 280 of the Companies Act 2015. On 29 April 2020, the High Court of Kenya in Miscellaneous Application No. E680 of 2020, issued an order permitting any company listed on the Nairobi Securities Exchange to convene and conduct a virtual general meeting subject to receipt of a 'No Objection' from the Capital Markets Authority ('CMA'). Relying on this court order, British American Tobacco Kenya plc has convened and will conduct its virtual annual general meeting following receipt of a No Objection from the CMA.

2. Shareholders wishing to participate in the meeting should register for the AGM by dialling ***483*808#** on their mobile telephone and follow the various prompts on the registration process.

3. To complete the registration process, shareholders will need to provide their National ID/Passport Numbers which were used to purchase their shares and/or their CDSC Account Number. For assistance shareholders should dial the following helpline number: **(+254) 709 170 000** from 9:00 a.m. to 3:00 p.m. from Monday to Friday. Shareholders outside Kenya should dial the helpline number or send an email to BATshares@image.co.ke or info@image.co.ke for assistance during registration.

4. Registration for the AGM opens on Tuesday 2 June 2020 at 9:00 a.m. and will close on Sunday 21 June 2020 at 5.00 p.m. Shareholders will not be able to register after this time.

5. In accordance with Article 174 of the Company's Articles of Association, the following documents may be viewed on the Company's website www.batkenya.com **(a)** a copy of this Notice and the proxy form; **(b)** the Company's Annual Report and Audited Financial Statements for the year ended 31st December 2019; **(c)** the proposed amended Articles of Association of the Company; **(d)** a copy of the High Court Order in Miscellaneous Application No. E680 of 2020; and (e) a copy of the No Objection issued by the CMA.

6. Any shareholder who is entitled to attend and vote at the AGM is entitled to appoint a proxy to attend and vote in his/her stead. Such proxy need not be a member of the Company.

7. A proxy form is provided with the Annual Report. The proxy form can also be obtained from the Company's website www.batkenya.com or from Image Registrars Limited, Absa Towers (formerly Barclays Plaza), 5th Floor, Loita Street, P. O. Box 9287 – 00100, Nairobi, Kenya. Shareholders who do not propose to be at the AGM are requested to complete and return the proxy form to Image Registrars Limited, or alternatively to the Registered Office of the Company so as to arrive not later than 2:30 p.m. on 19 June 2020.

8. Duly signed proxy forms may also be emailed to info@image.co.ke in PDF format. A proxy form must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an officer or duly authorized attorney of such body corporate.

9. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so on or before 19 June 2020 at 2:30 p.m. by: **(a)** sending their written questions by email to BATshares@image.co.ke; or **(b)** to the extent possible, physically delivering or posting their written questions with a return address (physical, postal or email) to the registered office of the Company or P.O. Box 30000 – 00100, Nairobi, or to Image Registrars offices at the address above.

   Shareholders must provide their full details (full names, National ID/Passport Number/CDSC Account Number) when submitting their questions or clarifications.

   The Company's Directors will provide written responses to the questions received to the return address (physical, postal or email) provided by the Shareholder, no later than 12 hours before the start of the AGM. A full list of all questions received, and the answers thereto will be published on the Company's website not later than 12 hours before the start of the AGM.

10. The AGM will be streamed **live** via a link which shall be provided to all shareholders who have successfully registered to participate in the AGM. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour ahead of the AGM, as a reminder that the AGM will begin in an hour and provide a link to the live stream. In registering to attend the AGM, a shareholder opts in to receive these messages.

11. Shareholders and proxies who have registered to attend the AGM may follow the proceedings using the live stream platform, access the agenda and vote (when prompted by the Chairman) via the USSD prompts.

12. Results of the resolutions voted on will be published on the Company's website i.e. www.batkenya.com within 24 hours following conclusion of the AGM.

    Shareholders are encouraged to continuously monitor the Company's website for any updates relating to the AGM owing to the changing situation arising from the COVID-19 pandemic. We appreciate the understanding of our shareholders as we navigate the evolving business conditions posed by COVID-19.

EXPLANATORY NOTES TO RESOLUTIONS TO BE PASSED

Agenda item 1:
Report and Financial Statements 2019
Resolution 1:
THAT the Report of the Directors and the Financial Statements for the year ended 31 December 2019, as audited and reported by the Company's Auditors now submitted to this meeting be and are hereby approved and adopted.

The Report and Accounts are for the year ended 31 December 2019.

Agenda item 2:
Declaration of final dividend
Resolution 2:
THAT the Interim Dividend of KSh. 3.50 per ordinary share paid on 20 September 2019 be and is hereby confirmed and that a final Dividend of KSh. 30.00 per ordinary share payable, net of Withholding Tax, paid on 29 April 2020 to Shareholders on the Register at the close of business on 20 March 2020 be and is hereby ratified.

The Company paid an Interim Dividend of KSh. 3.50 per Ordinary Share on 20 September 2019. The Board recommended a final Dividend of KSh. 30.00 per Ordinary Share, bringing the total Dividend for the year to KSh. 33.50 per Ordinary Share. The Shareholders are requested to approve and ratify the final Dividend paid on 29 April 2020 to Shareholders on the Register on 20 March 2020. Shareholders were notified of the payment of the proposed final Dividend in advance of the AGM on 24 April 2020, following CMA approval.

Agenda item 3:
Directors seeking re-election
Resolution 3:
THAT the re-election of Beverley Spencer-Obatoyinbo, Carol Musyoka, Dr. Macharia Irungu, Samuel Onyango, Philemon Kipkemoi, Andre Willem Joubert and Marion Gathoga-Mwangi 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 Beverley Spencer-Obatoyinbo, Carol Musyoka, Dr. Macharia Irungu, Samuel Onyango, Philemon Kipkemoi, Andre Willem Joubert and Marion Gathoga-Mwangi be and are hereby re-elected Directors of the Company.

In relation to the re-election of all the above-named Directors, the Nominations & Governance Committee and the Board have 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 page 58 of the Annual Report 2019. 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:
Re-election of Audit & Risk Committee Members
Resolution 5:
THAT Dr. Martin Oduor-Otieno, Samuel Onyango, Carol Musyoka and Marion Gathoga-Mwangi are hereby elected to continue to serve as Members of the Board Audit & Risk Committee.

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

Agenda item 4:
Directors' remuneration
Resolution 6:
Resolution 6 is an advisory vote to approve the Directors' remuneration as stated on Note 31 to the Financial Statements and to approve the Director's Remuneration Report 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 82 of the Annual Report 2019.

Agenda item 5:
Re-Appointment of Auditors and Auditor's Remuneration
Resolution 7:
THAT the appointment of KPMG Kenya as the External Auditor of the Company by the Directors be ratified 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 Members, the Company is required to appoint an auditor to serve until the next such meeting. KPMG Kenya expressed their willingness to continue in office and on 23 April 2020 they were appointed by the directors to continue as auditors. This appointment was approved by CMA and notified to shareholders through the local dailies on 24 April 2020. It is therefore proposed that the appointment of Messrs KPMG Kenya as the External Auditor of the Company be ratified and that the Directors be authorised to fix their remuneration.

Agenda Item 6 :
Adoption of new Articles of Association
Resolution 8:
THAT the existing Articles of Association of the Company be deleted in their entirety and replaced with the new amended Articles of Association attached as Annexure 1 hereto.

The Company's current Articles of Association were drafted at a time when a situation such as the COVID-19 pandemic and its impact was not envisaged. Following the various Public Health Regulations and Government directives to restrict movement of persons and public gatherings, it is notable that the Articles of Association do not provide for various Company activities e.g. the holding of fully virtual shareholder general meetings or electronic voting. The Directors view this as an opportune time to modernize the Company's Articles of Association and have proposed a new set of Articles of Association. Changes in the Articles are highlighted for easier perusal. The amended document will be available for review on the Company's website at www.batkenya.com. A copy of the draft Articles of Association can also be inspected at the Company's head office at the following address: P.O. Box 30000-00100, Likoni Road, Industrial Area, Nairobi, Kenya.

CORPORATE INFORMATION

Board of Directors

George Maina*	(Chairman)
Beverley Spencer-Obatoyinbo	(Managing Director)
Sidney Wafula	(Finance Director)
Dr. Macharia Irungu*	
Carol Musyoka*	
Peter Mwangi*	
Dr. Martin Oduor-Otieno*	
Samuel Onyango*	
Waeni Ngea	(Company Secretary)

Audit & Risk Committee

Dr. Martin Oduor-Otieno*	(Chairman)
Carol Musyoka*	
Samuel Onyango*	
Waeni Ngea	(Secretary to Committee)

Nominations & Governance Committee

George Maina*	(Chairman)
Peter Mwangi*	
Dr. Macharia Irungu*	
Waeni Ngea	(Secretary)

Remuneration Committee

Peter Mwangi*	(Chairman)
Carol Musyoka*	
Beverley Spencer-Obatoyinbo	
Sidney Wafula	
Diana Johnson	(Secretary to Committee)

** Non-Executive Directors*

Auditor

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
Compound 7, House No. 3
Off Ole Odume Road
P.O Box 29737-00202
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

Absa Bank 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

Registrar

Image Registrars Limited
5th Floor, ABSA Towers (formerly Barclays Plaza)
Loita Street
P.O Box 9287-00100
NAIROBI

nairobi securities exchange

Discover Opportunity

NSE Listed Companies Success Stories

BAT Kenya - celebrating 50 years on the Nairobi Securities Exchange

Listing on the Nairobi Securities Exchange (NSE) bears a number of benefits to the issuer, investors, shareholders and the economy at large. Here is the story for British American Tobacco (BAT) Kenya;

2018 Perfomance Highlights	
Profit after tax	↑ 22%
Net Revenue	↑ 11%
Profit after tax	Kshs 4.1 Billion
Net Revenue	Kshs 20.8 Billion
Dividends Payout	86%

This May, BAT Kenya celebrates 50 years since listing on the NSE. While BAT Kenya has been operating in the country since 1907, its listing on the NSE in 1969 marked a major milestone in the history of the company. It is evident that BAT Kenya has played an important role in the country's economic development over the last 50 years. Perhaps more importantly is what the future holds and what being listed on the NSE will help the Company achieve going forward.

BAT Kenya operates a vertically integrated business, meaning that the company is involved in activities that cut across the value chain ranging from the growing of tobacco leaf, to the manufacturing, distribution and sale of finished tobacco products. This has been executed successfully over the years, with constant evaluation and through addressing the preferences of its adult consumers.

The advent of new technologies and products in the industry, such as nicotine products that do not contain tobacco, could potentially reduce the harm associated with conventional cigarettes. BAT Kenya sees these products as an important step towards realising its 'Transforming Tobacco' ambition: broader choice, more innovation, less risk.

The company recorded solid performance for the year ending December 2018, posting a 22% increase in Profit after Tax to KSh. 4.1 billion whilst net revenue increased by 11% to KSh. 20.8 billion. This performance was driven by excise-led pricing in the Kenyan and export markets, coupled with an increase in cut rag (semi-processed tobacco) sales volumes. With the business delivering a strong set of financial results in 2018, this year the company will pay 86% of its earnings as dividends, representing growth from the 78% paid in 2017.

BAT Kenya also continued to partner with approximately 5,000 tobacco farmers across various counties in Kenya, especially concentrated in Migori, Bungoma, Busia and Meru counties.

The tobacco industry like other industries faces challenges. Illicit trade continues to be a major issue for all industries in Kenya. In 2018, 14.1% of all cigarettes sold in Kenya were illicit, up from 12.4% in 2017. BAT Kenya is continuing to work closely with the relevant authorities, in efforts to address the rising level of illicit trade in cigarettes in Kenya; including with the National Multi-Agency Taskforce on illicit trade which comprises of the Kenya Revenue Authority, Kenya Bureau of Standards and the Anti-Counterfeit Agency.

For BAT Kenya, good corporate governance means having transparent, responsible and accountable business practices. Being listed on the NSE provides BAT Kenya with a comprehensive set of requirements to comply with, ensuring the Company meets both its own and market's objectives when it comes to corporate governance. The NSE has enhanced the corporate governance environment in Kenya over the last 50 years through fostering relevant disclosures, providing training on listing obligations and issuing guidance documents.

For local and international investors looking to gain exposure to Kenya and Africa's economic growth, BAT Kenya and NSE's focus on providing relevant and timely information is crucial to investors making well-informed decisions about where to invest.

Certainly, BAT Kenya has a bright future as a listed entity and a significant contributor to the Big Four agenda in Kenya. Through its market-leading brands, 'Transforming Tobacco' ambition, talented people and valued partnerships, the Company looks set to deliver continued value to its shareholders while investing in a sustainable and successful future.

Don't be left behind. Seize the myriad opportunities available at NSE. Talk to us today and Discover Opportunity!

Nairobi Securities Exchange Plc
The Exchange, 55 Westlands Road
+254 (020) 2831000 info@nse.co.ke

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BAT Kenya Managing Director, Beverley Spencer-Obatoyinbo (middle) and BAT Board Chairman, George Maina (right); ring the trading bell to open trading at the Nairobi Securities Exchange (NSE) during an event to mark 50 years of BAT Kenya on the NSE; alongside Geoffrey Odundo, Chief Executive Officer, NSE.

Chairman's statement


George Maina, Chairman

"Going forward, we remain firmly committed to our strategy and our ambition to deliver a better tomorrow for our stakeholders, confident that it will deliver the much-needed transformation of our industry."

Introduction

I am pleased to present to you the Annual Report of British American Tobacco Kenya plc (the Company) for the year ending 31 December 2019. During this period, the Board of the Company set out to improve shareholder value by increasing profitability through revenue growth and a stable cost base driven by greater operational efficiencies.

I am happy to report that the Company delivered solid underlying results. These are reflected in the Board of Directors' recommendation for a final dividend of KSh 30.00 (per share) for 2019, payable net of Withholding Tax on 29th April 2020 to shareholders on the register as at 20th March 2020. The total dividend for 2019 will be KSh 33.50 per share (2018: KSh 35.00 per share).

A challenging operating environment

Kenya's economy began the year with a slow but sustained recovery thanks to the political stability following the "handshake" in 2018. According to the World Bank, this stability was reflected in a strong pick-up in economic activity in Q1 of 2019 driven by positive investor sentiment. Unfortunately, the economic buoyancy diminished as the year progressed on the back of debt repayments, global and regional undercurrents, a fraught private sector and increasingly fractious political debates in respect of the Building Bridges Initiative.

A tight Central Bank monetary policy stance effectively stabilised the exchange rate and ensured that inflation remained largely within the Government's target range for the year.

Consumer affordability challenges and illicit trade persist

Throughout 2019, consumer affordability challenges persisted. These challenges, together with the already high domestic excise rate, porous borders and the widening excise differential with Kenya's neighbours combined to create a perfect storm in which illicit (tax-evaded) cigarettes continued to thrive.

The issue was compounded by an unexpected and unreasonable 20% increase in Kenyan excise duty for cigarettes in October 2019, further adversely impacting sales volumes.

This latest excise shock is expected to further increase the incidence of tax-evaded cigarettes. With Industry tax remittances having plateaued in recent years as a result of an unsustainable fiscal policy (163% excise increase in the last 5 years) combined with a failure to address the illicit problem at source, this should be a major concern for Government.

In an effort to mitigate the impact of illicit trade in 2019, we continued to work with the relevant authorities to fight illicit trade, whilst further developing our portfolio of brands to offer greater value for our consumers across all major price points, and improving our geographic diversity.

Increased cost of operations

A further challenge for the Business in 2019 was the unprecedented increase in regulatory costs in Kenya. In November 2019, the Supreme Court dismissed our legal challenge against the Solatium Compensatory Contribution. At 2% of the value of tobacco products manufactured or imported, the mandatory contribution adds to the already high incidence of taxes and regulatory costs in Kenya.

Despite these challenges, the inherent strength of our business - innovative brands, our great talent and sustainable relationships within our supply chain - continues to build our resilience and deliver a forward looking and robust strategy that we are confident will propel our business into a new and exciting future of innovation and harm reduction.

50 years at the Nairobi Securities Exchange

In May 2019, the Company celebrated 50 years of being listed on the Nairobi Securities Exchange (NSE) and 112 years since we commenced operating in Kenya.

We are proud of our heritage as a truly Kenyan company and remain committed to being part of the economic and social development of Kenya, as we look forward to playing a significant role in delivering a better tomorrow for our stakeholders.

Our employer value proposition

In November 2019, BAT Kenya was, for the second year in a row, certified by the global Top Employers Institute as one of the best companies to work for in both Kenya and Africa. Coming on the back of the conclusion of our workplace transformation, this certification was a welcome recognition of our commitment to building a winning organisation and a great and purposeful place to work for our employees. As a result, we have continued to attract and retain the best talent in the market.

Board developments

The composition of our Board continues to evolve as we take deliberate steps to build a future-fit business. 2019 saw the appointment of two new Non-Executive Directors and the resignation of two other long-serving Board members.

Dr. Macharia Irungu and Samuel Onyango were appointed as Non-Executive Directors to the Board effective 1st July 2019, while Mohamed Janmohamed and Gayling May resigned effective 10th May and 4th September 2019 respectively. On behalf of the Board, I take this opportunity to thank them for their invaluable contribution and wish them the very best in their future endeavours.

The changes to the Board of Directors and information about the current memberships of the Company's Board Committees are highlighted in the Corporate Governance report and the Directors' report which can be found on pages 58 to 81.

Outlook for 2020

The advent of CoVID-19, its impacts on the local as well as global economy and its potential to disrupt local and international supply chains, is a significant concern for the industry in general. In response to the threat, the Company has developed a robust business continuity plan and set of mitigations, and - uncertainty notwithstanding - we believe that we are well positioned for another good year in 2020.

The Board and I are particularly encouraged by the launch of LYFT - the Company's Modern Oral Nicotine pouch without tobacco - in the second half of 2019 and the proposal to invest KSh 2.5bn in building a world-class-factory in Nairobi to manufacture Modern Oral Nicotine products.

Going forward, we remain firmly committed to our strategy and ambition to deliver a better tomorrow for our stakeholders, confident that it will deliver the much-needed transformation of our industry.

I take this opportunity to express my sincere appreciation and gratitude to the Board, Management and staff for their commitment and dedication during the year, as well as to our strategic partners who continue to walk this journey with us.

George Maina
Chairman

Taarifa ya **Mwenyekiti**


George Maina, Mwenyekiti

> Kuendelea mbele, tutazidi kujitolea kutekeleza mikakati na matamanio yetu ili kufanikisha matokeo mema kwa washikadau miaka ya baadaye, tukiwa na uhakika kwamba italeta mabadiliko yanayohitajika katika sekta yetu.

Utangulizi

Ni furaha yangu kuwawasilishia Ripoti ya kila mwaka ya kampuni ya kutengeneza bidhaa za tumbaku ya BAT kwa mwaka uliokamilika Desemba 31, 2019. Wakati wa kipindi hicho, Bodi ya Kampuni ilianzisha mikakati ya kuboresha thamani ya hisa kwa kuzidisha faida kupitia kwa ukuzaji wa mapato na bei dhabiti iliyoongozwa na utendaji bora katika utekelezaji wa kibiashara.

Nina furaha kuripoti kuwa kampuni imetoa matokeo dhabiti ya kimsingi. Matokeo hayo yamethibitika hasa kutokana na pendekezo la Bodi ya Wakurugenzi la malipo ya KSh 30.00 kama mgao kamilifu kwa kila hisa kwa mwaka wa 2019, utakaolipwa baada ya kutozwa ushuru mnamo Aprili 29, 2020 kwa wenye hisa watakaokuwa katika sajili kufikia Machi 20, 2020. Mgao wa jumla kwa mwaka wa 2019 utakuwa ni Ksh 33.50 kwa kila hisa tofauti na KSh 35.00 kwa kila hisa mwaka wa 2018.

Mazingira magumu ya kibiashara

Mwaka wa 2019, uchumi nchini Kenya ulianza kukua kwa kiwango cha chini lakini ukaanza kuimarika kutokana na utulivu wa kisiasa hasa baada ya muafaka kati ya Rais Uhuru Kenyatta na kiongozi wa upinzani Raila Odinga, almaarufu “Handshake” mwaka wa 2018.

Kulingana na Benki ya Dunia, utulivu huo ulidhihirishwa na kuongezeka kwa shughuli za kibiashara na ile ya uwekezaji katika robo ya kwanza ya mwaka wa 2019.

Kinyume na matarajio, kuimarika kwa uchumi kulididimia jinsi mwaka wa 2019 ulivyozidi kusonga hasa kutokana na ulipaji wa madeni, misukosuko ya kimataifa na kimaeneo, na wasiwasi miongoni mwa wawekezaji wa kibinafsi na migawanyiko ya kisiasa kutokana na mijadala wa mpango wa maridhiano(BBI).

Msimamo mkali wa kifedha wa Benki Kuu ya Kenya (CBK) hata hivyo uliimarisha thamani ya shilingi dhidi ya dola na kuhakikisha kuwa mfumko wa bei umedhitiwa kufungamana na maazimio ya serikali ya mwaka huo.

Changamoto za uwezo wa kununua kwa watumiaji na kuendelea kwa biashara haramu

Kwa kipindi cha mwaka mzima wa 2019, changamoto za uwezo wa kununua kwa watumiaji ziliendelea kushuhudiwa. Changamoto hiyo, pamoja na ushuru wa kiwango cha juu kwa bidhaa kabla ya kutengenezwa, mipaka isiyolindwa kikamilifu, na tofauti kubwa ya ushuru kati ya Kenya na mataifa jirani, kwa pamoja zilichangia kukua kwa biashara haramu ambapo wafanyibiashara wa magendo waliuza sigara bila kulipa ushuru.

Suala hilo lilizidishwa na ongezo lisilotarajiwa la ushuru unaotozwa bidhaa kabla ya kutengenezwa la asilimia 20% kwa sigara mwezi wa Oktoba 2019, hali iliyoathiri kiwango cha mauzo. Kuongezwa kwa ushuru huu kunatarajiwa kuongeza visa vya mauzo ya sigara ambazo hazijalipiwa ushuru.

Huku malipo ya ushuru wa viwanda yakiwa yamekosa kupanda katika miaka ya hivi karibuni kutokana sera isiyoweza kutekelezeka (ongezeko la asilimia 163 kiwango cha wastani katika muda wa miaka mitano iliyopita), pamoja na kukosa kutatua changamoto ya biashara haramu kutoka eneo asili, ni suala kuu linalofaa kuifadhaisha sana Serikali.

Katika juhudi za kutatua athari za biashara haramu mwaka wa 2019, tuliendelea kushirikiana na mashirika husika ya serikali kupiga vita biashara hiyo huku tukiendelea kukuza biashara na chapa zetu ili kutoa thamani kwa wateja wetu katika masoko makuu na kuboresha biashara katika maeneo tofauti.

Ongezeko la gharama ya utekelezaji wa kibiashara

Changamoto zaidi katika biashara mwaka wa 2019 ilikuwa ni ongezeko lisilotarajiwa la gharama kutokana na kanuni za serikali nchini Kenya. Mwezi wa Novemba 2019, Mahakama ya Juu ilitupilia mbali kesi yetu kuhusu ada kwa fidia. Kwa asilimia mbili (2%) ya thamani ya bidhaa za tumbaku zilizotengenezwa au kuagizwa kutoka nje, ada hiyo ya lazima inazidisha ushuru ulio juu tayari na malipo ya kibiashara nchini Kenya.

Licha ya matatizo hayo, nguvu ya kimsingi ya biashara yetu- chapa za kivumbuzi, vipaji vyetu vikuu na uhusiano endelevu katika mfumo wa usambazaji bidhaa zetu- inaendelea kukuza uthabiti wetu na kutoa mwelekeo unaolenga siku za baadaye na mikakati dhabiti ambayo tuna imani itasukuma biashara yetu kufikia upeo wa juu zaidi katika uvumbuzi na upunguzaji wa madhara siku za usoni.

Miaka 50 katika Soko la Hisa la Nairobi (NSE)

Mnamo Mei 2019, Kampuni ilisherehekea miaka 50 tangu kuorodheshwa katika Soko la Hisa la Nairobi (NSE) na miaka 112 baada ya kuzindua operesheni zake nchini Kenya.

Tunajivunia utamaduni wetu kama kampuni asilia ya Kenya na tumesalia kujitolea kuwa mshirika katika ukuaji wa kiuchumi na kijamii nchini Kenya, huku tukilenga kuchukua nafasi muhimu katika kufanikisha matamanio ya washikadau siku zijazo.

Pendekezo bora kama mwajiri

Mnamo Novemba 2019, BAT Kenya, kwa mwaka wa pili mfululizo, ilitambuliwa na Taasisi ya Waajiri Bora ulimwenguni kama mojawapo ya kampuni bora zaidi kufanyia kazi nchini Kenya na Barani Afrika. Hilo lilitangazwa punde tu baada ya kukamilisha mageuzi ya afisi zetu. Utambuzi huo uliashiria kujitolea kwetu katika ukuzaji wa shirika bora na mazingira mema ya kufanyia kazi kwa wafanyikazi wetu. Kutokana na hilo, tumeendelea kuvutia na kudumisha talanta bora zaidi kwenye soko.

Maendeleo katika Bodi

Uanachama katika Bodi yetu unaendelea kubadilika huku tukichukua hatua kimakusudi kujenga biashara dhabiti kwa siku za usoni.

Katika mwaka wa 2019, Wakurugenzi wawili wapya wasio wa kamati kuu (Non-Executive) waliteuliwa na wengine wawili waliokuwa wamehudumu kwa muda mrefu kwenye bodi wakajiuzulu.

Dkt. Macharia Irungu na Samuel Onyango, waliteuliwa kama wakurugenzi wasio wa kamati kuu kwenye Bodi na kuanza kutekeleza majukumu yao Julai 1, 2019, ilhali Mohamed Janmohamed na Gayling May wakajiondoa kwenye nyadhifa zao Mei 10, 2019 na Septemba 4, 2019 mtawalia.

Kwa niaba ya Bodi, ninachukua fursa hii kuwashukuru kwa mchango wao wa kipekee na kuwatakia kila la heri katika maisha na mipango yao ya baadaye.

Mabadiliko katika Bodi ya Wakurugenzi na habari kuhusiana na uanachama katika kamati za Bodi yameelezwa katika ripoti ya usimamizi wa shirika, na ripoti ya Mkurugenzi inayopatikana katika kurasa za 58 hadi 81.

Maazimio ya 2020

Katika ujio wa CoVID- 19, athari zake kwa uchumi nchini na ulimwenguni, na uwezo wake wa kutatiza mfumo wa usambazaji bidhaa kitaifa na kimataifa ni suala la kufadhaisha katika sekta nzima ya kibiashara. Ili kukabiliana na hatari hiyo, Kampuni imezindua mpango dhabiti wa maendeleo ya kibiashara na hatua za kupunguza madhara. Licha ya kukosa uhakika wa kiuchumi, tunaamini kuwa tumejiweka katika hali nzuri ya kufanikisha mwaka wa 2020.

Mimi, pamoja na Bodi, nimetiwa moyo na taarifa ya uzinduzi wa LYFT, ambayo ni bidhaa mpya iliyotengenezwa kwa kutumia nikotini ya kisasa na isiyo na tumbaku, inayotiwa mdomoni, katika nusu ya pili ya 2019; na pendekezo la kuwekeza KSh 2.5bn katika ujenzi wa kiwanda cha kimataifa Jijini Nairobi cha kuunda bidhaa hizo.

Kuendelea mbele, tutazidi kujitolea kutekeleza mikakati na matamanio yetu ili kufanikisha matokeo mema kwa washikadau miaka ya baadaye, tukiwa na uhakika kwamba italeta mabadiliko yanayohitajika katika sekta yetu.

Ninachukua nafasi hii kutoa shukrani zangu za dhati kwa Bodi, Usimamizi na wafanyikazi, kwa kujitolea kwao mwaka huo pamoja na washirika wetu wa kibiashara ambao wameendelea kuwa pamoja nasi katika safari hii ya kibiashara.

George Maina
Mwenyekiti

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STRATEGIC REPORT

Managing Director's overview

Beverley Spencer-Obatoyinbo, Managing Director

> "The consumer purse continues to be stretched by the high prices of basic goods in Kenya. Our business, however, displayed remarkable resilience to deliver good results that set the pace for our transformation going forward."

Transforming tobacco

Since taking over at the helm of BAT Kenya in 2017, one of my main ambitions has been to deliver on BAT's commitment to 'transform tobacco' through offering our consumers greater choice, more innovation and less risk. In 2019, we took a landmark step on this journey by launching LYFT, our new tobacco-free Modern Oral Nicotine product.

With many Kenyan smokers already using oral stimulants, we believe that with the right fiscal and regulatory environment, Modern Oral Nicotine products can be a commercial success and provide smokers with a genuine and potentially less risky alternative to cigarettes.

As we look to grow this product category and expand beyond Kenya, the next step in our journey is a KSh 2.5 billion investment to build a world class Modern Oral Nicotine factory in Nairobi that will bring the product category's manufacture onshore. The factory would be the first of its kind in Africa, serving not just the domestic market but also partner states in the East African Community and further afield.

Business performance

In 2019, we marked our 50th year since listing on the Nairobi Securities Exchange, by delivering a strong set of underlying results despite a number of challenges in our operating environment.

Domestically, the consumer purse continues to be stretched by the high prices of basic goods in Kenya. Our business, however, displayed remarkable resilience to deliver results that will help set the pace for our transformation going forward.

Our export markets also continued to deliver good returns in 2019 despite uncertainty caused by civil unrest and continued conflict, price rises and shortages of basic commodities - particularly in Somalia and Sudan. Robust business planning ensured a continuity of supply to these markets despite such challenges.

Alongside the launch of LYFT, we continue to transform our cigarette portfolio. The migration of our local brands Embassy and Safari to the Global Drive Strategic Brands of Dunhill and Pall Mall respectively, achieved excellent results. In addition, our local heritage brand Sportsman remained resilient in the face of evolving consumer needs and we continue to explore ways to deliver value to our long-time Sportsman customers through innovation.

Fiscal and regulatory environment

The fiscal and regulatory environment remained unpredictable in 2019. Despite Kenya's GDP growth remaining stable at around 5.6%, an unexpected 20% increase in excise duty on tobacco products heightened existing affordability challenges for tobacco consumers.

We were also disappointed by the Supreme Court of Kenya's decision in November 2019 to uphold the validity of the Tobacco Control Regulations 2014. The decision means that, heading into 2020, the tobacco industry is faced with the challenge of absorbing the adverse impacts of the Regulations including the introduction of a Solatium Compensatory Contribution of 2% of the value of tobacco products manufactured or imported thus significantly increasing the cost of operations.

We believe that a stable regulatory and fiscal environment is crucial for sustainable business and economic growth. While we support Government efforts to take on board the concerns of the business community, specific concerns around county legislation, the Electronic Goods Management System, excise and illicit trade remain largely unaddressed. Consequently, we continue to call for much needed transparency, predictability and stability in the fiscal environment from Government. This not only enhances foreign direct investment inflows; it also facilitates forward planning for both business and the Government to drive sustainable growth, which is becoming increasingly important as Kenya and other countries grapple with the major consequences of the current COVID-19 pandemic.

Persisting illicit trade challenges

The illegal trade in tax-evaded cigarettes remains a significant challenge for the industry and we are committed to combatting it. Third-party research on the illicit cigarette market in Kenya indicates that 11.3% of all the cigarettes sold in Kenya in 2019 have unlawfully evaded tax.

Importantly, the research suggests that more than 80% of tax-evaded cigarettes are entering Kenya from Uganda. These cigarettes, predominantly labelled Supermatch, are being smuggled across the Ugandan/Kenya border and have not paid the applicable taxes in either jurisdiction. The implication of this is that the inflow of illicit cigarettes into Kenya is significantly impacting the demand for Kenyan tobacco leaf and increasingly denying tobacco farmers revenue.

Operating a responsible and future-fit business

In recognition of the need to minimise the impact of our business on the environment, we stepped up our tree-planting efforts in 2019, planting more than two million trees during the year. To date, we have planted in excess of 50 million trees since 1978 and will be enhancing our efforts in line with the UN SDG initiative on Climate Change to plant 10 billion trees by 2050.

We continuously strive to improve our employer value proposition through various programmes including championing diversity, development and providing a great place to work.

As part of this, we completed our transformation of the Head Office in the second quarter of 2019. It is now a bright, modern and inspiring workplace for our employees, reflecting the vision for the business. We also became a signatory to the Women's Empowerment Principles of the United Nations Global Compact as part of efforts to actively champion diversity and inclusion in the workplace. In recognition of these efforts, we were certified as a Top Employer in Kenya & Africa for the second time in a row by the global Top Employers Institute.

Simplification of our business to drive growth

Towards the end of 2019, BAT Group embarked on an important business reorganisation process to build a more efficient, agile and focused business worldwide, which includes changes to its operations in Kenya. Consequently, some roles were reconfigured whilst others ceased to exist. At the same time, new category roles were introduced in the Kenya business thus creating new opportunities for our talent to develop expertise and capabilities to drive the future growth of the business.

BAT's corporate evolution

In 2020 and going forward, BAT Group's business will be underpinned by its evolved corporate purpose: to build A Better Tomorrow for our consumers, shareholders, suppliers and customers, employees and society. This ambition will be achieved through increasingly transitioning our business from cigarettes to alternative and innovative nicotine products that provide our consumers with greater choice and potentially less risk. At the core of this is a strategy that places sustainability front and centre in what we do and our new Ethos, to be bold, fast, empowered, responsible and diverse.

To facilitate this corporate evolution, we have adopted a new logo and corporate identity, which I am proud to unveil in this Annual Report.

A better tomorrow

I am proud of the work that my team has done to commence our transformational journey and of our commitment to tobacco harm reduction. I commend the Board of Directors, Leadership Team and our employees for executing our business strategy effectively and efficiently to close 2019 on a positive note.

It is clear that 2020 will present significant challenges, not just for the business but also for our trade partners, consumers and the many other stakeholders in our supply chain, as the COVID-19 pandemic continues to impact daily life. We have been preparing this Annual Report while introducing new measures and work practices to protect the health and wellbeing of our employees, whilst maintaining business continuity.

Looking ahead, I believe we are well placed to deliver sustainable value for shareholders over the long term.

Beverley Spencer-Obatoyinbo
Managing Director

Taththmini ya **Mkurugenzi Mkuu**

Beverley Spencer-Obatoyinbo, Mkurugenzi Mkuu

> "Uwezo wa wateja wa kununua bidhaa unaendelea kuathiriwa vibaya na ongezeko la bei ya bidhaa za kimsingi nchini Kenya. Biashara yetu, hata hivyo, ilionekana stahimilivu kwani ilitupa matokeo bora ambayo yaliongoza mageuzi yetu kuendelea mbele."

Kuboresha tumbaku

Tangu kuchukua hatamu za uongozi wa BAT Kenya mwaka wa 2017, mojawapo ya malengo yangu makuu limekuwa ni kufanikisha dhamira ya BAT ya 'kuboresha tumbaku' kupitia kwa utengenezaji wa bidhaa tofauti ili wateja wetu wawe na chaguo, uvumbuzi zaidi, na kupunguza hatari. Mwaka wa 2019, tulipiga hatua ya kihistoria katika safari hii kwa kuzindua LYFT, bidhaa mpya ya kutumiwa kupitia mdomoni na isiyo na tumbaku, ambayo ni ya kisasa na inayotengenezwa kwa kutumia nikotini.

Huku wavutaji wengi wa sigara nchini Kenya wakiwa tayari wanatumia vileo vya kuliwa, tunaamini kuwepo kwa mazingira mema ya kifedha na kisheria, LYFT inaweza kufanikiwa kibiashara na kuwapa wavutaji sigara bidhaa mbadala, halali na ambayo haina athari nyingi kwa afya. Huku tukidhamiria kukuza bidhaa hii na kupanua biashara nje ya Kenya, hatua itakayofuatia katika safari yetu ni uwekezaji wa KSh 2.5 bilioni kujenga kiwanda cha kimataifa cha kutengeneza nikotini ya kisasa ya kutumiwa kupitia mdomoni (Modern Oral Nicotine) Jijini Nairobi, ambacho kitazindua biashara ya utengenezaji wa bidhaa hiyo.

Kiwanda hicho kitakuwa cha kipekee Barani Afrika, na kitakuwa cha kutengenezea bidhaa za kuuzwa katika soko la nyumbani na pia katika soko la mataifa jirani katika Jumuia ya Afrika Mashariki na mataifa mengine.

Maendeleo ya kibiashara

Katika mwaka wa 2019, tuliadhimisha miaka 50 ya kuorodheshwa katika soko la hisa, Nairobi (NSE) kutokana na matokeo bora ya kibiashara licha ya changamoto kadhaa katika mazingira ya kibiashara.

Katika soko la nyumbani, uwezo wa kununua miongoni mwa wateja umedhoofika kutokana na bei ghali ya bidhaa za kimsingi nchini Kenya. Biashara yetu hata hivyo ilionekana stahimilivu kwani ilitupa matokeo bora ambayo yaliongoza mageuzi yetu kuendelea mbele.

Masoko yetu ya mauzo ya nje pia yaliendelea kutupa matokeo bora mwaka wa 2019 licha ya hali ya kutotabirika kutokana na misukosuko ya kijamii na migogoro, mfumko wa bei na upungufu wa bidhaa – hasa nchini Somalia na Sudan. Mpango madhubuti wa kibiashara ulihakikisha kuendelea kuuzwa kwa bidhaa zetu katika masoko hayo licha ya changamoto hizo. Pamoja na uzinduzi wa LYFT, tunaendelea kufanya mageuzi katika biashara yetu ya sigara. Kuhamishwa kwa sigara aina ya Embassy na Safari kuwa chapa za Dunhill na Pall Mall mtawalia zilileta matokeo mazuri. Zaidi, sigara yetu asili Sportsman ilisalia kuwa dhabiti licha ya kukabiliwa na mabadiliko ya matakwa ya wateja na tunaendelea kutafuta njia za kuwapa thamani bora wateja wetu waaminifu wa Sportsman kupitia uvumbuzi.

Hali ya kifedha na usimamizi

Hali ya kifedha na usimamizi yalisalia kutotabirika mwaka wa 2019. Licha ya ukuaji wa uchumi nchini Kenya kusalia dhabiti kwa asilimia 5.6, ongezeko la ushuru wa bidhaa kabla ya kutengenezwa (excise duty) kwa tumbaku ambalo halikutarajiwa la asilimia 20 lilizidisha changamoto katika uwezo wa kununua miongoni mwa watumiaji wa tumbaku.

Pia, tulivunjwa moyo na uamuzi wa Mahakama ya Juu Kenya mnamo Novemba 2019 wa kushikilia Sheria ya Udhibiti na Usimamizi wa Tumbaku, 2014. Uamuzi huo unamaanisha kuwa kuendelea 2020, sekta ya tumbaku itaendelea kukabiliwa na changamoto kutokana na madhara ya sheria hiyo, ikiwemo kuanzishwa kwa ada katika malipo ya fidia (Solatium Compensatory Contribution) ya asilimia mbili (2%) kuambatana na thamani ya bidhaa za tumbaku zilizotengenezwa au kuagizwa kutoka nje, hivyo kuathiri vibaya gharama ya utekelezaji wa biashara.

Tunaamini kuwa hali dhabiti ya kifedha na usimamizi bora ni muhimu kwa biashara endelevu na ukuaji wa kiuchumi. Ingawa tunaunga mkono juhudi za serikali za kupokea lalama za jamii ya wafanyibiashara, lalama zinazohusu sheria katika maeneo ya kaunti, mfumo wa kielektroniki wa usimamizi wa bidhaa, ushuru wa bidhaa kabla ya kutengenezwa na biashara haramu bado hazijashughulikiwa. Ilivyo, tunaendelea kutoa wito wa kuwepo kwa uwazi, udhabiti na uwezo wa kutabiri pamoja na utulivu katika mazingira ya kifedha na uongozi wa serikali. Hatua hiyo itakuza mapato kutokana na uwekezaji nje ya nchi na pia itarahisisha mipango kwa biashara na pia serikali kwa lengo la kukuza maendeleo endelevu, ambayo ni muhimu kwa sasa huku Kenya, na mataifa mengine, ikiendelea kupambana na athari za janga la COVID-19.

Changamoto sugu la biashara haramu

Biashara haramu ya sigara ambazo hazijalipiwa ushuru inaendelea kuwa changamoto kubwa katika sekta hii, lakini tumejitolea kukabiliana nayo vilivyo.

Utafiti uliofanywa na shirika la nje kuhusiana na soko haramu la biashara ya sigara unaonyesha kuwa asilimia 11.3 ya sigara zote zilizouzwa Kenya mwaka wa 2019 hazikulipiwa ushuru.

Cha muhimu ni kuwa, utafiti huo ulidokeza kuwa zaidi ya asilimia 80 ya sigara ambazo hazikulipiwa ushuru zinaingia Kenya kutoka Uganda.

Sigara hizo, ambazo nyingi zimepigwa chapa ya Supermatch zinaingizwa kimagendo Kenya mpakani wake na Uganda na hazijalipiwa ushuru unaohitajika katika mataifa yote mawili.

Hii ina maana kuwa kuendelea kuingizwa kwa sigara haramu Kenya kunaendelea kuathiri mahitaji ya tumbaku ya Kenya, hali inayowanyima wakulima wa tumbaku nchini humu mapato yao.

Kuendeleza biashara inayowajibika na inayodumu siku zijazo

Katika kutambua haja ya kupunguza athari za biashara yetu katika mazingira, tulijitahidi zaidi na kupanda miti zaidi mwaka wa 2019. Mwaka huo tulipanda zaidi ya miti milioni mbili. Kufikia leo, tumepanda zaidi ya miti milioni 50 tangu 1978. Tutazidisha juhudi zetu kuambatana na Mpango wa Maendeleo Endelevu wa Umoja wa Mataifa kuhusiana na mabadiliko ya tabia nchi katika kupanda miti kufikia bilioni 10 kufikia 2050.

Siku zote tunaendelea kujikakamua kuboresha thamani ya pendekezo la mwajiri wetu kupitia kwa mipango tofauti, ikiwemo ni pamoja na kupigia debe utofauti, maendeleo na utoaji wa mazingira mema ya kufanya kazi. Kama sehemu ya hili, tulikamilisha mageuzi ya Afisi Kuu katika robo ya pili katika mwaka wa 2019.

Hivi sasa inang'aa, ni ya kisasa na inavutia sana wafanyikazi wetu. Ni mwangwi wa dira ya biashara yetu. Pia, tumetia sahihi mkataba wa Shirika la Kuwawezesha Wanawake Kazini katika Umoja wa Mataifa (UN Global Compact), kama sehemu ya juhudi zetu za kupigia debe utofauti na ushirikishaji kazini. Katika kutambua juhudi, tumepewa cheti cha kuwa Mwajiri Bora Kenya na Afrika kwa mara ya pili mfululizo na Kituo cha Waajiri Bora ulimwenguni.

Urahisishaji wa biashara yetu ili kuendesha ukuaji

Kuelekea mwishoni mwa 2019, Kundi la BAT lilianza shughuli muhimu ya kugeuza biashara ili kujenga biashara inayoweza kuhimili mabadiliko, inayofaa na ambayo ina lengo ulimwenguni kote ambayo ni pamoja na mabadiliko ya operesheni zake nchini Kenya. Kutokana na hilo, baadhi ya majukumu yalibadilishwa na mengine yakaondolewa.
Wakati huo, majukumu mapya yalianzishwa katika biashara ya Kenya, na kubuni nafasi mpya za wafanyikazi wetu kukuza taaluma na uwezo kwa lengo la kukuza biashara katika siku za usoni.

Mageuzi ya Ushirika BAT

Mwaka wa 2020 kuendelea, biashara za kundi la BAT zitaimarishwa na mabadiliko katika maazimio yake ya ushirika: kujenga Kesho iliyo Bora kwa watumiaji bidhaa wetu, wenye hisa, watoaji bidhaa na wateja, wafanyikazi na jamii. Tamanio hili linatafanikiwa kupitia kwa kuendelea kubadilisha biashara yetu kutoka kwa utengenezaji na uuzaji wa sigara, na kufanya biashara nyingine mbadala na utengenezaji wa bidhaa za kibunifu kutokana na nikotini, ambazo zinawapa watumiaji wetu chaguo zaidi, na ambazo ina athari ndogo kwa afya.

Cha msingi katika hili ni mkakati huu ambao umeweka kipao mbele umuhimu wa maendeleo katika chochote tukifanyacho, utamaduni wetu, ujasiri, wepesi, uwezo, wajibu na utofauti. Ili kuwezesha mageuzi ya ushirika, tumeanzisha nembo mpya na utambulisho mpya wa ushirika ambao ninafurahia kuzindua katika Ripoti hii ya kila Mwaka.

Kesho iliyo bora

Ninafurahia kazi iliyofanywa na kundi langu tangu tulipoanza hii safari ya mageuzi na kujitoa kwetu katika kupunguza athari za tumbaku. Ninaipongeza Bodi ya Wakurugenzi, Kundi la Viongozi na wafanyikazi wetu kwa kutekeleza mkakati wetu wa kibiashara kwa ufanisi mkubwa na kwa njia ya kufaa na kutuwezesha kufunga mwaka wa 2019 kwa njia njema.

Ni wazi kwamba mwaka wa 2020 utakuwa na changamoto si haba, sio tu katika biashara lakini pia kwa wadau wetu wa kibiashara, watumiaji wa bidhaa na washikadau wengine wengi katika mururu wetu wa utoaji bidhaa, kutokana na athari za virusi vya korona kwa maisha ya kila siku. Tumekuwa tukiandaa Ripoti ya Kila Mwaka huku tukiendelea kuchukua hatua mpya na mwongozo wa kikazi ili kulinda afya na maslahi ya wafanyikazi wetu huku tukiendelea kufanya biashara.

Kuendelea mbele, ninaamini kuwa tuko katika hali nzuri ya kutoa thamani ya kudumu kwa wenye hisa kwa muda mrefu.

Beverley Spencer-Obatoyinbo
Mkurugenzi Mkuu

Finance Director's review

Sydney Wafula, Finance Director

"We remain committed to increasing long-term value for our shareholders through a sustainable growth strategy, anchored on a modern, well balanced cigarette portfolio and the expansion of our New Categories business."

Good performance in a challenging regulatory environment

The Company delivered a solid set of results again in 2019 as we accelerated the process of building the Business for A Better Tomorrow. Continued investment in the transformation of our cigarette portfolio and the introduction of a new category product - LYFT - were key to delivering this result.

Increased revenue partly offsetting a steep increase in regulatory costs

Net revenue grew by 16% to KSh 24,040 million (2018 was up 11% at KSh 20,750 million). This growth was driven by excise-led pricing in Kenya and export markets, incremental sales of cut-rag (semi-processed tobacco) to Sudan and the introduction of LYFT in Kenya in July 2019.

Profit before tax reduced by 6% (2018: up 21%) mainly due to the introduction of the solatium compensatory contribution levy (solatium levy) at 2% of the value of tobacco products manufactured or imported, higher reorganisation costs of KSh 386 million (2018: KSh 30 million) and inflationary cost increases which were largely offset by the incremental revenue and gains from our productivity programme.

The reorganisation costs were mainly a result of continued gains from embedding innovative ways of working using technology in the factory as we build the business for a better tomorrow.

39.8 bn
GROSS REVENUE

23.8%
OPERATING MARGIN

3.9 bn
NET PROFIT

7.7 bn
NET CASH FROM OPERATING ACTIVITIES

18.0bn
CONTRIBUTION TO GOVERNMENT REVENUES

Ksh 33.50
DIVIDEND PER SHARE

As a consequence of the high operating cost base, operating margin reduced by 6.1% (2018: up 1.3%).

Net finance costs reduced further by 43% to KSh 193 million (2018: KSh 338 million, down 31%) due to a strong underlying business performance in 2019.

Earnings per share (EPS)

Earnings per share was down 5% against 2018 at KSh 38.86 (2018: KSh 40.85, up 22.5%) reflecting the lower profitability.

Strong cash generation

In 2019, net cash generated from operating activities grew by 43% to KSh 7,719 million reflecting the strong underlying business performance and further gains from working capital management.

Taxation

The major taxes paid in the period under review are as shown below (compared to 2018):

	2019 KSh'mns	2018 KSh'mns
Tobacco Excise	11,749	12,064
Value Added Tax	4,039	3,683
Corporation tax	1,647	1,952
Pay As Your Earn	561	562
Total	17,996	18,261

The 3% decline in tobacco excise taxes (2018: 2% decline) despite a steep increase in excise duty rates is due to a 10% decline in sales volumes in Kenya as a result of increased consumer affordability challenges. This continued decline in tobacco excise taxes reflects our stance that further steep increases in taxes will ultimately lead to lower duty paid cigarette volumes and higher incidence of duty not paid cigarettes. This will further reduce government revenues and threaten the sustainability of manufacturing in Kenya.

We continue to engage government agencies to implement stable and predictable tax increases and step up efforts to 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, calculated with reference to the diluted earnings per share. With the recommended Final Dividend of KSh 30.00 per share, the total dividend per share for 2019 is KSh 33.50 per share.

Despite the dip in performance in 2019, we remain committed to increasing long-term value for our shareholders through a sustainable growth strategy anchored on a modern, well balanced cigarette portfolio and the expansion of our New Categories business. This, together with our robust cost management programme, will ensure that we are well poised to succeed into the future.

Sidney Wafula
Finance Director

Each year we engage with a wide range of stakeholders to understand the issues that are most important to them.

Photo: Shareholders at BAT Kenya AGM, May 2019

BAT's corporate evolution: a clear corporate purpose

Our business will be underpinned by an evolved corporate strategy: to build *A Better Tomorrow* for our consumers, shareholders, employees and society. Our ambition is to increasingly transition our business from cigarettes to alternative and innovative nicotine products that provide consumers with greater choice and less risk.

> WE BELIEVE IN A MULTI-CATEGORY STRATEGY TO **BETTER MEET CONSUMER NEEDS** AND LEVERAGE OUR SCALE.

> WE ARE ON A JOURNEY TO BECOME A BUSINESS THAT **DEFINES ITSELF** NOT BY THE PRODUCTS IT SELLS BUT **BY THE CONSUMER NEEDS** IT MEETS.

> WE WILL FOCUS OUR **PORTFOLIO DEVELOPMENT** ON CONSUMER OFFERS THAT WILL CAPITALIZE ON OUR CORE BUSINESS CAPABILITIES.

> OUR FUTURE IS ABOUT BEING **BOLD, FAST, EMPOWERED, RESPONSIBLE** AND **DIVERSE**.

> WE HAVE A STRATEGY FOR **GROWTH** AND **SUSTAINABILITY**.

BAT's new corporate brand identity

BAT

KENYA

We believe in Science. At BAT we are leaders in the field of plant genomics and bioinformatics, and have research facilities in the UK and USA employing over 150 PHDs.

BAT Group's pioneering, published genome data enables the scientific community to advance map-based gene discoveries and accelerates our research into new product categories.

This scientific capability is critical to delivering a better tomorrow for our consumers, employees, shareholders and society.

A BETTER TOMORROW™

BAT KENYA

At BAT we recognise that consumer and societal needs are changing. Expectations that evolve at an accelerated pace.

We are committed to delivering a broad range of consumer choice through our investment in new categories globally.

Central to that commitment is to shape a better tomorrow for our consumers, society, shareholders and employees.

A BETTER TOMORROW™

BAT KENYA

#PROGRESS

At BAT we are working hard to create A Better Tomorrow. We are clear about the challenges of Transformation.

BAT Group's technology and innovation partnership with McLaren provides a global platform which enables the acceleration of our ambition.

Central to that ambition is shaping a better tomorrow for our consumers, society, shareholders and employees.

A BETTER TOMORROW™

BAT KENYA

#DIVERSE

We believe in Diversity. BAT Group employs 55,000 people and operates across more than 180 markets globally.

We understand and recognise that to be a truly global company we must have a truly global culture and values.

This diversity of people, thinking and ideas is key to delivering a better tomorrow for our consumers, society, shareholders and employees.

A BETTER TOMORROW™

BAT KENYA

At BAT we believe in purpose. We aim to reduce the health impact of our business by offering greater consumer choice of less risky products in new product categories.

Our ambition is to accelerate our transformation through this range of alternative choices, which are already being used by nearly 11 million people in BAT markets worldwide.

It's a purpose that will, over time, deliver a better tomorrow for our consumers, society, shareholders and employees.

A BETTER TOMORROW™

BAT KENYA

We believe in brands. At BAT we have invested significantly in consumer insights and brand development to create a portfolio of international brands.

As we develop our new product categories, these brands act as a promise. A signpost of quality and consumer assurance.

Our strong global brands will underpin our journey towards a better tomorrow for consumers, society, employees and shareholders.

A BETTER TOMORROW™

BAT KENYA

A strategy for accelerated growth

While combustible tobacco will be at the core of our business for some time to come, we aim to increase our revenues from products other than cigarettes and thereby reduce the health impact of our business.

This will deliver a better tomorrow for our consumers who will have a range of enjoyable and potentially less risky choices for every mood and moment; for society through reducing the overall health and environmental impacts of our business; for our employees by creating a dynamic and purposeful place to work; and for our shareholders by delivering sustainable superior returns.

> "Our strategy puts the consumer first, focusing on understanding adult consumer choice and needs. This will enable sustainable, long-term growth with a clear focus on foresights, innovation, brands and technology. We will become a business that defines itself not by the products it sells but by the consumer preferences it meets."
>
> Beverley Spencer-Obatoyinbo, Managing Director

Our Mission

Stimulating the senses of new adult generations

Today, we see opportunities to capture consumer moments which have over time, become limited by societal and regulatory shifts, and to satisfy evolving consumer needs and preferences.

Our mission is to anticipate and satisfy this ever-evolving consumer: reduce risk, increase choice and stimulate the senses of adult consumers.

Must Wins

High growth segments

Driven by our unique and data-driven consumer insights, we will focus on product categories and consumer segments across our markets and have the best potential for long-term sustainable growth.

Priority markets

By relying on a rigorous market prioritisation system, we will focus the strengths of our unparalleled retail and marketing reach, as well as our regulatory and scientific expertise, on those markets and marketplaces with the greatest opportunities for growth.

How we win

Inspirational foresights

As one of the most established consumer goods businesses in the world, we have a unique view of the consumer which is increasingly driven by powerful data and analytics. These insights ensure that the development and responsible marketing of our products is fit to meet consumer needs.

Remarkable innovation

As consumer preferences and technology evolve rapidly, we rely on BAT Group's global network of digital hubs, innovation super centers, world-class R&D laboratories, external partnerships and upcoming corporate venturing initiative to stay ahead of the curve.

Powerful brands

For over a century, we have built trusted and powerful brands that resonate with our consumers and symbolise what they want. We will focus on fewer, stronger and global brands across our product categories, delivered through our deep understanding and segmenting of our consumers.

Connected

Staying connected to our over 50,000 trade partners ensures better consumer connections, access to markets and innovations that satisfy consumer needs.

People and partnerships

Our biggest asset is our highly-motivated people who we are empowering through a new ethos that is responsive to constant change, embodies a learning culture and is dedicated to continuous improvement. But we cannot succeed on our own, and our partnerships with farmers, suppliers and traders are also key for ensuring sustainable future growth.

Focus on Oral Nicotine category growth

Evidence shows that people smoke cigarettes – and continue to smoke them despite warnings about risk – in order to get nicotine. But cigarette smoke doesn't just contain nicotine: it contains thousands of toxicants produced by the process of burning, many of which are known to be harmful to human health. The idea of tobacco harm reduction is to encourage smokers who would not otherwise quit, to migrate to products such as our tobacco-free oral nicotine pouch - LYFT - that deliver nicotine without those other toxicants. This Modern Oral Nicotine category can be a commercial success and has the potential to lead to a reduction in the health burden associated with smoking related diseases in Kenya.

OUR VISION

By stimulating the senses of new adult generations, our vision is to create A Better Tomorrow for all our stakeholders. We will create 'A Better Tomorrow' for:

Consumers

By responsibly offering them viable and stimulating choices for every mood and every moment, today and tomorrow.

Society

By reducing the health impact of our business by offering a range of alternative products, as well as by reducing our environmental and social impacts.

Employees

By creating a dynamic, inspiring and purposeful place to work.

Shareholders

By delivering sustainable and superior returns.

Our ethos

Our purpose is to build 'A Better Tomorrow' by reducing the health impact of our business through offering a greater choice of enjoyable products for our consumers.

A key driver to deliver this will be our Ethos - an evolution of our Guiding Principles - which guides behaviours across the entire BAT Group. It has been developed with significant input from our employees and promotes a culture that is future fit by providing a foundation for sustainable growth.

We are BOLD

- Dream big - with innovative ideas
- Make tough decisions quickly and proudly stand accountable for them
- Resilient and fearless to compete

We are FAST

- Speed Matters. Set clear direction and move fast
- Keep it simple. Focus on outcomes
- Learn quickly and share learnings

We are EMPOWERED

- Set the context for our teams and trust their expertise
- Challenge each other. Once in agreement we commit collectively
- Collaborate and hold each other accountable to deliver

We are DIVERSE

- Value different perspectives
- Build on each others' ideas, knowledge and experinces
- Challenge ourselves to be open-minded, recognising unconcious bias

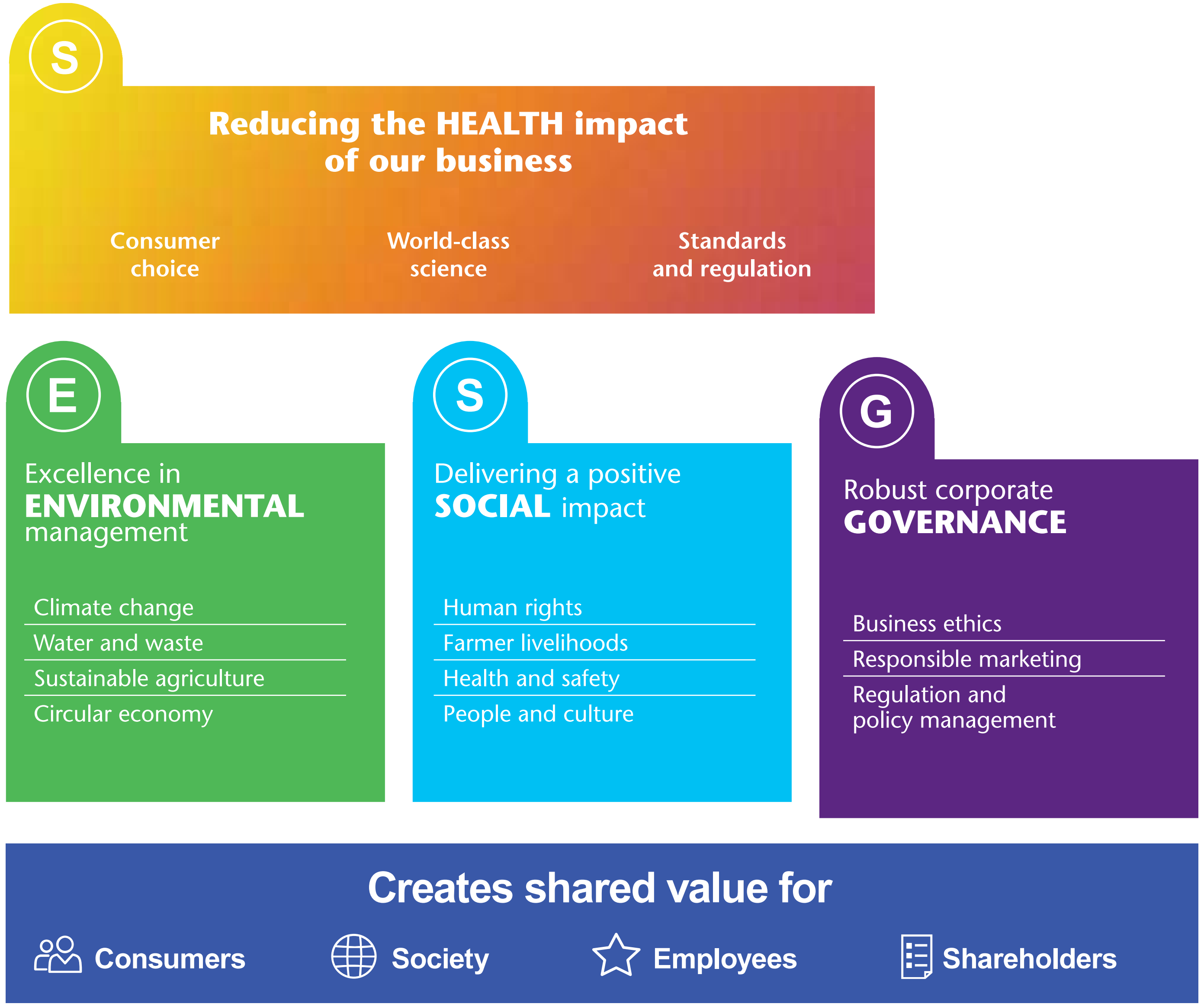
We are RESPONSIBLE

- Take action to reduce the health impact of our business
- Ensure the best quality products for our consumers, the best place to work for our people, and the best results for shareholders
- Act with integrity, never compromising our standards and ethics

Our sustainability agenda

We are moving ourselves from a business where sustainability has always been important, to one where it is front and centre in all that we do.

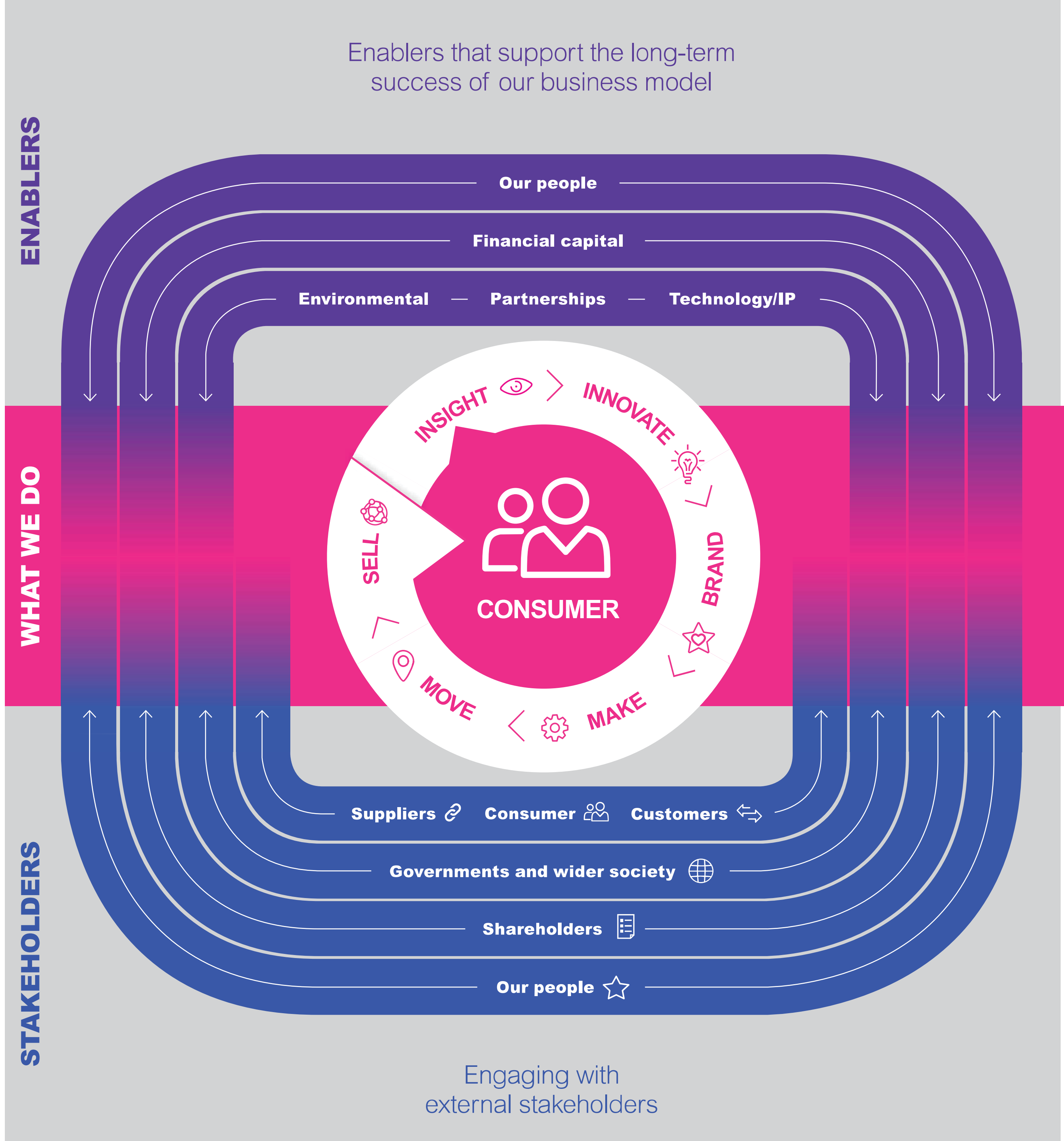
Our commitment to reduce the health impacts of our cigarette business – by providing a range of potentially less risky products – is central to our corporate purpose. This is underpinned by excellence in all other environmental, social and governance (ESG) measures. Each year we engage with a wide range of stakeholders to understand the issues that are most important to them. 2019 was a significant year, with many stakeholders reemphasizing the importance of addressing the health impacts of our cigarette business and with governments and cities around the world declaring a climate emergency. Consequently, BAT Group refreshed its Sustainability Agenda (as an integral part of its evolved Group Strategy) to reflect the prominence of tobacco harm reduction and also to place a greater emphasis on the importance of addressing climate change and environmental management. At the same time, we remain committed to delivering a positive social impact and ensuring robust corporate governance across the Business.



Our business model

Our business understands our diverse consumers, develops products to meet their preferences, and ultimately distributes them to over 16 markets in Africa.

Five key enablers support us in turning powerful insights into products that satisfy consumer needs, while engagement helps our key stakeholders benefit from our sustainable growth.



CONSUMER

Consumers sit at the centre of our business model. We strive to first identify consumer needs and desires, and ultimately provide satisfaction through the development and delivery of innovative products. With societal attitudes and regulatory restrictions narrowing the opportunities for tobacco-related consumer moments, we are committed to providing alternative products for our adult consumers.

INSIGHT

Our global community of consumers is diverse and has differing needs. We have a deep understanding of our consumers and anticipate trends with powerful data and analytics. We reject a 'one size fits all' approach and satisfy their evolving preferences with a broad portfolio that considers geographic and market differences, while leveraging our own strengths.

INNOVATE

From combustibles to New Categories, exciting new products are the key to our success. BAT Group makes significant investments in research and development to deliver innovations that satisfy consumer tastes and generate growth for business. BAT Group's 'A better Tomorrow Ventures' initiative is setting a new benchmark for innovation by allowing us to assess, test and invest in new ideas, concepts and portfolio offerings.

BRAND

Our brands communicate quality and value and establish trust in our products. They are essential to our credibility around the world, and their scale provides far-reaching awareness of our products, while our diverse portfolio allows us to meet the needs of different consumer segments. We have a proven track record of building and managing some of the most iconic brands in history and will continue to leverage this expertise to grow our business across all categories.

MAKE

We manufacture high-quality cigarettes and oral nicotine products without tobacco in modern facilities and 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 effectively as possible.

MOVE

We distribute our products effectively and efficiently using a variety of different distribution models suited to local circumstances and conditions. Our products are sold by retailers, supplied through our distribution partners.

We continuously review our route to market for both combustibles and New Categories, including our relationship with wholesalers, distributors and logistics providers.

SELL

We offer adult consumers a range of products including cigarettes and oral nicotine pouches without tobacco. Our range of high-quality products cover all segments, from value for-money to premium. We are governed by our International Marketing Principles and local laws which ensure that all our products are marketed responsibly.

DELIVERING MEASURABLE LONG-TERM SUSTAINABLE GROWTH

02 Business Review

GROWTH

Delivering sustainable consumer value through portfolio transformation

Cigarette brand development
We consistently strive to offer the highest quality and most innovative products to satisfy the different needs of our consumers.

In line with this objective, 2019 saw the continuation of our journey to transform our brand portfolio, which includes the introduction of new cigarette brand offerings and innovations, as well as the introduction of a new Modern Oral Nicotine category into the market.

At the start of the year, we set off to modernise the premium segment by bringing together two iconic brands: Embassy and Dunhill. The first phase of the migration from Embassy to Dunhill registered strong performance and has set a firm foundation for Dunhill's growth into the future.

During the second half of the year, we launched two new capsule offerings - Rothmans Switch and Rothmans Purple. These products are poised to offer accessible innovation to consumers in the Value For Money (VFM) category.

Building on the success of these capsule launches, we commenced the migration of our menthol brand SM, into Rothmans, which is BAT's fastest growing brand globally. This migration will allow us to tap into the brand's innovation pipeline to offer even greater value to our consumers going forward.

New Categories
With the launch of LYFT in 2019, we achieved a major milestone in our ambition to deliver a better tomorrow for our consumers.

LYFT is a modern oral nicotine pouch without tobacco, offering adult smokers and nicotine consumers a convenient and potentially reduced risk way to consume nicotine. It is made of high-quality ingredients, including nicotine, water, eucalyptus and pine tree fibres, flavouring and sweeteners. It is used by placing the pouch under the lip and the nicotine is then absorbed through the gum.

Driving growth through sustainable trade partnerships

Route to market
At the centre of driving excellence in our route to market is our Trade Marketing & Distribution (TM&D) team and trade partners.

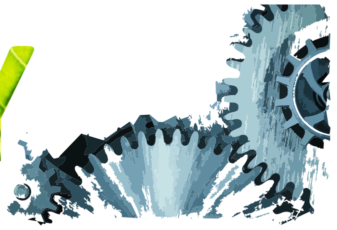
Through our distributors, we supported traders by extending credit facilities to help them navigate the difficult economic environment that persisted in 2019.

We also enhanced our investment in 'Faida Max', our wholesaler support programme, which has played an important role in our portfolio transformation journey to deliver product innovation in the market.

To enhance product availability to the consumer, we expanded into 4,000 additional retail outlets resulting in a 4% growth in 2019 compared to 2018.

This continuous investment in our brands and trade partners is testament to our commitment to delivering sustainable growth.

PRODUCTIVITY



World class manufacturing capabilities

In 2019, we invested further in our manufacturing capabilities, continuing the implementation of Integrated Work Systems (IWS), one of our key factory productivity drivers.

Since its introduction in 2015, IWS has consistently delivered breakthrough results in factory efficiencies, savings, waste reduction and consistent delivery of quality tobacco products. Our manufacturing efficiencies have registered year on year improvement, rising to 13 percentage points since the introduction of IWS.

This sustained performance has been driven by the activation of all pillars of IWS which enable our manufacturing team 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 without compromising on the environment, or health and safety.

In 2019, our focus on loss elimination facilitated cost savings amounting to approximately KSh 108 million, which was reinvested into the factory.

Manufacturing for the future

Following the launch of our Modern Oral Nicotine pouch without tobacco - LYFT - in the second half of 2019, we plan to invest KSh 2.5 billion in a world-class factory for the local manufacture of oral nicotine products without tobacco. We expect that this factory will serve as a manufacturing hub for Kenya and beyond.

Energy management

Our year-on-year investment in energy-saving initiatives coupled with improved factory efficiencies has led to sustained reduction in our total energy consumption per unit of production. As part of this, we continuously work to reduce water consumption through water reticulation projects and improvement of monitoring systems that measure water use at our factory sites. During the year, we maintained our 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.

The reduction of our CO_2 footprint from our trade activities was another significant initiative for 2019. More than 30% of the Company's vehicles are low emission, and we have plans to increase this to 80% by the end of 2020.

Various other environmental conservation activities undertaken with our contracted tobacco farmers further helped to mitigate the environmental impacts of our business, including an industry-leading initiative to drive correct disposal and collection of used fertilizer containers for recycling.

We are proud that our energy conservation initiatives continue to deliver savings and receive external recognition. In 2019, BAT Kenya received various awards at the KAM Energy Management Awards, including best in electricity savings, water conservation and sustained high performance in energy conservation.

Health and safety

The safety of our employees, contractors and visitors to our sites is a top priority for the Business. In 2019, we continued to enhance our safety culture through our Incident Elimination Daily Management System PULSAR; helping us maintain our excellent reputation in this critical area.

Another priority for the Business was our ongoing initiative to support our contracted farmers to improve the health and safety of their operations.

As part of this, a programme for the provision and training on use of harvesting protection and protective equipment was implemented successfully.

> "In 2019, our focus on loss elimination facilitated savings of approximately KSh 108 million which was re-invested into the Business' transformation agenda."
>
> Aida Namuganyi,
> BAT Kenya Manufacturing Manager

A WINNING ORGANISATION

Our people priorities for a better tomorrow

As part of our vision to build a great place to work, we continued to drive an energising, collaborative and agile environment where people can thrive and are enabled to deliver sustainable organisational performance.

We made good progress towards achieving several talent priorities throughout 2019, with significant milestones being achieved in the digital transformation of our people agenda, which enhances internal processes and service delivery thereby improving our ways of working.

To achieve our strategic goals and enable change across the organisation, the role of highly qualified, committed and empowered employees cannot be overstated. In 2019, we supported our cultural transformation through our Connected Talent, Connected Teams, Empowerment and Talent Spotlight platforms. This approach is based on the tenet that employee engagement increases when the employee experience is highly positive.

As part of our efforts to improve the employee experience, we managed to fully deploy BAT's global digital HR system - Employee Central. This is an online portal with round the clock access that offers numerous tools and services to employees, including performance management, career development planning, reward statements and benefits and much more.

As a major part of the employee experience, we concluded the final phase of our office transformation in July 2019. Alongside revamped workspaces, we opened a fully equipped fitness centre, a cosy mother's room and an amazing outdoor terrace with facilitates for employee relaxation and socialising.

What our employees say: results from Your Voice 2019

As we strive to improve the employee experience and gain insight into how they perceive their day to-day work, we run an internal climate survey – Your Voice.

This survey is conducted every two years to measure commitment and engagement amongst our employees. It is also part of our efforts to strengthen the dialogue between employees and senior management and to support a mindset of collaboration across all Functions and teams. Employees can also express their views on where there is room for improvement and what aspects still need to be addressed.

In June 2019, all BAT Kenya employees were invited to participate in the online survey. The completion rate for 2019 was 93% and out of the 11 categories measured, we registered improvement across all of them compared to the 2017 survey. It is worth noting that we maintained our high score of >90% in the people management pillar.

Building a legacy of leaders

BAT's Business and Leadership Capability Model defines what we expect from our leaders and provides the foundation for our approach to developing leaders. The programme is driven through a range of flagship programs – Leading Self, Leading Teams and Leading Managers.

First introduced in 2016, Leading Teams is a core programme designed for new managers who are taking on people management responsibilities for the first time. The programme is built around three key areas: Coaching, Managing Performance and Driving Change. To date, more than 85% of our Line Managers have attended the programme and in 2019, we managed to train and develop 20 newly promoted and recruited Line Managers.

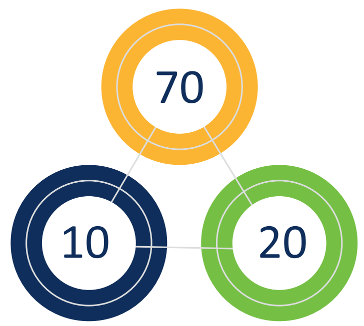
We plan to build on these core offerings in 2020 by incorporating a more practical toolkit-centric approach to further develop managerial skills. Our 2-day "Amazing Managers" programme brings to life practical tools to newly promoted leaders, to help them better recruit, reward, retain and develop talent.

In 2019, we also introduced Impact & Gravitas training, a global programme focusing on developing senior leadership readiness. The programme targeted 12 of our senior managers who went through a 3-day session to strengthen their leadership capabilities.

As we continue to enhance management and leadership capability and support employees' professional and personal development, we strengthened our talent agenda by extending, management programmes such as Impact & Gravitas, Leading Teams and Junior Women in Leadership to more employees. In addition to achieving broader coverage across the organisation this helped to further embed diversity and inclusion within the teams.

Skills development

In the digital learning space we launched "The Grid" as part of our robust 70/20/10 learning approach. The Grid aims to expand and embed online learning and training opportunities for employees. It offers online learning material that employees can use extensively to develop their skills and capabilities. It allows them to choose what is relevant to their development and interests when they need it and provides access to high-quality content irrespective of location.



(70% on-the-job / 20% learning from other / 10% formal education)

Our talent development agenda plays a key role in supporting the Company's strategic goals. In order to retain knowledge and expertise and allow employees to pursue individual career goals, we continued our focus on talent development and internal mobility to enable meaningful redeployment cases across the organization.

Snapshot of employee leadership development movement in 2019

Transfers-In	5	From Brazil and the UK
Transfers-Out	9	To the UK, Papua New Guinea, South Africa and Solomon Islands, Rwanda, Uganda and DRC

Our 2019 Global Graduates during a cultural exchange event at BAT Group's Head Office in London.

Developing next generation talent

BAT's global graduate training programme

In line with our commitment to building future talent and drive gender diversity, we onboarded 12 graduates in 2019, compared to an average of six in prior years.

Gender	Number	%
Female	8	67%
Male	4	33%

Global graduates onboarded in 2019

In the programme, the graduates are immersed into the commercial aspects of the business in order to develop their business acumen and leadership capabilities. Later, they proceed to the BAT Academy – a ten-day orientation event in London which brings together all BAT graduate trainees across the world to introduce them to the BAT Group's strategy and culture. It is also a valuable networking opportunity as they meet and interact with their peers across the Globe. The BAT Academy also comprises project work including case studies and presentations.

We are proud to report that three (3) of BAT Kenya's graduate trainees secured assignments in BAT Group's London head office.

Other programmes such as internships and technical aprenticeships contribute to our pipeline of junior talent and form part of BAT Kenya's ongoing commitment to developing young people as we work to build a future-fit business.

Fostering diversity and inclusion

As a global organization, BAT is committed to driving an inclusive culture that respects and embraces the diversity of employees, clients and communities. Diversity is central to our culture and business sustainability:

- creating a respectful and inclusive environment where people can thrive; and
- building talented and diverse teams to drive business results.

We aim to attract, develop and retain the best people from different cultures, races, tribes, genders, abilities, beliefs, backgrounds and experiences. To this end, in 2019 we launched an integrated and multi-dimensional approach - our 360 Diversity Framework - which will guide our diversity initiatives going forward.

As part of our efforts to enhance both professional and personal development, we made significant progress in the delivery of our talent acceleration programmes. For example, our Junior Women in Leadership module was launched in Kenya to enable us enhance efforts to develop female employees by providing them with bespoke leadership content. The 2-day-training includes a "Spotting a senior Female Role Model" session in which they engage with senior female executives.

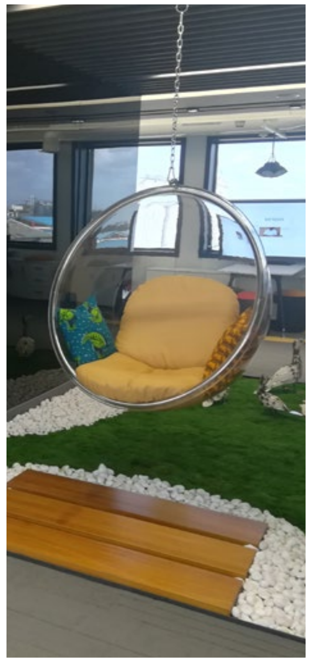
We aim to continue building leader-led components into our programmes, where participants learn from different personal experiences, best practices and hands-on guidance shared by internal leaders.

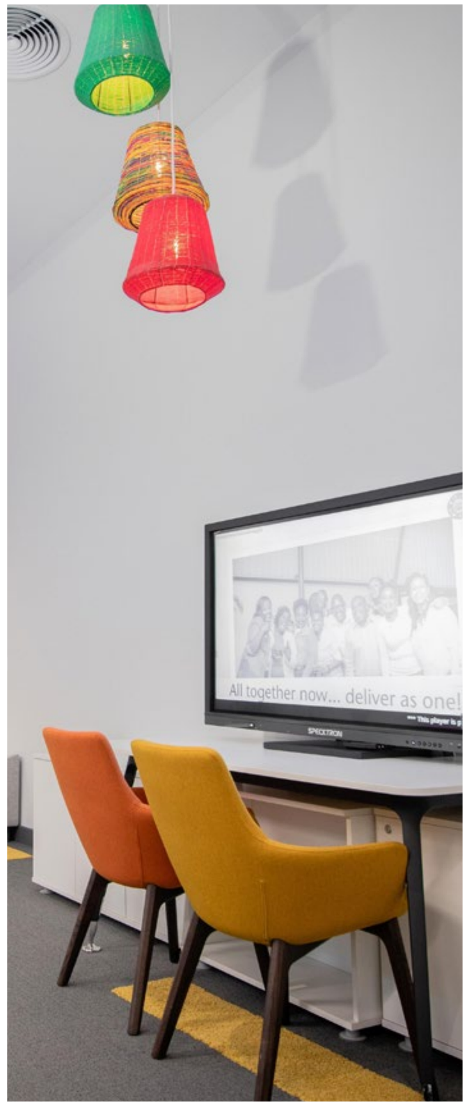
Employer value proposition

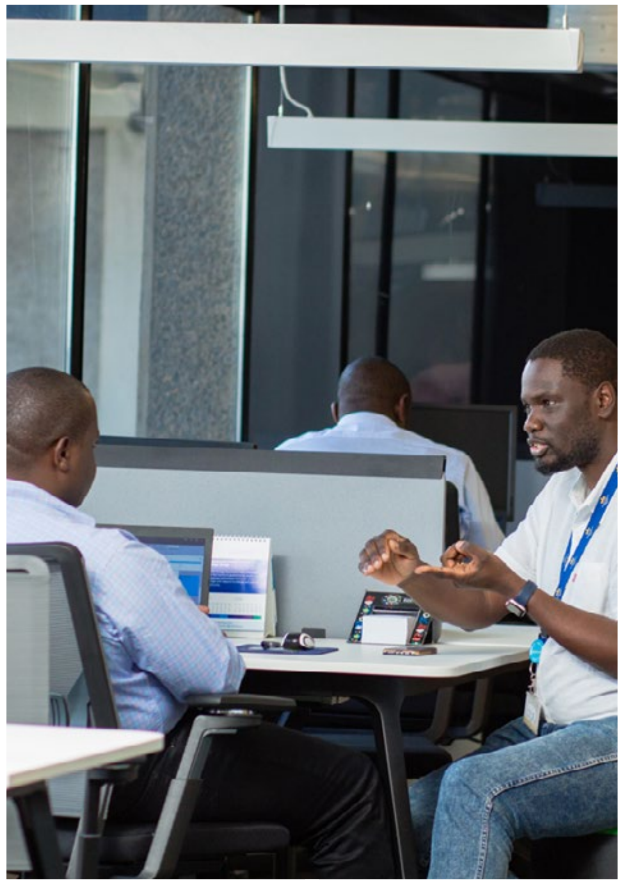
Our Business has always been guided by the highest standards of excellence; and our reputation for delivering high quality and innovative products is the result of our commitment to recruiting, nurturing and retaining top talent. As a result of this commitment and robust People Agenda, we were awarded the Top Employer certification for the second time in a row, by the global Top Employers Institute.

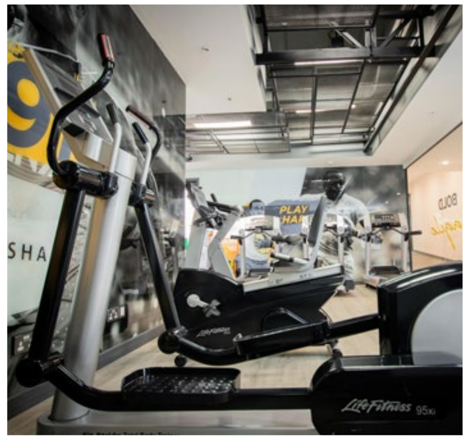
top EMPLOYER AFRICA 2019
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

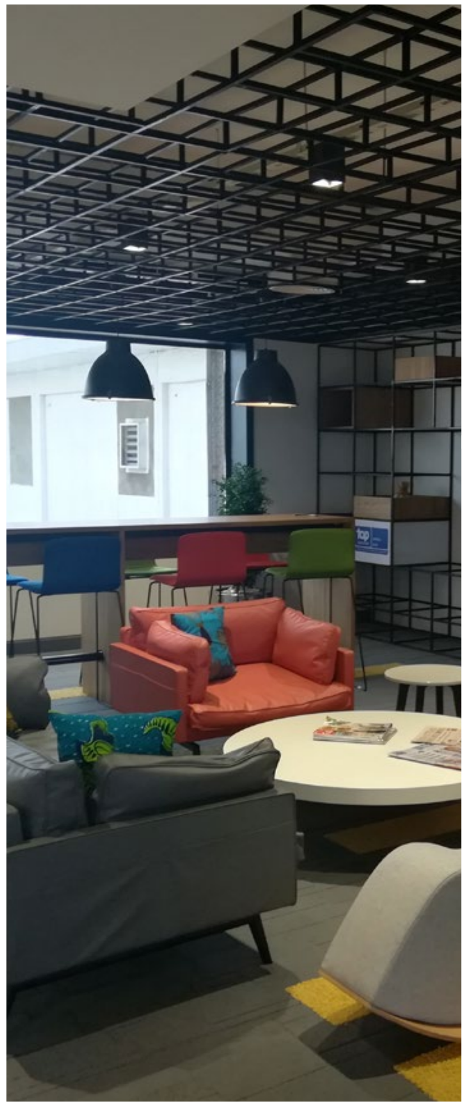
top EMPLOYER KENYA 2019
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS











"We have continued to demonstrate a high Sustainable Engagement Index – 86% - whilst embracing change. It's a direct result of our robust People Agenda, a clear Line of Sight, Timely & Open Communication and our energized, collaborative and agile culture platform."

Diana Johnson
BAT Kenya, Head of Human Resources

Gender Pay Report 2019

Introduction

We are committed to championing better work-life quality for all our employees and recognise that fairness, inclusion and opportunity are at the heart of this important agenda. These principles are embedded in our robust talent strategy and are a fundamental part of our organisational culture.

We want BAT to be a place where people can bring their unique differences, and we make a conscious effort to attract and retain as diverse an employee base as possible.

We ensure that we create opportunities for employees to progress their careers in ways that work for them and we have put in place a system that supports this career progression and fair pay.

As part of our commitment to transparency and in line with our diversity agenda, we present our gender pay report for 2019 in the following pages.

BAT's compensation strategy

We have a clear Total Compensation Strategy which promotes equity, meritocracy and competitive compensation based on performance regardless of individual characteristics. All reward decisions are made with reference to this strategy which contains clear criteria for reward.

We believe that pay equity is the most important aspect of our reward scheme in order to retain our talent. Equity is not treating everybody the same, it is differentiation supported by clear and objective criteria. As such, we are transparent about our pay policies and decisions.

The above principles are implemented through a globally aligned yet locally relevant framework. In practice, this means that reward at BAT is directed by global principles and guidelines that are sensitive to market specifics and legal requirements in Kenya.

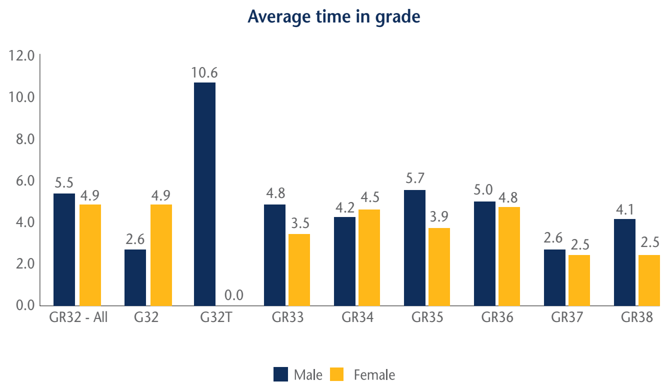
BAT Kenya gender pay reporting

Gender pay gap reporting: concepts and abbreviations

- Grade (G): job positions at the same level which are combined into salary bands. BAT uses the Hay Methodology to evaluate job position gradings. Grade 37+ are considered senior management; Grades 34 to 36 are considered middle management; Grades 32 and 33 are considered coordination/ supervision level; and below Grade 32 are operational levels;
- Average salaries: calculation of the average current salaries referencing December 2019 payroll data;
- Annual salary review (ASR): annual exercise of awarding salary increases based on the employee's annual performance rating. Increases are awarded by line managers within a defined range that considers the employee's current pay within the salary band of the grade;
- Years of service (YOS): the total period that an employee has worked in the Company;
- Time in Grade (TIG): the total period an employee has worked in a job grade (salary band). Taking a 'snapshot' of this data at a point in time creates a level base for all reporting functions. However, a snapshot may also mask the fluidity of gender pay gaps. Gender pay gaps can fluctuate month on month and across pay ranges depending on changes to headcount due to new hires and leavers. It is important to monitor gender pay gap across the year, and not just on the snapshot date as this provides the organisation a better understanding of what drives pay gaps at any given time.

Total population

The graph below (Fig 1) shows the population of local employees across Kenya – excluding Expatriates – across grades.



Highlights

- Overall, we have a higher representation of males in each of the grades than females (ratio 1.5:1). However, external talent brand engagement initiatives over the years have resulted in a significant increase in our female talent population. As seen in Fig.1, the overall female representation is 40.5% (105/259), which is a number we are proud of and is a direct result of our diversity strategy and continuous effort to reach a balanced 50/50 structure.

- As illustrated in Fig.3, within our G32 level, employees are grouped into specific technical skills. For a standard G32 grade operating in the factory and the commercial business, the female representation is almost 1:1. Whilst we encourage and actively recruit females in those grades, G32T has only male employees, which makes it one of our diversity focus areas going forward.

- From G34 up, we have seen a significant increase of females, especially in the senior grades, as part of our ambition and journey.

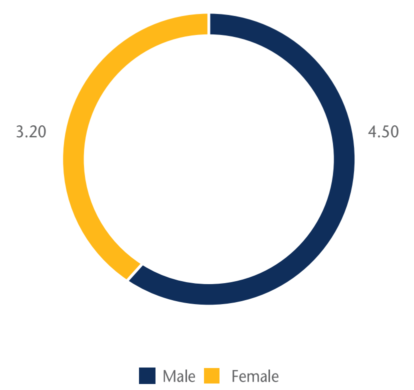
Pay gap

In BAT, we use Total Pay to recognise performance. We invest significantly in employee development to ensure that employees can perform at an optimal level and bring their unique contribution to the business.

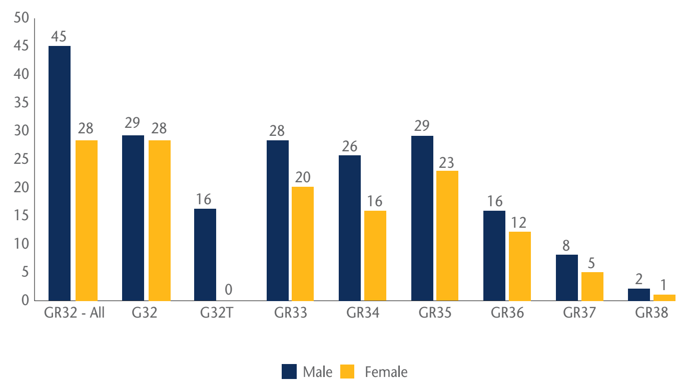
For each grade level, we have market-competitive pay ranges that our talent can grow into, depending on their performance and time in grade. This growth can be accelerated by a pay increase matrix that awards higher pay increases for top performers.

The charts below highlight the average time in grade (Fig.2 & 3) and the pay distribution within the grades which is impacted by YOS and ASR. From our most recent analysis, our male population has a higher average time in grade. This means that on average they have stayed longer within the same pay grade than females.

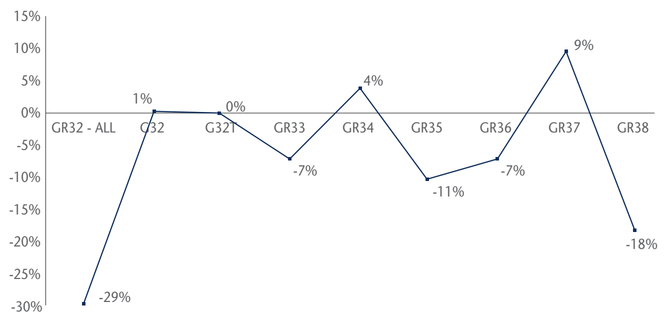
Average time in grade - Fig 2



Headcount - Grade vs Gender - Fig 3



Gap (%) base salary per grade - Fig 4



Note: At the G37 senior management level, we have a strong female talent group that has consistently outperformed their male peers and received outstanding ratings for their results. As a result, their base salaries are 9% higher despite having less time in grade.

Taking action – progress towards our goal

In order to ensure equity in our pay gaps, we have taken the following actions:

- Unconscious Bias training: we have continued rolling out our internal unconscious bias training, which addresses how bias can impact recruitment right through to salary conversations and progression opportunities. Training all line managers reduces the potential for bias in hiring and pay decisions as well as more generally in workplace practices.

- Creating a Salary Tool that helps our Heads of Function to monitor pay equality within their teams, as they can filter by gender, YOS and many other breakdowns. This enables them to see the potential impact of pay decisions on pay gaps.

- Launching the Junior Women in Leadership Programme in 2019. This is a two day workshop for junior female talent focusing on enhancing leadership capabilities and offering the support and coaching needed to help them progress in their careers.

- We continue to champion flexible working across the organisation, having refreshed our flexible working policy in August 2018 to encourage better work life balance for employees.

- Creating a more agile and collaborative work environment. In 2019 and 2020 our focus is on how to further enable flexible working right across our business through the application of technology (Collaborative apps, Microsoft Teams, remote access, etc).

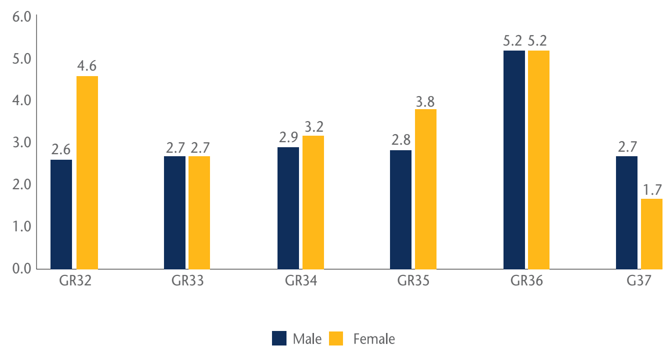
- A significant portion of our learning and development (L&D) activities are accessed via online training modules and mobile apps. This means that our workforce can easily access L&D tools and activities whatever their working hours or location, all of which can contribute to their progression at work.

Breakdown by Function

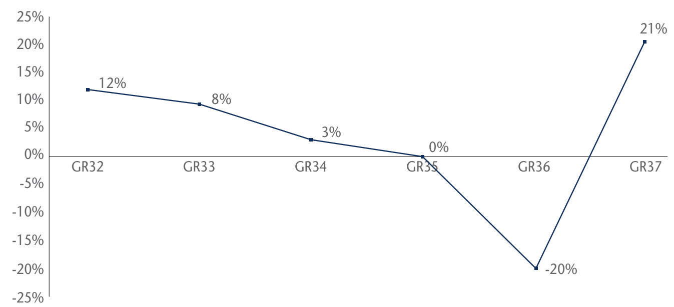
A deep dive into each business Function within BAT Kenya

MARKETING

Average time in grade - Marketing - Fig 5



Average base salary pay gap - Fig 6

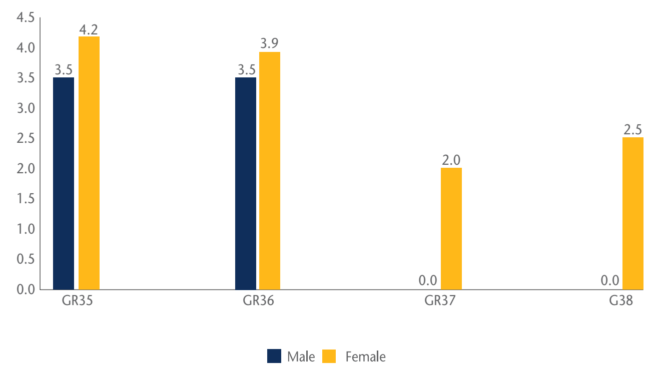


HIGHLIGHTS

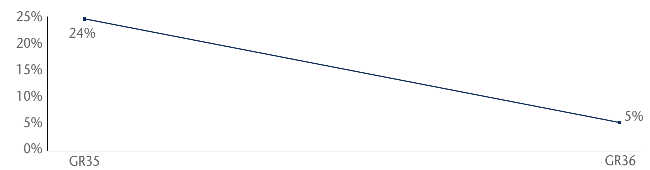
In Marketing, our female representation is a source of pride as the average ratio is 1:3:1. This Function accounts for the largest number of females in the Company's total population. This is also evident in the pay positioning (Fig.6) as female pay is, in most grades, well positioned in comparison to the male group.

LEGAL AND EXTERNAL AFFAIRS (LEX)

Average time in grade - Legal and External Affairs (LEX) - Fig 7



Average base salary pay gap - Legal and External Affairs (LEX) - Fig 8

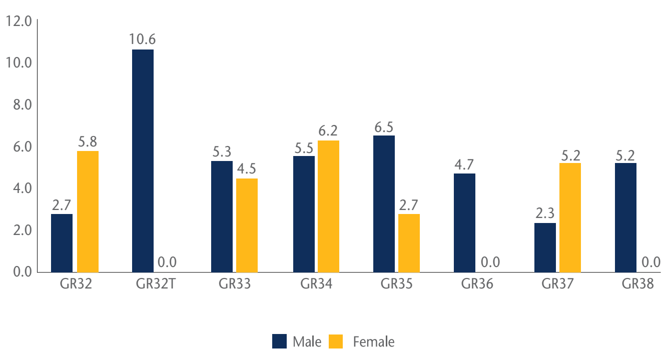


HIGHLIGHTS

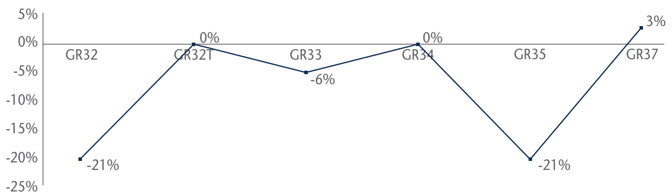
In LEX, we have a strong female representation with a total 8 out of 15 of the local employees being female. With time spent in grade being higher, there is also a higher positioning of their base salaries. There is no local male representation in the G37 and G38 grades.

OPERATIONS

Average time in grade - Operations - Fig 9



Average base salary pay gap - Operations - Fig 10

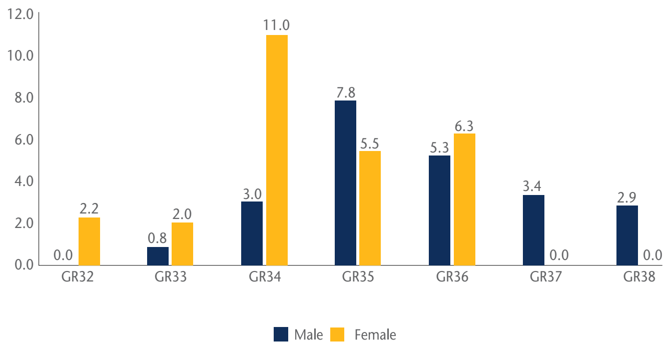


HIGHLIGHTS

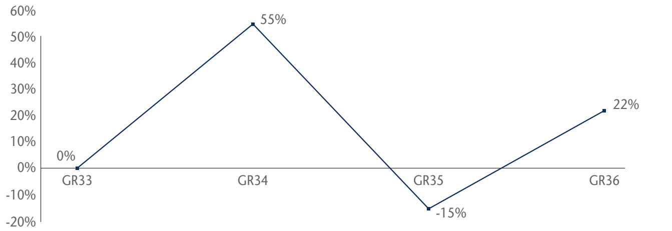
In Operations, there is a slightly different picture as the population is largerly comprised of male factory based / union representatives. However, we are proud of having our first female Head of Manufacturing in Kenya (G37). The Operations team (G36 and below) is one of our focus areas as we strive to accelerate progress towards our 50/50 ambition.

FINANCE

Average time in grade - Finance - Fig 11



Average base salary pay gap - Finance - Fig 12

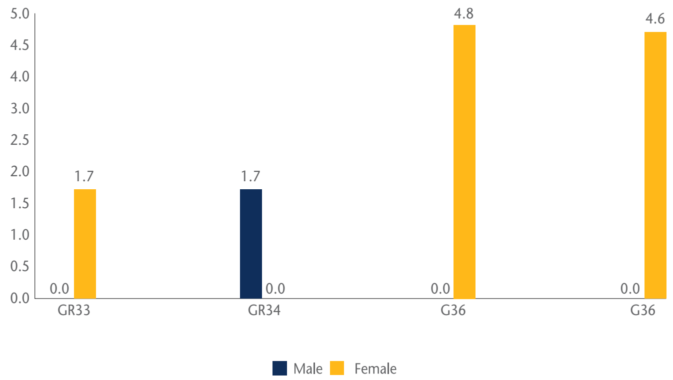


HIGHLIGHTS

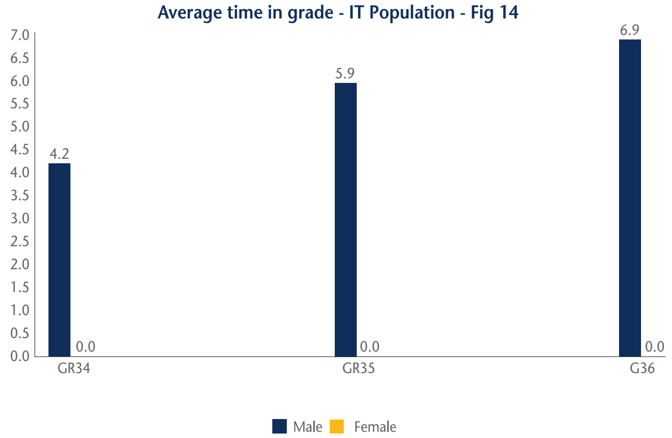
Finance is predominantly male represented. Most of the male individuals - especially at G34 - are recent recruits into the business or recently promoted into the grade, hence still at the lower quartile of the salary band. At G36 levels, we have an equal number of male and females (2:2). With a slightly higher time in grade and historical outstanding performance, the female employees' salaries are currently positioned higher than their male colleagues.

HUMAN RESOURCES AND IDT

Average time in grade - HR Population - Fig 13



Average time in grade - IT Population - Fig 14



HIGHLIGHTS

Human Resources is predominantly female whilst IDT is male represented. Targeted recruits/moves are being planned to bring more diversity into both teams.

NOTE

* Equileap Special Report, November 2019. GENDER EQUALITY IN KENYA: Assessing 60 leading companies on workplace equality.

Our Managing Director's Perspective

We are committed to being a diverse and inclusive organisation and improving our gender balance is an important part of this journey. Diverse teams that are representative of the world we live in are key to building high performing teams. This is not about setting quotas, it is about ensuring that BAT reflects today's talent and markets. Therefore, improving our diversity outlook across all levels of the organisation requires understanding and focus from the Board, Leadership, and people managers across our business.

Today, around 40% of our total workforce is female and we are working hard towards our 50/50 ambition. We also need to ensure that we are attracting men into more junior roles in certain Functions, alongside supporting women into more senior roles in others.

And it is not just about gender. We have a clear 360 Diversity Strategy to include and nurture talent, challenge established views and promote alternative ideas and new perspectives. This means we have an ambition to drive diversity in our leadership at every level as well as training all our people in understanding the cultural differences, how to manage, treat, and develop people from all backgrounds. Open and honest dialogue and a culture of trust are also very important elements in our desire and need to create a truly inclusive organisation.

Beverley Spencer-Obatoyinbo

In summary

BAT continuously monitors pay gaps to ensure that there are no discrepancies or any type of bias within any group of employees – including gender. BAT Kenya is thus well positioned amongst its market peers. In the recent Equileap Report (Nov 2019)* we were ranked 13th amongst companies listed on the Nairobi Securities Exchange, as a result of our robust diversity strategy and actions.

As one of our key operating principles, we will continue to focus on improving our diversity performance year on year.

OUR SUSTAINABILITY APPROACH

Our socio-economic contribution

BAT's operations in Kenya span over 100 years, with the Company being listed on the Nairobi Securities Exchange for over 50 years. Throughout this period, we have consistently invested in our business and sought to increase our contribution to the socio-economic development of the country.

We currently generate direct and indirect employment and business opportunities for more than 85,000 Kenyans in tobacco farming and processing, manufacturing and tobacco product distribution, oral nicotine product distribution, urban and rural retailing, wholesale trade, transport, logistics and domestic procurement amongst others.

Our year on year investments and tax remittances have contributed to the country's economic growth. Over the past five years, we have invested more than KSh 6 billion in tobacco farming, leaf processing and our cigarette manufacturing factory in Nairobi and have paid over KSh 90 billion to the Exchequer in form of various taxes (Excise, VAT, PAYE, Corporate Tax).

We are also a leading exporter in Kenya, making us a significant earner of foreign currency for the country.

Our track record has received recognition from various regulatory and industry bodies – in 2019, we received the Solid Rock Lifetime Achievement Award from the Kenya Export Promotion Council and have previously been recognised as a Top Exporter by the Kenya Revenue Authority.

Our contribution to the Big Four Agenda

We have ambitious plans to lead the transformation of our business and the tobacco industry. While combustible products will remain at the core of our business for some years to come, we have begun our transformation journey by introducing LYFT, an oral nicotine pouch without tobacco.

Plans are underway to further grow the potentially reduced risk products (PRRPs) category through a KSh 2.5 billion investment in a new world class factory for the manufacture of tobacco-free Modern Oral Nicotine products. The factory would be the first of its kind in Africa. On the back of the proposed investment, we expect our contribution to the Kenyan economy from our exports to grow signficantly; creating additional jobs; and further supporting supporting the tens of thousands of Kenyans and local businesses in our extended value chain. The proposed investment is testament to our commitment to Kenya and our support for the Government's manufacturing agenda.

Proposed factory to manufacture tobacco-free oral nicotine products.

Enhancing the livelihoods of our tobacco farmers through 'THRIVE', BAT's global sustainable agriculture programme.

In 2019, we continued to partner with approximately 5,000 farmers who are mainly concentrated in Migori, Bungoma, Busia and Meru counties.

Our long and proud history of building sustainable relationships with these farmers has yielded mutual benefit.

Amongst other things, we facilitate crop and health insurance for our farmers. Over 49% of our farmers are now members of the National Hospital Insurance Fund (NHIF) – allowing them access to medical care for themselves and their loved ones. In 2019 our crop insurance scheme paid out KSh 35 million to farmers who crop was impacted as a result of harsh weather during the 2018/2019 tobacco season.

To enhance our farmers health and safety, we issued our farmers with CPA waste collection bags. This allows BAT Kenya to collect all agrochemical containers and dispose of them in conjunction with the National Environment Management Authority (NEMA) and the Agrochemical Association of Kenya (AAK) approved agents.

Despite the ever-changing climate conditions, our partnership with our tobacco farmers yielded 8.9 million kilograms of tobacco, earning them net pay of KSh 1.5 billion in 2019. To drive crop diversification and food security, farmers were also issued with 26.5 tons of certified maize seeds to promote food security and provide extra income from sale of any surplus maize harvested.

The farmer Savings and Co-operative Societies (SACCOs) introduced in 2016 continue to provide a vehicle through which farmers are able to save and generate additional income.

To ensure that our farmers are equipped with the knowledge to run their farm enterprises in a sustainable manner, in 2019 we trained approximately 4,700 farmers in farm management skills and labour practices, including child labour prevention and biodiversity management.

We protect the environment in which we operate

Reducing the environmental impacts of what we do is a key priority for us. In addition to implementing our various energy and productivity initiatives (page 39), we also work with local communities and relevant authorities to address the impacts of 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 2019, we planted over 2.33 million trees across the country in partnership with tree farmers and local stakeholders. On the biodiversity front, a partnership with South Nyanza Sugar Company Limited (Sony Sugar) and Vuma Biofuels Limited continues to provide alternative fuel for tobacco curing in bagasse briquettes. Last year, the briquetting plant produced 627,000 kilograms of briquettes.

This is being scaled up to 4.7 million kilograms in the next five years and is expected to cure up to 25% of the tobacco grown within that period, saving millions of trees.

Community development initiatives

As a truly Kenyan business, we make a conscious effort to participate in and contribute to the development of the communities in which we operate. To mark the 2019 World Clean-Up day our employees gave a section of the Mukuru Promotion Centre a facelift as they cleaned and painted the Vocational Training Centre that caters for adult residents from the nearby Mukuru slums.

A recycling station was also installed to help support the Centre's waste management programme, and we are exploring ways in which we can continue and expand our partnership with the Centre in 2020. We also facilitated employee participation in the 2019 Standard Chartered Nairobi Marathon that raises funds for various charitable causes in Kenya.

Our approach to regulation and excise taxation

We welcome balanced, evidence-based regulations that are the result of a consultative process in which the potential unintended consequences have been fully explored and addressed. 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.

In 2019, we continued engaging with various government departments in pursuing a balanced and predictable regulatory and fiscal environment for our business.

Solatium

Litigation is always a last resort for us, but where necessary we are willing to challenge excessive and disproportionate regulation to protect our legal rights and the interests of our shareholders.

In November 2019, the Supreme Court dismissed our appeal against certain provisions of the Tobacco Control Regulations 2014, upholding the decision of the Court of Appeal. Following this judgment, the Company will be required to pay an annual Solatium Compensatory Contribution of two per cent (2%) of the total value of tobacco products manufactured or imported every year. The modalities of these payments are yet to be clearly set out by the relevant government departments.

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STRATEGIC REPORT

BAT Kenya Managing Director Beverley Spencer-Obatoyinbo receives the Solid Rock Lifetime Achievement award from HE the Deputy President of Kenya, William Ruto at the 2019 Kenya Exporter of the Year awards.

Excise tax

In 2019, the Finance Act effected a dramatic 20% increase in excise tax for tobacco products.

It is widely accepted that there is a direct correlation between steep and ad-hoc increases in taxes and the growth of illicit sales. We therefore anticipate that this latest excise increase will likely result in a significant increase in the incidence of illicit cigarettes, which currently stands at 11.3% of the total cigarette market, unless decisive Government action is taken to stop tax-evaded product from crossing Kenya's porous borders.

In general, such excessive and unpredictable excise increases threaten the sustainability of legitimate businesses and in the case of tobacco, as evidenced by the reduction in our tax contribution for 2019 (down 1.4% vs 2018, despite a 9% increase in gross revenues), are ineffective in delivering long term growth and sustainability of Government revenues.

To facilitate predictability of taxation and revenues for both Government and our business, we encourage the Government to effect excise increases once every two years, based on the annual inflation rates in the preceding two years.

At a regional level, our focus on developments within the East African Community (EAC) has been on the elimination of non-tariff barriers especially in Tanzania and Uganda.

In March 2019, the East African Court of Justice ruled in our favour in a case in which we had challenged a discriminatory excise tax regime in Uganda against cigarettes manufactured in other East African Community (EAC) countries. This has resulted in BAT's cigarettes being treated as local product for excise purposes.

We continue to engage the Government in Tanzania with a view to ensuring that the cigarettes we manufacture in Kenya are treated as local for excise purposes.

Tax stamps
In 2018, we filed a petition in relation to what we consider to be an unjustified and excessive 87% increase in the cost of tax stamp that had been introduced without proper prior public consultation. The case is currently pending before the courts.

Devolution
As a consequence of devolution, the number of regulatory and administrative units has significantly increased in recent years and is increasingly resulting in an overlap in regulatory frameworks as well as regulatory overreach. This presents challenges as some counties seek to introduce new regulatory measures for various industries including ours, causing a conflict with the existing national regulation and creating increased cost and complexity of compliance.

This fundamentally undermines the ease of doing business across different counties and will adversely impact the manufacturing industry, our business and that of our traders. The costs implications alone are liable to lead to an increase in illicit trade across a number of industries.

Fighting illicit trade in tobacco products

In 2019, we continued to devote considerable resources to supporting the Government's actions to stem the flow in illicit (tax-evaded) cigarettes.

However, even as we welcomed the Government's decision to prioritise illicit trade with the appointment of a dedicated multi-agency team in 2018 and despite our efforts to engage with the relevant government agencies, we remained concerned that there was only a marginal decline in the illicit trade levels in Kenya in 2019 and that this will now be offset by the impact of the 20% excise increase and the increased costs of doing business.

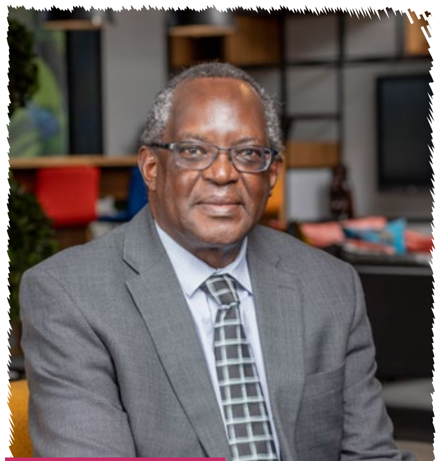
At the end of 2019, we commissioned third-party research which found that 11.3% of the cigarettes sold in the Kenyan market were illicit.

This research also indicated that tax evaded cigarettes from Uganda now constitute over 80% of the illicit cigarettes in circulation in Kenya, up from 11.6% in Q4 2018. This marks a significant and concerning shift in the nature and flows of illicit cigarettes in Kenya. It indicates that either new players are entering the illicit market or existing illicit traders are finding new means by which to increase illicit volumes across the border. It is also evidence that illicit trade is impacting the demand for Kenyan leaf and increasingly denying Kenya tobacco farmers revenue.

We therefore call for urgent action by the Kenyan government in collaboration with the relevant authorities in Uganda to investigate the source of these products and put in place the necessary factory and supply chain controls and border enforcement measures to ensure a wholly legitimate market.

03 Corporate Governance

Board of Directors



George Maina
Non-Executive Chairman

Nationality: Kenyan

Position: Chairman since 1 September 2013; Non-independent Non-Executive Director. Director since November 2010; and Chairman of the Nominations and Governance 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 at Faulu Microfinance Bank Limited, Insurance Company of East Africa and Afrika Investment Bank. He is also a Trustee of Starehe Boys Centre, Africa Conservation Centre and Gertrude Gardens Children's Hospital.

Beverley Spencer-Obatoyinbo
Executive 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 holds directorships in BAT Kenya Tobacco Company Limited & British American Tobacco Area Limited. She is also the Cluster Manager for BAT East African Markets, based in Nairobi.

Sidney Wafula
Executive Director

Nationality: Kenyan

Position: 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 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 Southern Africa.

Dr. Macharia Irungu
Non-Executive Director

Nationality: Kenyan

Position: Independent Non-Executive Director since July 2019 and a member of the Nominations and Governance Committee.

Skills and experience: Dr. Irungu is the Managing Director of Kenya Pipeline Company Limited. He has over 28 years' experience in various senior management roles within the oil industry, in and outside Kenya.

He holds a Doctor of Philosophy degree in Strategic Management from University of Nairobi and a Master's degree in Business Management (Marketing) from Newport University (USA), alongside a Bachelor of Science degree in Industrial Chemistry from the University of Nairobi. He is a member of the Institute of Directors (Kenya), Kenya Institute of Management and the American Chamber of Commerce among others.

Key Appointments: He holds Directorships at Total Kenya plc, Petroleum Institute of East Africa and is a Board Member of KAG University Council.

Carol Musyoka
Non-Executive Director

Nationality: Kenyan

Position: Non-Independent Non-Executive Director. Director since February 2011 and a Member of the Audit and & Risk 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 previous role as the Corporate Director of Barclays Bank of Kenya Ltd. She currently provides consulting and training services for various local and listed public listed entities, private companies and not for profit organisations. 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 Breweries Limited, Kenya Airways plc and is the Chairperson of the Business Registration Services.

Peter Mwangi
Non-Executive Director

Nationality: Kenyan

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

Skills and experience: Peter is the immediate former 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 and before that was the Chief Executive Officer of Centum Investment Company Plc. 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, the Institute of Certified Public Secretaries, ICIFA and Kenya Institute of Management.

Key Appointments: He serves on the Board of Directors of the Central Depository & Settlement Corporation (CDSC) and Funguo Investments Limited.

Board of Directors (continued)

Dr. Martin Oduor-Otieno
Non-Executive Director

Nationality: Kenyan

Position: Independent Non-Executive Director since August 2016 and Chairman of the Audit and Risk Committee.

Skills and experience: Martin is currently an independent Business Advisor 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 also held senior positions in the previous Barclays Bank Kenya plc (now Absa Kenya plc) 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 for his contribution to national development. He is a Fellow of the Kenya Institute of Bankers, Institute of Certified Public Accountants of Kenya, Institute of Certified Secretaries of Kenya and the Institute of Directors of Kenya.

Key Appointments: Martin holds Directorships in Standard Bank Group, Standard Bank of South Africa, East African Breweries Limited, Kenya Airways Limited and GA Life Assurance Limited. He is also President of the International Coaching Federation (ICF) Kenya Chapter.

Samuel Onyango
Non-Executive Director

Nationality: Kenyan

Position: Independent Non-Executive Director since July 2019 and a member of the Audit and Risk Committee.

Skills and experience: Samuel is the immediate former CEO of Deloitte East Africa. He has extensive audit experience, having served for 38 years in various audit roles and has contributed to the development of the accounting profession in East, Central and Southern Africa through past roles; including as Chair of the Institute of Certified Public Accountants of Kenya and president of the Eastern, Central and Southern Africa Federation of Accountants, which he represented in the Council of the International Federation of Accountants.

Samuel holds a Bachelor of Commerce from the University of Nairobi and is a Fellow of Certified Public Accountants of Kenya (FCPA), Company Secretary, Arbitrator and Mediator. He is also a Fellow of the Institute of Chartered Accountants in England & Wales (FCA), Institute of Certified Secretaries (Kenya) and Institute of Certified Public Accountants of Kenya among others.

Key Appointments: He is a Director at Jadala Investments Ltd.

Waeni Ngea
Company Secretary

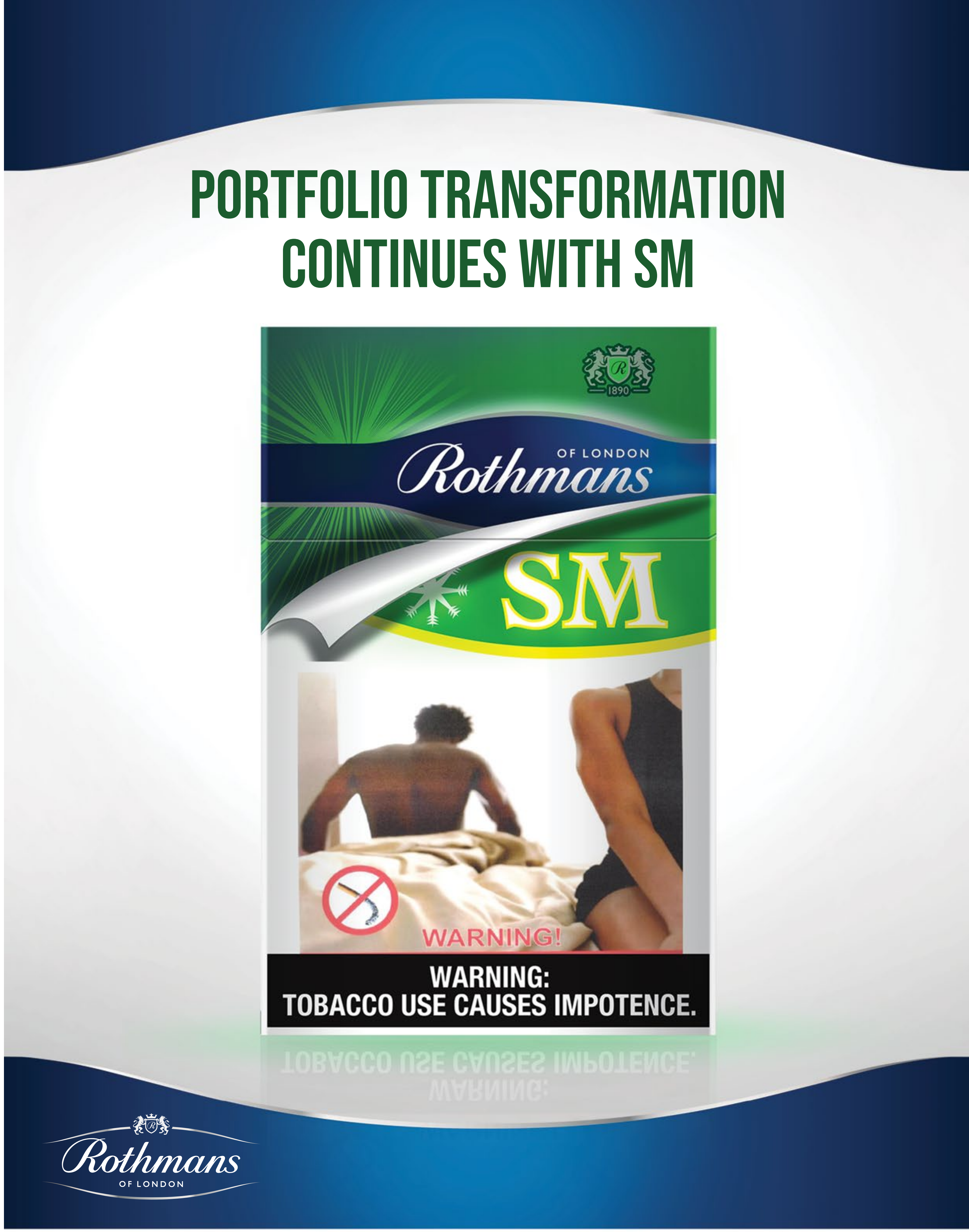
Nationality: Kenyan

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 a Council Member, Association of Retirement Benefit Schemes (ARBS) and also the Company Secretary for British American Tobacco Area Limited.



Leadership Team

Diana Johnson 1
Head of Human Resources

Diana joined BAT in 2007 as Talent and Organization Effectiveness Manager for Souza Cruz. Prior to joining BAT, she worked with Coca Cola and IBM. Diana brings robust experience in HR Management, having been in the profession for over 18 years, in both business partnering and centres of expertise.

Prior to her current role as Head of Human Resources, Diana was the Senior HR Business Partner for Operations and Leaf based in Rio De Janeiro, Brazil.

Diana is also the Head of Human Resource for BAT East Africa, based in Nairobi.

Philemon Kipkemoi 2
Head of Finance

Philemon has been with BAT Group for 13 years. He joined BAT Kenya in 2007 from PricewaterhouseCoopers (PwC), as Internal Audit Manager. He has subsequently held various senior Finance Management roles within the Group, including, Finance Controller BAT Uganda, Finance Controller BAT East & Central Africa, Head of Operations Finance BAT East & Central Africa and most recently Head of Finance for BAT Horn of Africa & Indian Ocean Islands.

Philemon is also the Head of Finance for BAT East Africa based in Nairobi and a Non-Executive Director of BAT Uganda.

Kenneth Gichubi 3
Head of Trade

Kenneth has immense experience in Trade Management having joined BAT Kenya as a Trade Marketing Representative in 2005. He has since risen through the ranks and held various commercial roles within BAT.

Prior to his current role, he was Head of Strategy and Planning for BAT East and Central Africa. He has also gained international experience while on assignment to BAT Eritrea as Country Manager and most recently in 2017, where he led the route to market transformation at BAT Vietnam.

Kenneth is also the Head of Trade for BAT East Africa based in Nairobi.

Beverley Spencer–Obatoyinbo 4
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 Switzer land, which was her immediate former role prior to joining BAT Kenya in May 2017.

Beverley is also the General Manager for BAT East Africa based in Nairobi.

William Elliott 5
Head of Legal and External Affairs

William joined BAT in 2014 from Hogan Lovells International LLP London, taking up the role of Legal Counsel in BAT's head offices in London, UK.

William brings over 11 years of legal experience; advising on complex, often international, regulatory and commercial issues; specialising in judicial review and civil litigation and counselling on administrative law and commercial human rights. Prior to his current role, he was a Senior Counsel in BAT's Litigation and Regulation Centre of Excellence in London, UK.

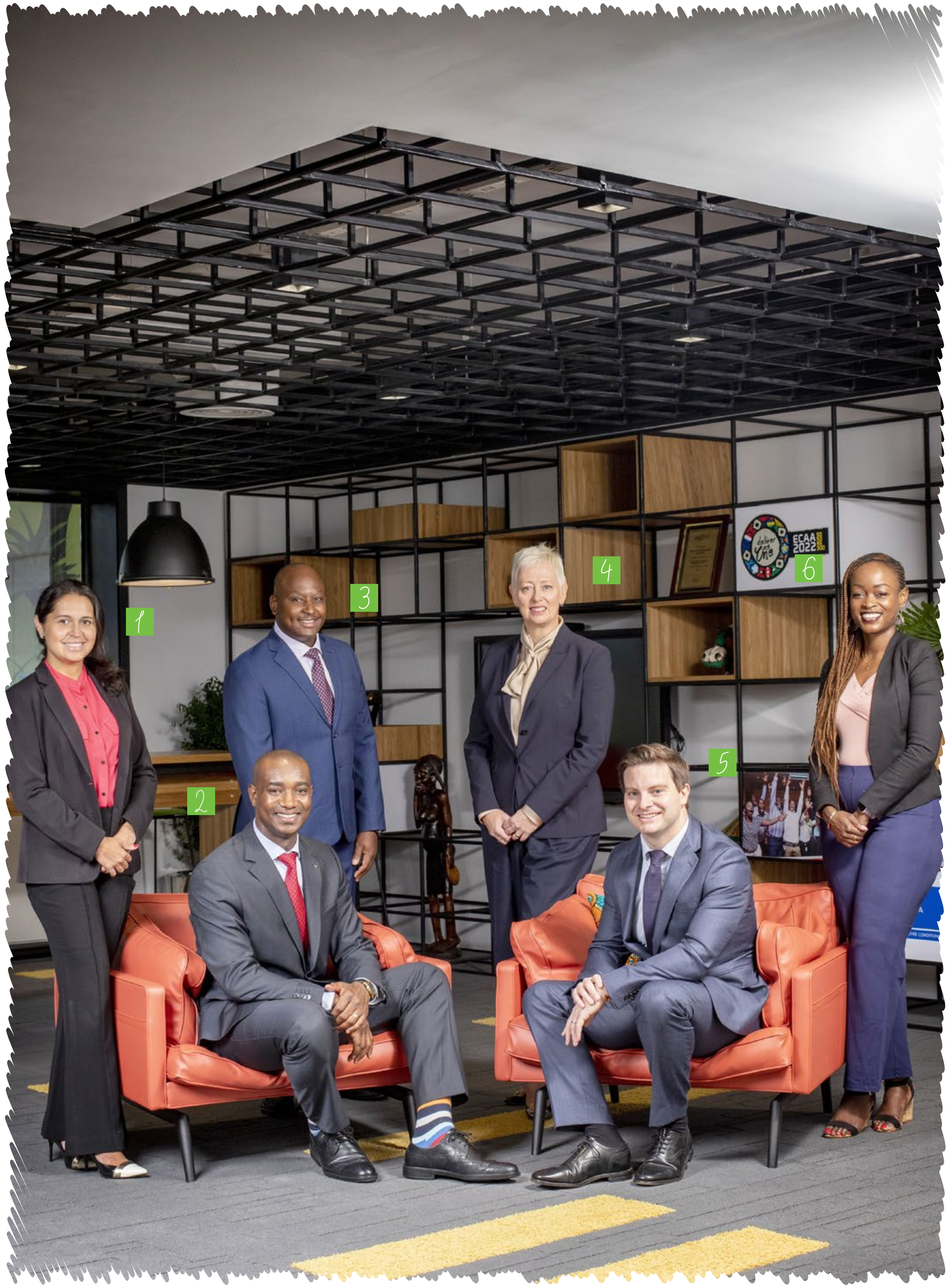
William is also the Head of Legal and External Affairs for BAT East Africa, based in Nairobi and a Director of BAT Tanzania Distribution Limited.

Vivian Oyugi 6
Head of Marketing

Vivian has had an illustrious career in Marketing with experience that spans over 10 years in consumer goods.

She joined BAT Kenya in 2018 as the Head of Brands and subsequently was appointed to the role of Head of Marketing at the end of 2019. Prior to joining BAT, Vivian worked with Coca Cola East & Central Africa as Head of Marketing for Kenya and Tanzania and previously held other senior roles. She has also had a successful career with Unilever East and Southern Africa where she held various Marketing roles.

Vivian is also the Head of Marketing for BAT East Africa based in Nairobi.



GOVERNANCE AUDITOR'S REPORT

The Code of Corporate Governance for Issuers of Securities to the Public, 2015 ("the Code"), requires the Board of a listed Company to subject the Company to an annual Governance Audit to check the level of compliance with sound governance practices.

The Code specifically requires the annual Governance Audit to be conducted by a competent and recognised professional accredited for that purpose by the Institute of Certified Secretaries (ICS). In compliance with the Code, British American Tobacco Kenya plc. retained Ms. 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.

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 Company in accordance with best governance practices as envisaged within the legal and regulatory framework. We conducted our Audit in accordance with the Institute of Certified Secretaries' 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 Company'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 largely in compliance with the legal and regulatory Corporate Governance framework and in line with global governance practices, and in this regard, we issue an unqualified opinion.

FCS. Catherine Musakali, ICPSK GA. No 006
Dorion Associates
Thompsons Estate, Diani Close, Compound 7, House 3 Nairobi.
Tel No.: +254202353383/+254 722616119

GOVERNANCE AUDITOR'S REPORT (continued)

Statement of Directors' responsibilities

The Kenya Companies Act, 2015 requires Directors to act in good faith, to promote the success of the Company for the benefit of its stakeholders and to avoid conflict between their personal interests and those of the Company, always acting in the best interest of the Company.

The Code of Corporate Governance for Issuers of Securities to the Public, 2015 ("the Code") requires listed companies to engage the services of an independent and accredited Governance Auditor to establish the extent to which the Board has applied Corporate Governance principles. The Code further requires that after undergoing the Governance Audit, the Directors should provide an explicit statement on the level of compliance.

The Directors are responsible for putting in place governance structures and systems that support the practice of good governance in accordance with best practice, the requirements of the Kenya Companies Act, the Code and the Governance Audit Tool developed by the Institute of Certified Secretaries (ICS). The responsibility includes planning, designing and maintaining governance structures that ensure effective leadership and strategic management, transparency and disclosure, compliance with laws and regulations, communication with stakeholders, Board independence and governance, Board systems and procedures, consistent shareholder and stakeholders' value enhancement and corporate social responsibility and investment.

The Directors also accept responsibility for putting in place an effective and efficient Management Team and effective internal control and risk governance systems that are designed to promote good governance practice.

The Directors accept that the independent Governance Audit does not relieve them of their responsibilities.

The Directors are not aware of any material governance issues that may adversely impact the operations of the Company.

As required by the Code therefore, the Directors commissioned a Governance Audit with the aim of ensuring that the Company has complied with the Act, the Code, and adopted best practices in Corporate Governance in order to deliver long term value to stakeholders.

The Directors have adopted this Governance Audit report for the year ended 31st December 2019, and which discloses the state of Governance within the Company.

Adoption of the Governance Audit Report

The Governance Audit Report was adopted by the Board of Directors on 23rd April 2020.

George Maina Chairman	**Beverley Spencer-Obatoyinbo** Managing Director

Leadership and responsibilities

Overview

Corporate governance refers to the structures and processes that guide the effective, accountable and prudent leadership of the Company. BAT Kenya has put in place systems to ensure that high standards of corporate governance are maintained at all levels of the organisation.

Throughout the year ended 31 December 2019 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 that shareholders need to evaluate how the Company has applied the principles in the Code.

In addition to complying with the Code, the Company has embedded internal rules of engagement to support corporate governance. These internal guidelines are constituted in BAT's 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 and integrity standards to ensure delivery of sustainable business results.

The role of the Board

The Board is collectively responsible for the Company's vision, strategic direction, its values, and governance. It is comprised of eight (8) Directors, six (6) being Non-Executive Directors including the Chairman, and two (2) Executive Directors. The Board is accountable to the Company's shareholders for the performance of the business, 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 appropriate internal checks and controls.

The key responsibilities of the Board include:

- Approving the Company's business strategy and ensuring necessary financial and human resources are in place to meet agreed objectives;
- Establishing and agreeing an appropriate governance framework;
- Reviewing the sufficiency and effectiveness of risk management and internal control systems;
- Approving the Company's performance objectives and monitoring their achievement;
- Reviewing and agreeing Board succession plans and approving Non-Executive Director appointments;
- Agreeing the Company's budget;
- Reviewing periodic financial and governance reports;
- Approving the Annual Report, Company results and public announcements;
- Declaring an interim/recommending a final dividend;
- Approving Company Policies and monitoring compliance with the Standards of Business Conduct;
- Approving major corporate activities; and
- Ensuring that the relevant audits e.g. financial, governance or legal and compliance are conducted.

The Board has established three principal Board Committees, to which it has delegated certain responsibilities, namely: the Nominations and Governance Committee, the Audit and Risk 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 have distinct and clearly defined duties and responsibilities. They are responsible for the profitable operation of the Company.

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 Company. She provides leadership to enable successful planning and execution of the objectives and strategies agreed by the Board. She is also responsible for stewardship of the Company's assets and, jointly with the Chairman, for representation of the Company externally.

Leadership and responsibilities (continued)

Non-Executive Directors
The Board had six (6) Non-Executive Directors as at 31 December 2019 and as at the date of this Annual Report. The role of the Non-Executive Directors is to help develop strategy, review Management's proposals, scrutinise performance of Management and the Company, bring an external perspective to the Board, monitor reporting of performance and be available to meet with major stakeholders as appropriate.

Annual 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 2019, grouped under the Company's four strategy pillars, are set out on pages 72 to 73.

The Board devotes considerable attention to corporate governance matters relating to the Company's internal controls and compliance activities. It receives updates from the respective Chairs of the Audit and Risk Committee and Nominations and Governance Committee after each Committee meeting, of which the Board receives full minutes. The Board receives high quality, up-to-date information for review in good time ahead of each meeting.

The Leadership Team
The Leadership Team led by the Managing Director is responsible for the day to day management of the Company and its operating subsidiaries. In so doing, it oversees the implementation of the strategy and policies set by the Board. Profiles of the Leadership Team are set out on page 62 to 63 of this Annual Report.

The key responsibilities of the Leadership Team include:

- Developing 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 to achieve the targets;
- Overseeing the management and development of talent within the Company; and
- Making recommendations on matters reserved for Board approval.

The composition of the Board
The composition of the Board as at 31 December 2019 and as at the date of this Annual Report is set out on pages 58 to 60.

Board and AGM meeting attendance in 2019

Name	Attended/ Eligible to attend
George Maina	5/5
Beverley Spencer-Obatoyinbo	4/5
Sidney Wafula	5/5
Carol Musyoka	4/5
Peter Mwangi	3/5
Dr. Martin Oduor-Otieno	4/5
Samuel Onyango*	2/2
Dr. Macharia Irungu*	2/2
Mohamed Janmohamed*	1/3
Gayling May*	4/4
Waeni Ngea	4/5

*The following changes to the Board composition occurred in 2019:

1. Mohamed Janmohamed resigned as Director, effective 10th May 2019.
2. Samuel Onyango was appointed as a Director effective 1st July 2019.
3. Dr. Macharia Irungu was appointed as a Director effective 1st July 2019.
4. Gayling May resigned as Director effective 4th September 2019.

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 and Risk 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.

Leadership and responsibilities (continued)

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 risks that the Company is willing to take to achieve its strategic objectives. With the support of the Audit and Risk Committee, the Board carries out a regular review of the effectiveness of its risk management framework and internal control systems, 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.

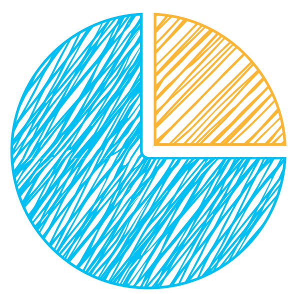
The Company also completes a checklist of the key controls annually in compliance with the BAT Group best practice, known as the Control Navigator. The purpose of the Control Navigator tool is to enable a self-assessment into the internal control environment, assist in identifying any controls which 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 and Risk Committee, has completed its annual review of the effectiveness of the risk management framework and internal controls for the period since 1 January 2019. 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 recognises and embraces the benefits of diversity 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 58 to 60).

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

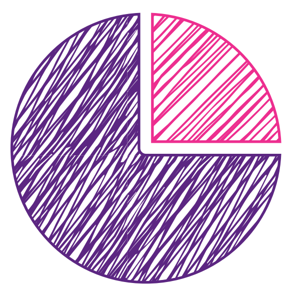


Balance of Non-Executive Directors and Executive Directors

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

Length of tenure of Non-Executive Directors

- 0-3 Yrs (2 Director)
- 3-6 Yrs (2 Director)
- 6->9 Yrs (2 Directors)



Gender split of Directors

- Male 75%
- Female 25%

Leadership and responsibilities (continued)

Independence

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. It 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. These are documented in the conflicts of interest register and 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 2019.

Information and professional development

Director induction

On joining the Board, all new 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 receive Functional presentations built into the annual Board Work Plan to gain a good sense of the Company's operations and central functions. They are also invited to attend scheduled 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 focus on regulations that directly impact the operations of the Company.

The Chairman is tasked to meet each Non-Executive Director to discuss their individual training and development plans. During 2019, 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 2015.

Shareholder engagement

The Company's Annual General Meeting (AGM) is an opportunity for shareholder engagement when the Chairman and the Managing Director explain the Company's full year performance and receive questions from shareholders. The Chairs of the Audit and Risk, Nominations and Governance 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 briefings 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 briefings to respond to stakeholder queries.

During the AGM held on 10 May 2019 and at the two investor briefs held in February and July 2019, shareholders and stakeholders were keen to hear more on the Company's performance, latest developments in industry regulation, dividends payable for the past year and the Company's sustainability initiatives.

Leadership and responsibilities (continued)

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 an evaluation form. Respondents are requested to rank the Board against several parameters and they also can elaborate their replies by providing specific comments. This information is thereafter collated and presented to the Nominations and Governance Committee with a view to identifying and recommending areas for improvement. The findings from the Board evaluation exercise are subsequently presented to the full Board and recommendations for improvements discussed and if thought fit, approved.

The Board undertook an evaluation process in 2019 to assess the current effectiveness and efficiency of the Board and its Committees relative to prior year's findings. The findings of the evaluation were discussed and implemented as relevant.

An assessment by the Nominations and Governance Committee in 2019 found that the Board and its committees continue to function/perform well and have sufficient balance of skills, expertise, knowledge and diversity on nationality. The wide range of skills and diverse backgrounds of members is a key strength of the Board, as is the effective leadership from the Chairman. The Nominations and Governance 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 the Board evaluation exercise. 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 and Governance 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 Governance Audit for the year ended 31st December 2019. The Report of the Independent Governance Auditor is set out on pages 65 to 66.

Legal and Compliance audit

In compliance with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, an internal Legal and Compliance Audit was carried out for the year ended 31st December 2019 with the objective of ascertaining the level of adherence to applicable laws, regulations and standards. The findings from the audit confirmed that the Company was generally in compliance with applicable laws and regulations such as the Tobacco Control Act, 2007 and Companies Act, 2015.

Strategic Board activities in 2019

GROWTH

Growth remains the Board's key strategic focus

Activities in 2019

- Reviewing and agreeing the Company's strategy and ensuring necessary financial and human resources are in place to meet agreed objectives;
- 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;
- Keeping the Company's trading and performance under review, particularly the performance of the Company's key local brand, Sportsman, and the Global Drive Strategic Brands;
- Investing in the migration of our local brands Embassy and Safari to the Global Drive Strategic Brands Dunhill and Pall Mall respectively, to accelerate the Company's portfolio transformation for increased brand equity and consumer value;
- Product portfolio transformation by investing in potentially reduced risk products e.g. Lyft;
- Focusing on the competitive and external environment by engaging government on a sustainable excise framework and enforcement action to tackle illicit trade in cigarettes;
- Considering the potential impact on the Business of specific risk factors in consultation with the Audit and Risk Committee; and
- Discussing and improving the Board's understanding of key risks facing the Company.

PRODUCTIVITY

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

Activities in 2019

- Monitoring operational key performance indicators;
- Continued roll-out of the Integrated Work System (IWS) to drive operational excellence and quality;
- Supporting quality product developments and brand migrations such as the Safari to Pall Mall migration;
- Capacity and capability upgrades in the factory;
- Review of revenue opportunities from export products and cutrag sales;
- Continued oversight of EHS at both Nairobi and Thika factories; and
- Identifying and leveraging savings and productivity opportunities.

Strategic Board activities in 2019 (continued)

SUSTAINABILITY

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

Activities in 2019

- Reviewing the Company's regulatory strategy in the context of the current regulatory landscape, including engagements on excise and tax stamps;
- Monitoring the status of the Company's litigation proceedings including updates on its challenge in respect of the Kenya Tobacco Control Regulations 2014, which was concluded in November 2019;
- Earmarked capital injection on KSh 2.5 billion for construction of a world class factory to manufacture modern oral nicotine products;
- Environmental, Health and Safety performance across all Company sites;
- Partnering with farmers for increased revenue, sustainable crop and health insurance schemes as well as mitigating the environmental impacts of our business through afforestation;
- Employee participation in local community development; and
- Monitoring compliance with the Company's Standards of Business Conduct and internal controls.

WINNING ORGANISATION

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

Activities in 2019

- Reviewing succession planning at Board Level, filling arising vacancies and monitoring the progress of Leadership Team development plans;
- Reviewing the development of senior executives in the Company, specifically 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 2019;
- Receiving updates on the Collective Bargaining Agreement negotiations with the Union; and
- Supporting "Project Ignite, Phase 2" which involved transformation of the Nairobi office to create "a great place to work" and facilitate an energised, collaborative and agile team to transform the BAT culture.

Board Committees

Nominations and Governance Committee

Current Members

- George Maina (Chairman)
- Peter Mwangi
- Dr. Macharia Irungu
- Waeni Ngea (Secretary)

Attendance at meetings in 2019

Name	Attended/Eligible to attend
George Maina	2/2
Gayling May*	2/2
Peter Mwangi	2/2
Mohamed Janmohamed*	0/1
Waeni Ngea (Secretary)	1/2

*The following changes to the Board composition occurred in 2019:

1. Mohamed Janmohamed resigned as Director and Committee member effective 10th May 2019.
2. Dr. Macharia Irungu was appointed to the Committee on 16th July 2019.
3. Gayling May resigned as Director and Committee member effective 4th September 2019.

Mandate and role of the Nominations and Governance Committee

The mandate of the Nominations and Governance 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 prospective candidates by the Chairman and committee members. In so doing, the committee 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 and Governance Committee activities in 2019

- Reviewing succession planning for the Board and the Leadership Team including appointment of emergency alternates for the following key Board roles: Board Chairman, Board Committee Chairs and Company Secretary;
- Directors' annual appointment and re-election at the AGM including renewal of the appointment of Peter Mwangi, Dr. Martin Oduor-Otieno and Gayling May;
- 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 prior year's Annual Report;
- Oversight of CMA Corporate Governance Compliance Reporting requirements; and,
- Review of the Nominations and Governance 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 per the Board's policy on tenure and upon recommendation by the Nominations and Governance Committee.

The Letters of Appointment of the Non-Executive Directors are available for inspection at the registered offices of the Company upon notice.

Board Committees (continued)

Re-election of Directors

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

At the Company's AGM on 24th June 2020, the Company will submit the following eligible Directors for re-election: George Maina, Beverley Spencer-Obatoyinbo and Carol Musyoka. 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 and Risk Committee

Current Members

- Dr. Martin Oduor-Otieno (Chairman)
- Carol Musyoka
- Samuel Onyango
- Waeni Ngea (Secretary to Committee)

Attendance at meetings in 2019

Name	Attended/ Eligible to attend
Dr. Martin Oduor-Otieno (Chairman)	3/3
Gayling May*	2/2
Carol Musyoka	3/3
Mohamed Janmohamed*	1/1
Samuel Onyango*	1/1
Waeni Ngea (Secretary)	2/3

*The following changes to the Audit and Risk Committee composition occurred in 2019:

1. Mohamed Janmohamed resigned as a Director and committee member effective 10th May 2019.
2. Samuel Onyango was appointed to the committee on 16th July 2019.
3. Gayling May resigned as a Director and committee member effective 4th September 2019.

Mandate and role of the Audit and Risk Committee

The Audit and Risk 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 and Risk 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, applicable laws and regulations and monitoring and reviewing the performance, effectiveness, independence and objectivity of the Company's external auditors. The Audit and Risk 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 and Risk Committee has established and maintains an appropriate and transparent relationship with the external auditor who attends each meeting and is heard on any matter raised.

The 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 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 and Risk 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 and Risk 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.

Board Committees

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 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.

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 that may require strengthening and monitoring to address control weaknesses.

The Board, with advice from its Audit and Risk Committee, has completed its annual review of the effectiveness of the system of risk management and internal control for the period since 1 January 2019. 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 and Risk Committee activities in 2019

The following items were considered by the committee:

- The Company's 2018 full year and 2019 half year financial results;
- The external auditor's report and 2019 external auditor's work plan;
- Progress on the 2019 internal audit plan and proposed 2020 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 any resultant 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, any whistleblowing received and investigations into potential breaches;
- Training of members on cyber security, emerging technologies, controls at BAT and relevant requirements from the United States Sarbanes-Oxley Act of 2002;
- Annual review of the external auditor's effectiveness and independence;
- Finance Director's Reports which include a review of unclaimed financial assets;
- Progress of actions arising from the 2018 Governance Audit; and
- Reviewing and assessing compliance with the CMA Corporate Governance Practices for Issuers of Securities to the Public, 2015.

External Auditor

KPMG Kenya is the Company's external auditor. The Audit and Risk Committee considers that its relationship with the auditor worked well during the period and was satisfied with their effectiveness. The external auditor is 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 was appointed as external auditor by the 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 required to live up to the Standards of Business Conduct and each annually signs a declaration confirming their compliance 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 and Risk 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.

Board Committees (continued)

Remuneration Committee

Current members

- Peter Mwangi (Chairman)
- Carol Musyoka
- Beverley Spencer-Obatoyinbo
- Sidney Wafula
- Diana Johnson (Secretary to committee)

Attendance at meetings in 2019

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

*The following changes to the Committee composition occurred in 2019

1. Razeeah Belath resigned as Committee Secretary in May 2019 and was replaced by Diana Johnson.

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 2019

- Salary Survey outcome and insights for Kenya;
- Cascade of the global remuneration strategy and principles;
- Board remuneration review;
- Reward proposition versus turnover of "must keep" talent; and
- Analysis of regrettable losses and action plans to minimise 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, the 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 Companies Act, 2015 to require that the Directors and certain other employees with inside information do not abuse or place themselves under suspicion of abusing insider information that they may have or be 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 Companies Act, 2015, in this regard, the Company communicates 'open' and 'closed' periods for trading in its shares to its employees and the Directors twice annually. To the best of the company's knowledge, there was no insider dealing in the BAT Kenya 2019 financial year.

Governance policies

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.

The Whistleblowing Policy provides the platform for employees to raise concerns in respect of 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 can generate value by satisfying the needs of the business with respect to service and cost associated with acquisition of goods and services, (except for 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 Management 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

The Company 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 that

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. 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.

04 Financial Statements

DIRECTORS' REPORT

The Directors submit their report together with the audited Financial Statements for the year ended 31 December 2019, which disclose the state of affairs of the Group and of the Company.

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

Results and Dividend
The net profit for the year of Shs. 3,885,649,000 (2018: Shs 4,084,523,000) has been added to retained earnings. During the year an interim dividend of Shs 350,000,000 (2018: Shs 350,000,000) was paid. The Directors recommend the approval of a final dividend of Shs 3,150,000,000 (2018: Shs 3,150,000,000).

Directors
The directors who held office during the year and to the date of this report are set out on page 1.
The following change has taken place in the Board of Directors since the last Annual General Meeting:

- Mahmud Janmohamed and Gayling May resigned as Directors effective 8 May 2019 and 4 September 2019, respectively.
- Sammy Onyango and Dr. Macharia Irungu were both appointed as Directors on 1 July 2019.

Business overview
The Group performed well in Kenya and across its export markets to deliver good revenue growth but lower profitability in 2019. This was despite further increases in regulatory costs following the introduction of a solatium contributory levy impact and a steep increase in excise duty during the year.

Gross revenue increased by 9% to Shs 39.8 billion. This was driven by excise-led pricing on cigarettes in Kenya, increased cut rag (semi-processed tobacco) sales volumes into Sudan and the introduction of new category revenue in Kenya following the launch of Lyft (modern oral nicotine). However, the excise led price increases have continued to adversely impact consumer affordability leading to lower cigarette sales volume and a high incidence of illicit trade.

Net revenue increased in line with 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 26% to Shs 18.3 billion, mainly due to the impact of a solatium contributory levy in 2019. Higher cut rag sales volumes as well as inflationary cost increases also drove costs up but these were partially offset by the positive contribution of productivity initiatives. These incremental costs led to a decline in operating margins by 6% to 24%.

Finance costs reduced by 43% to Shs 193 million driven by higher underlying profitability and continued improvements in working capital management in 2019, resulting in lower overdraft utilisation in the period under review. This is reflected in the strong cash generated from operations which increased by 45% to Shs 7.7 billion.

Profit before tax reduced despite the revenue growth and reduced financing costs due to incremental cost of operations as explained above.

Taxes in the form of Excise Duty, VAT, Pay As You Earn (PAYE) and Corporation Tax reduced by Shs 265 million (1.5%) to Shs 18.0 billion in 2019 as a result of lower sales volumes and profitability.

Auditor
The auditor, KPMG Kenya, is 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 90 to 132 were approved and authorised at a meeting of the Directors held on 19 February 2020.

By order of the Board

Waeni Ngea
Company Secretary | **19 February 2020**

RIPOTI YA WAKURUGENZI

Wakurugenzi wanawasilisha ripoti yao pamoja na taarifa za kifedha zilizokaguliwa za mwaka uliokamilika Desemba 31, 2019, ambazo zinafichua hali ilivyo ndani ya Shirika na Kampuni.

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

Matokeo na mgao
Faida baada ya kutozwa ushuru mwaka huo ilikuwa ni KShs.3, 885,649,000 (2018: KSh 4,084,523,000) na zimeongezwa kwa mapato yaliyowekwa akiba. Mwaka huo, mgao wa mwanzo wa KSh 350,000,000 (2018: KSh 350,000,000) ulitolewa. Wakurugenzi wanapendekeza kuidhinishwa kwa mgao kamili na wa mwisho wa KSh 3,150,000,000 (2018: KSh. 3,150,000,000).

Wakurugenzi
Wakurugenzi waliokuwa afisini mwaka huo na kufikia tarehe ya kutolewa kwa ripoti hii wamechapishwa katika ukarasa wa kwanza.
Mabadiliko yafuatayo yalifanyika katika Bodi ya Wakurugenzi tangu kufanyika kwa mkutano mkuu (AGM) uliopita:
- Mahmud Janmohamed na Gayling May walijiuzulu kama Wakurugenzi kuanzia Mei 8, 2019 na Septemba 4, 2019 mtawaliwa.
- Sammy Onyango na Dkt. Macharia Irungu wote wawili waliteuliwa kama wakurugenzi mnamo Julai 1, 2019.

Maelezo ya jumla ya biashara
Kampuni ilifanya vyema nchini Kenya na katika masoko yake ya nje, hali iliyopelekea kukua kwa mapato, ila faida iliyopungua kwa mwaka wa 2019.

Matokeo hayo ni licha ya kuongezeka kwa ada za kisheria baada ya kuanzishwa kwa ada katika mchango wa malipo ya fidia na ongezeko kubwa la ushuru wa bidhaa kabla ya kutengenezwa mwaka huo.

Mapato ya jumla yaliongezeka kwa 9% hadi KShs 39.8 bilioni. Hili lilitokana na ushuru wa bidhaa kabla ya kutengenezwa kwa sigara nchini Kenya, ongezeko la mauzo ya tumbaku iliyokatwa na kukaushwa nchini Sudan na kuanzishwa kwa aina mpya ya mapato nchini Kenya baada ya kuzinduliwa kwa Lyft (aina ya kisasa ya nikotini ya kutafunwa).

Hata hivyo, ongezeko la bei kutokana na kuanzishwa kwa ushuru huo limeendelea kuathiri uwezo wa wateja kununua bidhaa hali iliyopelekea kiwango cha mauzo ya sigara kupungua na kupelekea kuongezeka kwa visa vya biashara haramu.

Mapato ya jumla baada ya kutoa faida yaliongezeka kutokana na kuongezeka kwa mapato ya jumla kabla ya kutoa faida, huku ushuru wa bidhaa kabla ya kutengenezwa (Excise) na ushuru wa bidhaa wakati wa mauzo (VAT) ukipungua kwa kiwango kikubwa kutokana na kupungua kwa kiwango cha bidhaa zilizouzwa nchini Kenya kama ilivyoelezwa hapo juu. Gharama ya operesheni iliongezeka kwa asilimia 26% hadi KShs 18.3 bilioni, hasa kutoka na athari za ada katika malipo ya fidia mwaka wa 2019.

Mauzo yaliyoongezeka ya tumbaku iliyokaushwa, pamoja na ongezeko la gharama ya mfumko wa bei, yalisababisha kuongezeka kwa gharama. Lakini gharama hiyo ilipunguzwa, kwa kiwango fulani, na mipango mizuri ya uzalishaji. Ongezeko la gharama lilipelekea kupungua kwa kiasi cha rasilimali ya kutekeleza operesheni kwa asilimia kati ya 6% hadi 24%.

Gharama ya fedha ilipungua kwa 43% hadi KShs193 milioni kutokana na faida ya kimsingi na kuendelea kuboreshwa kwa usimamizi wa mtaji mwaka wa 2019, na kupelekea kupungua kwa mahitaji ya kutumia pesa zaidi ya kuliko zilizoko kwenye akaunti wakati wa kipindi kinachohakikiwa. Hili limethibitishwa na kiwango kikubwa cha pesa zilizopatikana kutokana na operesheni kilichoongezeka kwa 45% hadi KShs 7.7 bilioni.

Faida kabla ya kutozwa ushuru ilipungua licha ya kuongezeka kwa kiwango cha mapato na kupungua kwa gharama za kifedha kutokana na kuongezeka kwa kiwango cha gharama za operesheni kama ilivyoelezwa hapo juu.

Ushuru wa bidhaa kabla ya kutengenezwa (Excise), ushuru wa bidhaa wakati wa mauzo (VAT), ushuru kwa mapato (PAYE) na ushuru wa mashirika ulipungua kwa KShs 265 milioni (1.5%) hadi KShs 18.0 bilioni mwaka wa 2019 kutokana na kupungua kwa mauzo na faida.

Mkaguzi
Mkaguzi, KPMG Kenya, anafaa, hivyo wamejitolea kuteuliwa tena kuambatana na mahitaji ya Kipengee cha 721 cha Sheria inayotawala usimamizi wa makampuni, Kenya, 2015.

Habari muhimu kuhusu ukaguzi
Wakurugenzi waliokuwa afisini siku ya kutolewa kwa ripoti hii wanathibitisha kwamba:
- Hakuna habari muhimu ya ukaguzi ambayo mkaguzi wa Kampuni hajui; na
- Kila mkurugenzi amechukua hatua zote zinazohitajika; kama Mkurugenzi ili kuwa na ufahamu kuhusiana na habari zozote za ukaguzi na kuthibitisha kuwa mkaguzi ana habari hizo.

Kuidhinishwa kwa taarifa za kifedha
Taarifa za kifedha zilizoorodheshwa katika kurasa za 90 hadi 132 zilikubaliwa na kuidhinishwa wakati wa mkutano wa Wakurugenzi uliofanyika Februari 19, 2020.

Kwa agizo la Bodi

Waeni Ngea
Katibu wa Kampuni | **19 Februari 2020**

DIRECTORS' REMUNERATION REPORT

Our remuneration policy 2019
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 10 May 2019. 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 2019.

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.

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% (2018: 10%) ■ Net Revenue growth— n/a (2018: 30%) ■ Global drive brands revenue – 10% (2018: n/a) ■ New categories revenue – 20% (2018: n/a) ■ Operating profit – 40% (2018: 50%) ■ Cash conversion – 20% (2018: 10%)
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

Shareholding requirements	■ 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.
Terms of appointment	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.
Terms of termination	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.

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

Duration of current contracts	The Managing Director's current three-year contract executed on 2 May 2017 ends on 1 May 2020. Effective 2 May 2020, a new two-year contract extension will commence. The Finance Director is on a permanent and pensionable contract which was executed on 2 May 2017.
Notice period	Thirty (30) days
Provision for early termination of contracts	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.

DIRECTORS' REMUNERATION REPORT (continued)

Directors' remuneration and compensation as key management for the year ended 31 December 2019

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 2019 together with comparative figures for 2018:

Executive Director	Salary		Taxable benefits		Short-term incentives		Long-term incentives		Pension		Total	
	KSh'000		KSh'000		KSh'000		KSh'000		KSh'000		KSh'000	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Beverley Spencer- Obatoyinbo (from 2 May 2017)	19,004	19,229	9,150	9,519	9,909	8,564	21,132	20,322	2,816	2,723	62,011	60,357
Sidney Wafula (from 2 May 2017)	9,833	9,202	2,060	1,908	5,392	5,063	7,182	6,726	885	828	25,352	23,727
Total remuneration	28,837	28,431	11,210	11,427	15,301	13,627	28,314	27,048	3,701	3,551	87,363	84,084

In the year 2019, 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 5,710 shares (2018: 5,859 shares) and Sidney Wafula was awarded 1,663 shares (2018: 1,941 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 2019 together with comparative figures for 2018:

Non-Executive Directors	**Fixed retainer**		**Sitting allowance**		**Chairman's Honoraria**		**Total**	
	KSh'000		KSh'000		KSh'000		KSh'000	
Name	2019	2018	2019	2018	2019	2018	2019	2018
George Maina	3,549	3,483	300	350	2,500	2,500	6,349	6,333
Gayling May (up to 4 September 2019)	1,299	1,881	175	325	-	-	1,474	2,206
Carol Musyoka	1,917	1,881	225	225	-	-	2,142	2,106
Mahmud Janmohamed (up to 8 May 2019)	691	1,881	50	175	-	-	741	2,056
Teddy Mapunda	-	887	-	50	-	-	-	937
Peter Mwangi	1,917	1,881	175	175	-	-	2,092	2,056
Dr. Martin Oduor-Otieno	1,917	1,881	200	275	-	-	2,117	2,156
Dr. Macharia Irungu (from 1 July 2019)	958	-	100	-	-	-	1,058	-
Sammy Onyango (from 1 July 2019)	958	-	125	-	-	-	1,083	-
Total remuneration	**13,206**	**13,775**	**1,350**	**1,575**	**2,500**	**2,500**	**17,056**	**17,850**

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 10th May 2019, 99.78% of the votes cast were in favour of the Directors' remuneration policy and report while 0.01% were against, 0.19% abstained and 0.02% of the votes were rejected.

Directors' shareholding
Directors' shareholding in British American Tobacco Kenya plc as at 31 December 2019 is as follows:

Director	2019	2018
Sidney Wafula	300	300
Carol Musyoka	200	200

Waeni Ngea
Company Secretary

19 February 2020

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 90 to 132 which comprise the consolidated and company statements of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated statement of cash flows for year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the Financial Statements in the circumstances, preparation and presentation of Financial Statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015 the Directors are required to prepare Financial Statements for each financial year which give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of the operating results of the Group for that year. It also requires the Directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.

The Directors accept responsibility for the annual Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the Financial Statements give a true and fair view of the 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

19 February 2020

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BRITISH AMERICAN TOBACCO KENYA PLC

Opinion
We have audited the Financial Statements of British American Tobacco Kenya plc set out on pages 90 to 132 which comprise the consolidated and company (separate) statements of financial position as at 31 December 2019, 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 a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying Financial Statements give a true and fair view of the consolidated and separate financial position of British American Tobacco Kenya plc as at 31 December 2019 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 Kenyan Companies Act, 2015.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's 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 Financial Statements in Kenya and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 Financial Statements of the current period. These matters were addressed in the context of our audit of the 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 and Company are subject to claims, which could have an impact on the Group's and the company's results if the potential exposures were to materialise. The Directors apply judgment when considering whether, and how much, to provide for the potential exposure of each litigation. We focused on this area given the complexity and judgment necessary to determine whether to provide for, how much to provide for, disclose or not disclose certain exposures.

Our audit procedures in this area 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 evaluate 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 assess completeness of provisioning and disclosure.

We assessed the legal opinion from the external lawyers and challenged the basis used for the provisions recorded or disclosures made by the group and company by evaluating the external lawyers assessment of the likely outcome. Where provisions were not required, we also considered the adequacy and completeness of the Group's and 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 32 - Contingent liabilities.

Other information
The Directors are responsible for the other information. The other information comprises the Director's Report, the Directors' Remuneration Report and the Directors' Responsibilities Statement which we obtained prior to the date of this auditor's report, and the other information to be included in the *Annual Report and Financial Statements*, which is expected to be made available to us after that date.

Our opinion on the Financial Statements does not cover the other information and we do not and will 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 identified above 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 that we have performed on the other information that we obtained prior to the date of this auditor's report, 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 87, 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 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 misstatement, whether due to fraud or error.

In preparing the 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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BRITISH AMERICAN TOBACCO KENYA PLC (continued)

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 auditor's 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 auditor's 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 auditor's 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 page 80 is consistent with the Financial Statements;

ii. in our opinion, the auditable part of the Directors' Remuneration Report on pages 82 to 86 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 auditor's 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

19 February 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2019 KSh'000	2018 KSh'000
Gross revenue		39,827,481	36,495,757
Excise duty and Value Added Tax (VAT)		(15,787,863)	(15,745,622)
Net revenue	6	24,039,618	20,750,135
Raw materials and manufacturing costs	7	(14,591,245)	(11,316,681)
Marketing and distribution costs	8	(1,908,959)	(1,928,162)
Administration and other expenses	9	(2,153,060)	(1,647,330)
Other income		340,335	361,095
Operating profit		5,726,689	6,219,057
Finance costs	10	(193,179)	(338,311)
Profit before tax	11	5,533,510	5,880,746
Income tax expense	13	(1,647,861)	(1,796,223)
Profit for the year		3,885,649	4,084,523
Other comprehensive income			
Items that may be reclassified to profit or loss – net fair value gain/(loss) (page 19)		20,308	(1,098)
Total comprehensive income for the year		3,905,957	4,083,425
Earnings per share:			
Basic and diluted (Shs per share)	14	38.86	40.85

The notes on pages 98 to 132 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Year ended 31 December 2019 KSh'000 Shs' 000	2018 KSh'000 Shs' 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	26,638	6,330
Revaluation surplus	17	1,755,585	1,820,734
Retained earnings		3,932,964	3,332,167
Proposed dividend	15	3,000,000	3,150,000
Total equity		9,715,210	9,309,254
Non-current liabilities			
Borrowings	26	172,425	1,222,200
Deferred income tax	18	1,698,214	2,014,780
Total non-current liabilities		1,870,639	3,236,980
Total equity and non-current liabilities		11,585,849	12,546,234
Non-current assets			
Property, plant and equipment	19	10,097,866	9,097,413
Deferred income tax	18	587,213	25,271
		10,685,079	9,122,684
Current assets			
Inventories	21	5,396,459	6,183,918
Receivables and prepayments	22	3,623,556	2,824,409
Derivative financial instruments	23	42,799	16,989
Current income tax	27	377,026	-
Cash and cash equivalents	24	1,811,443	190,257
		11,251,283	9,215,573
Current liabilities			
Payables and accrued expenses	25	7,875,452	5,440,923
Borrowings	26	16,176	99
Derivative financial instruments	23	4,745	7,947
Current income tax	27	716,844	297,400
Provisions for liabilities and charges	29	1,737,296	45,654
		10,350,513	5,792,023
Net current assets		900,770	3,423,550
Total assets		11,585,849	12,546,234

The notes on pages 98 to 132 are an integral part of these Financial Statements. The Financial Statements on pages 90 to 132 were approved and authorised for issue by the Board of Directors on 19 February 2020 and signed on its behalf by:

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

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	Year ended 31 December 2019 KSh'000	2018 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	26,638	6,330
Revaluation surplus	17	1,755,585	1,820,734
Retained earnings		3,932,965	3,341,733
Proposed dividend	15	3,000,000	3,150,000
Total equity		9,715,211	9,318,820
Non-current liabilities			
Borrowings	26	148,205	1,222,200
Deferred income tax	18	1,698,214	2,014,780
Total non-current liabilities		1,846,419	3,236,980
Total equity and non-current liabilities		11,561,630	12,555,800
Non-current assets			
Property, plant and equipment	19	9,209,902	9,097,413
Investment in subsidiaries	20	12,000	12,000
		9,221,902	9,109,413
Current assets			
Inventories	21	5,315,026	6,004,667
Receivables and prepayments	22	1,651,946	2,414,218
Derivative financial instruments	23	42,799	16,989
Cash and cash equivalents	24	1,811,443	187,675
Current income tax	27	377,026	-
		9,198,240	8,623,549
Current liabilities			
Payables and accrued expenses	25	6,139,247	4,994,656
Borrowings	26	13,527	99
Derivative financial instruments	23	4,745	7,947
Current income tax	27	-	128,806
Provisions for liabilities and charges	29	700,993	45,654
		6,858,512	5,177,162
Net current assets		2,339,728	3,446,387
Total assets		11,561,630	12,555,800

The notes on pages 98 to 132 are an integral part of these Financial Statements. The Financial Statements on pages 90 to 132 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 2019	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 1 January 2019		1,000,000	23	6,330	1,820,734	3,332,167	3,150,000	9,309,254
Comprehensive income for the year								
Profit for the year		-	-	-	-	3,885,649	-	3,885,649
Transfer of excess depreciation	13	-	-	-	(57,940)	57,940	-	-
Deferred income tax on transfer	13	-	-	-	17,382	(17,382)	-	-
Transfer on property disposal	13	-	-	-	(35,130)	35,130	-	-
Deferred income tax on transfer	13	-	-	-	10,539	(10,539)	-	-
Fair value gain recognised through OCI		-	-	126,623	-	-	-	126,623
Fair value gain/(loss) from OCI to P&L		-	-	(97,611)	-	-	-	(97,611)
Deferred tax in respect of fair value gain		-	-	(8,704)	-	-	-	(8,704)
Net gains recognised directly in equity		-	-	20,308	-	-	-	20,308
Transactions with owners								
Distribution to owners (dividends):								
Final for 2018 paid	15	-	-	-	-	-	(3,150,000)	(3,150,000)
Interim for 2019 paid	15	-	-	-	-	(350,000)	-	(350,000)
Proposed final for 2019	15	-	-	-	-	(3,000,000)	(3,000,000)	-
Total transactions with owners		-	-	-	-	(3,350,000)	(150,000)	(3,500,000)
At end of year		1,000,000	23	26,638	1,755,585	3,932,965	3,000,000	9,715,211

The notes on pages 98 to 132 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

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), net of tax		-	-	-	-	(20,563)	-	(20,563)
Deferred tax impact		-	-	-	-	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 gain/(loss) from OCI to P&L		-	-	(176,197)	-	-	-	(176,197)
Deferred tax in respect of fair value gain		-	-	471	-	-	-	471
Net gains 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 98 to 132 are an integral part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019	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 1 January 2019		1,000,000	23	6,330	1,820,734	3,341,733	3,150,000	9,318,820
Comprehensive income for the year								
Profit for the year		-	-	-	-	3,876,083	-	3,876,083
Transfer of excess depreciation	13	-	-	-	(57,940)	57,940	-	-
Deferred income tax on transfer	13	-	-	-	17,382	(17,382)	-	-
Transfer on property disposal	13	-	-	-	(35,130)	35,130	-	-
Deferred income tax on transfer	13	-	-	-	10,539	(10,539)	-	-
Fair value gain recognised through OCI		-	-	126,623	-	-	-	126,623
Fair value gain/(loss) from OCI to P&L		-	-	(97,611)	-	-	-	(97,611)
Deferred tax in respect of fair value gain		-	-	(8,704)	-	-	-	(8,704)
Net gains recognised directly in equity		-	-	20,308	-	-	-	20,308
Transactions with owners								
Distribution to owners (dividends):								
Final for 2018 paid	15	-	-	-	-	-	(3,150,000)	(3,150,000)
Interim for 2019 paid	15	-	-	-	-	(350,000)	-	(350,000)
Proposed final for 2019	15	-	-	-	-	(3,000,000)	3,000,000	-
Total transactions with owners		-	-	-	-	(3,350,000)	(150,000)	(3,500,000)
At end of year		1,000,000	23	26,638	1,755,585	3,932,965	3,000,000	9,715,211

The notes on pages 98 to 132 are an integral part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY (continued)

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), net of tax		-	-	-	-	(4,828)	-	(4,828)
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 gain/(loss) from OCI to P&L		-	-	(176,197)	-	-	-	(176,197)
Deferred tax in respect of fair value gain		-	-	471	-	-	-	471
Net gains 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	3,341,733	3,150,000	9,318,820

The notes on pages 98 to 132 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2019 KSh'000	2018 KSh'000
Cash flows from operating activities			
Cash generated from operations	30	10,287,045	7,206,895
Interest received	10	436	520
Interest paid	10	(159,011)	(352,403)
Income tax paid	27	(2,492,655)	(1,554,786)
Net cash generated from operating activities		7,635,815	5,300,226
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(1,437,743)	(861,954)
Proceeds from disposal of property, plant and equipment		192,517	3,737
Net cash used in investing activities		(1,245,226)	(858,217)
Cash flows from financing activities			
Dividends paid to the company shareholders	15	(3,500,000)	(2,600,000)
Repayment of borrowings	26	(1,222,200)	-
Payment of lease liability	26	(47,104)	-
Net cash used in financing activities		(4,769,304)	(2,600,000)
Net movement in cash and cash equivalents		1,621,285	1,842,009
Cash and cash equivalents at beginning of year		190,158	(1,651,851)
Cash and cash equivalents at end of year	24	1,811,443	190,158

The notes on pages 98 to 132 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

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. This is the Group and Company's first set of Financial Statements in which IFRS 16 has been disclosed in Note 3.

a) Basis of preparation

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

The preparation of Financial Statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires directors to exercise 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 16 Leases	1-Jan-19
IFRIC 23 Uncertainty over Income Tax Treatments	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

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 assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Depreciation of lease assets and interest on lease liabilities is recognised in profit or loss over the lease term. The total amount of cash paid is separated 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 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

Details of this new requirement as well as the impact on the Group's and Company's Financial Statements is described under note 28.

IFRIC 23 Uncertainty over Income Tax Treatments, Prepayment Features with Negative Compensation (Amendments to IFRS 9), Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28), Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) and Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards which became effective during the year did not have a significant impact on the Group and Company Financial Statements.

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019 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 Company Financial Statements.

New standard or amendments	Effective for annual periods beginning on or after
Definition of a Business (Amendments to IFRS 3)	1-Jan-20
Amendments to References to Conceptual Framework in IFRS Standards	1-Jan-20
Definition of Material (Amendments to IAS 1 and IAS 8)	1-Jan-20
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1-Jan-20
IFRS 17 Insurance Contracts	1-Jan-21

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 IFRS 17, amendments to IFRS 3, IAS 1, IAS 8, IFRS 9, IAS 39, IFRS 7, amendments to references to conceptual framework in IFRS will have an impact on the Financial Statements.

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 IFRS 9 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.

(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.

(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 (Shs), which is the Group's presentation currency.

(ii) Transactions and balances

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

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

(d) Segment reporting

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.

(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 prior 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.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

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

(g) Impairment of non-financial assets

The carrying amounts of the Group's 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

All leases that grant the Group the right to control the use of an identified asset for a period of time are accounted for as follows:

(i) For lease terms of more than 12 months, the present value of the unavoidable lease payments are capitalised and shown together with property, plant and equipment;

(ii) If lease payments are made over time, the Group also recognises a financial liability representing its obligation to make future lease payments;

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

(iv) The total amount of cash paid into a principal portion is presented within financing activities and interest is separately presented within operating activities in the statement of cash flows.

The Group does not 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 Shs 500,000).

(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

(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) Classification and subsequent 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.

(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.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(j) Financial instruments (continued)

(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) Derecognition of financial assets

The Group derecognises 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 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) Employee benefits

Pension obligations

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

Other entitlements

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

NOTES (continued)

2. Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

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

Termination benefits

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

Bonus plans

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

(q) Current and deferred income tax

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

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

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

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

(r) Borrowings

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

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

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

(s) Dividend distribution

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

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

(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.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(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.

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 policy

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

Policy applicable from 1 January 2019

At inception of a contract, the Group and Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and Company uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group and Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group and Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group and Company by the end of the lease term or the cost of the right-of-use asset reflects that the Group and Company will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group and Company's incremental borrowing rate. Generally, the Group and Company uses its incremental borrowing rate as the discount rate.

The Group and Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

NOTES (continued)

3. Changes in significant accounting policy (continued)

- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group and Company is reasonably certain to exercise, lease payments in an optional renewal period if the Group and Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group and Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group and Company's estimate of the amount expected to be payable under a residual value guarantee, if the Group and Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group and Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position. The Group and Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group and Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Group and Company allocates the consideration in the contract to each lease component on the basis of their relative stand- alone prices. When the Group and Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group and Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group and Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group and Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group and Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group and Company applies IFRS 15 to allocate the consideration in the contract. The Group and Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group and Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease. The Group and Company recognises lease payments received under operating leases as income on a straight- line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group and Company as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group and Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Group and Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group and Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of

NOTES (continued)

3. Changes in significant accounting policy (continued)

the total lease expense, over the term of the lease.

As a lessor
When the Group and Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group and Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group and Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

The impact of adopting this standard on the Group's and Company's reported profit and net assets for 2019 is as shown in note 28.

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 or not.

(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

NOTES (continued)

differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Financial risk management

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

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

(a) Market risk

(i) Foreign exchange risk
The Group and Company operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, British Pound, AED and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Group manages foreign exchange risk arising from future commercial transactions and 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 2019	USD KSh'000	GBP KSh'000	EUR KSh'000	AED KSh'000
Asset				
Receivables and prepayments	491,871	45,635	73,890	129,243
Cash and cash equivalents	11,424	11,947	10,687	-
	503,295	57,582	84,577	129,243
Liabilities				
Payables and accrued expenses	1,211,344	-	90,185	-
	1,211,344	-	90,185	-

31 December 2018	USD KSh'000	GBP KSh'000	EUR KSh'000	AED KSh'000
Asset				
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)

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	AED KSh'000
2019				
Average rates	102.00	130.20	114.19	27.76
Closing rates	101.35	134.26	113.77	27.59
2018				
Average rates	101.28	135.25	119.63	27.57
Closing rates	101.85	129.72	116.43	27.73

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.

	2019 KSh'000	2018 KSh'000
Currency – USD		
10% movement effect (higher/lower)	70,805	246,948
Currency – GBP		
10% movement effect (higher/lower)	5,758	4,519
Currency – EUR		
10% movement effect (higher/lower)	561	29,600
Currency – EUR		
10% movement effect (higher/lower)	12,924	-

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.

	2019			2018		
Forward foreign currency contracts	Assets KSh'000	Liabilities KSh'000	Total KSh'000	Assets KSh'000	Liabilities KSh'000	Total KSh'000
Carrying amounts	42,799	(4,745)	38,054	16,989	(7,947)	9,042
Expected cashflows						
1-6 months	52,981	-	52,981	38,440	-	38,440
7-12 months	69,805	31,466	101,271	20,935	52,973	73,908
More than 1 year	-	-	-	-	-	-
Total	122,786	31,466	154,252	59,375	52,973	112,348

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NOTES (continued)

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

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 2019, an increase/decrease of 1% would have resulted in Nil change (2018: KSh 12,153,600) 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, amounts due from related parties, derivative financial instruments 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 expects minimal 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 2019 and 31 December 2018 is made up as follows:

	Group		Company	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Cash and cash equivalents	1,811,443	190,257	1,811,443	187,675
Amounts due from related parties	904,489	601,629	870,919	1,732,483
Trade and other receivables	1,668,578	1,433,597	591,115	588,067
Derivative financial instruments	42,799	16,989	42,799	16,989
	4,427,309	2,242,472	3,316,276	2,525,214

All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

Expected credit loss (ECL) assessment as at 1 January and 31 December 2019

The Group uses a provision matrix to measure the ECLs of trade receivables from customers and farmers. 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 common credit risk characteristics and customers.

For Intercompany receivables, 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 6 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 2019 and 2018.

NOTES (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Expected credit loss (ECL) assessment as at 1 January and 31 December 2019 (continued)

(i) Trade receivables

December 31, 2019 - Group Aging bucket	Loss rate	Carrying amount KSh'000	Loss allowance KSh'000	Credit impaired
Current (not past due, 0–3 days)	-	1,125,961	-	No
4–30 days past due	1.32%	20,838	(275)	No
31–60 days past due	2.64%	-	-	No
61–90 days past due	3.97%	-	-	No
More than 90 days past due	5.29%	-	-	No
		1,146,799	(275)	

December 31, 2019 - Company Aging bucket	Loss rate	Carrying amount KSh'000	Loss allowance KSh'000	Credit impaired
Current (not past due, 0–3 days)	-	49,909	-	No
4–30 days past due	1.32%	20,838	(275)	No
31–60 days past due	2.64%	-	-	No
61–90 days past due	3.97%	-	-	No
More than 90 days past due	5.29%	-	-	No
		70,747	(275)	

December 31, 2018 - Group Aging bucket	Loss rate	Carrying amount KSh'000	Loss allowance KSh'000	Credit impaired
Current (not past due, 0–3 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)	

December 31, 2018 - Company Aging bucket	Loss rate	Carrying amount KSh'000	Loss allowance KSh'000	Credit impaired
Current (not past due, 0–3 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)	

NOTES (continued)

5. Financial risk management (continued)

b) Credit risk (continued)

Expected credit loss (ECL) assessment as at 1 January and 31 December 2019 (continued)

(i) Trade receivables (continued)

Loss rates are based on actual credit loss experience over the past six 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.

(ii) Intercompany receivables

For Group and Company, the calculated ECL which represents the probability of default was 0.36% (2018: 0.43%) which considers historical experience over the last six years, current conditions, exchange rates and country risk. This was applied to the gross outstanding amount and resulted in a loss allowance of KSh 2,689,167 for the year ended 31 December 2019 (31 December 2018: KSh 3,924,107).

(iii) Loans and advances to farmers

For Group and Company, the calculated ECL which represents the probability of default was 0.57% (2018: 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 2,090,964 for the year ended 31 December 2019 (31 December 2018: KSh 2,831,037).

(iv) Cash and cash equivalents

The Group and company both held cash and cash equivalents of KSh 1,811,443,000 (2018: Group and Company - KSh 190,257,000 and KSh 187,675,000 respectively). 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.

The impact of IFRS 9 as at 31 December 2019 and 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. The impact of IFRS 9 as at 31 December 2019 and 2018 was not significant

The reduction in the loss allowance during the year is due to recoveries made. The movement in the allowance is not significant.

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 2019	Less than 1 year KSh'000	Between 1 & 3 years KSh'000
Liabilities		
Borrowings	16,176	172,425
Trade and other payables	5,481,215	-
Amounts due to related parties	698,979	-
Derivative financial instruments	4,745	-
Total financial liabilities	6,201,115	172,425
Assets		
Cash and bank balances	1,811,443	-
Amounts due from related parties	904,489	-
Trade and other receivables	1,668,578	-
Derivative financial instruments	42,799	-
Total financial assets	4,427,309	-
At 31 December 2018		
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	-

NOTES (continued)

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

(i) Company

At 31 December 2019	Less than 1 year KSh'000	Between 1 & 3 years KSh'000
Liabilities		
Borrowings	13,527	148,205
Trade and other payables	3,938,077	-
Amounts due to related parties	606,282	-
Derivative financial instruments	4,745	-
Total financial liabilities	4,562,631	148,205
Assets		
Cash and bank balances	1,811,443	-
Amounts due from related parties	870,919	-
Trade and other receivables	591,115	-
Derivative financial instruments	42,799	-
Total financial assets	3,316,276	-
At 31 December 2018		
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	-

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

NOTES (continued)

5. Financial risk management (continued)

d) Capital risk management

Capital comprises all components of equity as shown in the statement of changes in equity plus net debt. The Group's 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	
	2019	2018	2019	2018
	KSh'000	KSh'000	KSh'000	KSh'000
Total borrowings	188,601	1,222,299	161,732	1,222,299
Less: cash and cash equivalents	(1,811,443)	(190,257)	(1,811,443)	(187,675)
Net debt	(1,622,842)	1,032,042	(1,649,711)	1,034,624
Total equity	9,715,211	9,309,254	9,715,211	9,318,820
Total capital	8,092,369	10,341,296	8,065,500	10,353,444
Gearing ratio	(20%)	10%	(21%)	10%

Financial instruments by category

Financial assets:

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

Financial Assests	Group		Company	
	2019	2018	2019	2018
	KSh'000	KSh'000	KSh'000	KSh'000
Trade and other receivables (excluding pre-payments)	2,573,067	2,035,226	1,462,034	2,320,550
Cash and cash equivalents	1,811,443	190,257	1,811,443	187,675
Derivative financial instruments	42,799	16,989	42,799	16,989
	4,427,308	2,242,472	3,316,276	2,525,214

NOTES (continued)

5. Financial risk management (continued)

d) Capital risk management (continued)

Financial liabilities:

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

Financial liabilities	Group		Company	
	2019	2018	2019	2018
	KSh'000	KSh'000	KSh'000	KSh'000
Trade and other payables (excluding statutory liabilities)	6,180,194	4,172,786	4,544,359	3,728,307
Borrowings	188,601	1,222,299	161,732	1,222,299
Derivative financial instruments	4,745	7,947	4,745	7,947
	6,373,540	5,403,032	4,710,836	4,958,553

e) Fair value

A number of the Group's accounting policies and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities. Below is the fair value measurements disclosure using a three-level fair value hierarchy that reflects the significance of the inputs used in determining the measurements. It should be noted that these disclosure only cover instruments measured at fair value.

Level 1

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

Level 2

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

Level 3

Financial assets and liabilities measured using inputs that are not based on observable market data are categorised as level 3. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's 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 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)

e) Fair value (continued)

The following table shows an analysis of non-financial assets held at fair value as at 31 December 2019 and 31 December 2018:

	Group		Company	
	2019	2018	2019	2018
	KSh'000	KSh'000	KSh'000	KSh'000
Property, plant and equipment (Note 19)	10,097,866	9,097,413	9,209,902	9,097,413
Forward exchange contracts (Note 23)	42,799	16,989	42,799	16,989
Total assets	10,140,665	9,114,402	9,252,701	9,114,402

6. Segment information

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

	2019	2018
	KSh'000	KSh'000
Analysis of net revenue by geography:		
Local sales	13,177,096	10,790,608
Export sales	10,862,522	9,959,527
	24,039,618	20,750,135
Analysis of net revenue by product:		
Sale of cigarettes	21,957,493	19,230,760
Sale of cut rag	2,082,125	1,519,375
	24,039,618	20,750,135

7. Raw materials and manufacturing costs

	2019	2018
	KSh'000	KSh'000
Raw materials, consumables and other manufacturing costs*	14,154,055	10,903,471
Depreciation of property, plant and equipment	437,190	413,210
	14,591,245	11,316,681

**Raw materials, consumables and other manufacturing costs include employee expenses of KSh 1,189,424,000 (2018: KSh 1,108,734,000)*

NOTES (continued)

8. Marketing and distribution costs

	2019	2018
	KSh'000	KSh'000
Employment expenses	481,988	466,675
Freight and other expenses	1,426,971	1,461,487
	1,908,959	1,928,162

9. Administration and other expenses

	2019	2018
	KSh'000	KSh'000
Employment expenses	759,311	733,425
Recharges and other expenses	898,555	780,755
Depreciation	109,298	103,303
Reorganisation costs	385,896	29,847
	2,153,060	1,647,330

10. Finance costs

	2019	2018
	KSh'000	KSh'000
Interest income	(436)	(520)
Interest expense	159,011	352,403
Interest on lease liability	29,308	-
Net foreign currency exchange (gains)/losses	5,296	(13,572)
	193,179	338,311

11. Profit before tax

	2019	2018
	KSh'000	KSh'000
The following items have been charged in arriving at the profit before income tax:		
Employee benefits expense (Note 12)	2,816,619	2,338,681
Auditor's remuneration	18,175	12,136
Depreciation (Note 19)	551,392	516,513
Loss (gain) on disposal	(24,685)	(3,737)
Loss on decommissioned property, plant and equipment		381,921

NOTES (continued)

12. Employee benefits expense

	2019 KSh'000	2018 KSh'000
Salaries and wages	2,340,816	2,219,891
Retirement benefits costs:		
■ Defined contribution scheme	86,276	86,859
■ National Social Security Fund	3,631	2,084
Reorganisation costs (Note 9)	385,896	29,847
	2,816,619	2,338,681

13. Income tax

	2019 KSh'000	2018 KSh'000
Current income tax		
Current tax on profits for the year	2,535,073	1,951,522
Total current tax	2,535,073	1,951,522
Deferred income tax (Note 18)		
■ Deferred income tax	(887,254)	(156,382)
■ Prior year under provision of deferred tax	42	1,083
Total deferred income tax	(887,212)	(155,299)
Income tax expense	1,647,861	1,796,223
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	5,533,510	5,880,746
Tax calculated at domestic rate applicable to profit- 30% (2018:30%)	1,660,053	1,764,224
Tax effect of:		
Income not subject to tax	(49,999)	-
Expenses not deductible for tax purposes	37,765	30,916
Prior year under provision of deferred tax	42	1,083
Income tax expense	1,647,861	1,796,223

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

	2019 KSh'000			2018 KSh'000		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Transfer of excess depreciation	57,940	(17,382)	40,558	58,145	(17,444)	40,701
Transfer on disposals	35,130	(10,539)	24,591	-	-	-
	93,070	(27,921)	65,149	58,145	(17,444)	40,701

NOTES (continued)

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.

	2019 KSh'000	2018 KSh'000
Profit attributable to equity holders of the Company (Shs '000)	3,885,649	4,084,523
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	38.86	40.85

15. Dividends per share

During the year a final dividend in respect of the 2018 financial results of KSh 31.50 (2017: KSh 22.50) and an interim dividend of KSh 3.50 per share (2018: KSh 3.50) was declared and paid. The total dividend paid in the year is therefore KSh 35.00 per share (2017: KSh 26.00), amounting to a total of KSh 3,500,000,000 (2018: Shs 2,600,000,000).

At the annual general meeting to be held on 29 April 2020, a final dividend in respect of the year ended 31 December 2019 of KSh 30.00 per share amounting to a total of KSh 3,000,000,000 (2018: 3,150,000,000) 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 of KSh 26,638,000 (2018: 6,330,000) 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.

17. Revaluation surplus

The revaluation reserve surplus of Shs 1,755,585,000 (2018: 1,820,734,000) 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.

NOTES (continued)

18. Deferred income tax

	2019 KSh'000	2018 KSh'000
The analysis of Group deferred tax assets and deferred liabilities is as follows		
Deferred tax assets	(587,213)	(25,271)
Deferred tax liabilities	1,698,214	2,014,780
Deferred tax liabilities (net)	1,111,001	1,989,509
Deferred income tax is calculated using the enacted income tax rate of 30% (2018:30%). The movement on the Group deferred income tax account is as follows:		
At start of year	1,989,509	2,145,279
Credit to statement of profit or loss and other comprehensive income	(887,254)	(156,382)
Prior year under provision of deferred tax	42	1,083
Debit/(credit) to equity	8,704	(471)
At end of year	1,111,001	1,989,509

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 2019	1.1.2019 KSh'000	Charged /(credited) to P&L KSh'000	Charged /(credited) to equity KSh'000	31.12.2019 KSh'000
Deferred income tax liabilities				
Property, plant and equipment:				
■ on historical cost basis	1,360,126	(4,476)	-	1,355,650
■ on revaluation surpluses	777,926	-	(27,921)	750,005
■ on Right of Use Assets	-	7,212	-	7,212
Unrealised exchange gains	3,376	20,179	-	23,555
Deferred tax in respect of fair value gain on hedge reserve	5,097	-	7,743	12,840
	2,146,525	22,915	(20,178)	2,149,262
Deferred income tax assets				
Provisions for liabilities and charges	(144,507)	(864,921)	-	(1,009,428)
Unrealised exchange losses	(10,124)	(3,117)	-	(13,241)
Unrealised exchange losses	-	(14,168)	-	(14,168)
Deferred tax in respect of fair value loss on hedge reserve	(2,385)	-	961	(1,424)
	(157,016)	(882,206)	961	(1,038,261)
Net deferred income tax liability	1,989,509	(859,291)	(19,217)	1,111,001

NOTES (continued)

18. Deferred income tax (continued)

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	(105,048)	(17,717)	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	(137,855)	(17,915)	1,989,509

Deferred income tax of Shs 10,539,000 (2018: Shs 17,444,000) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred income tax on the difference between the actual depreciation and the equivalent depreciation based on the historical cost of currently owned property Shs 17,382,000 (2018: Shs 17,444,000) and deferred tax on accumulated depreciation on revaluation relating to property that was sold during the year Shs 10,539,000 (2018: Nil).

NOTES (continued)

18. Deferred income tax (continued)

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

	2019 KSh'000	2018 KSh'000
The analysis of Company deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax liabilities (net)	1,698,214	2,014,780
Deferred income tax liabilities		
Property, plant and equipment:		
■ on historical cost basis	1,355,650	1,360,126
■ on revaluation surpluses	750,005	777,926
■ on disposal of assets		
Deferred tax in respect of fair value gain on hedge reserve	21,382	3,340
Unrealised exchange gains	12,840	5,097
Total deferred income tax liabilities	2,139,877	2,146,489
Deferred income tax assets		
Provisions for liabilities and charges	(423,134)	(119,395)
Unrealised exchange losses	(10,998)	(9,929)
Right of use assets	(6,107)	-
Deferred tax in respect of fair value loss on hedge reserve	(1,424)	(2,385)
Total deferred income tax assets	(441,663)	(131,709)
Net deferred income tax liability	1,698,214	2,014,780

NOTES (continued)

19. Property, plant and equipment – Group

	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 2019					
Opening net book amount	4,093,265	4,533,599	187,858	282,691	9,097,413
Recognition of right-of-use assets on initial application of IFRS 16	46,161	117,942	103,478	-	267,581
Adjusted balance at 1 January 2019	4,139,426	4,651,541	291,336	282,691	9,364,994
Additions	28,198	229,403	120,720	1,111,076	1,489,397
Disposals/impairment					
■ Cost	(113,115)	(739,634)	(229,675)	-	(1,082,424)
■ Accumulated depreciation	71,543	582,668	223,079	-	877,290
Depreciation charge	(101,027)	(337,588)	(112,776)	-	(551,391)
Transfers	7,346	70,292	204	(77,842)	-
Closing net book amount	4,032,371	4,456,682	292,888	1,315,925	10,097,866
At 31 December 2019					
Cost or valuation	5,233,255	9,846,350	1,206,845	1,315,925	17,602,375
Accumulated depreciation	(1,200,884)	(5,389,668)	(913,957)	-	(7,504,509)
Net book amount	4,032,371	4,456,682	292,888	1,315,925	10,097,866
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

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

As at 31 December 2019, property, plant and equipment includes right of use assets of Shs 165,414,655 related to leased properties (see Note 28 (i)).

NOTES (continued)

19. Property, plant and equipment – 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 2019					
Opening net book amount	4,093,265	4,533,599	187,858	282,691	9,097,413
Recognition of right-of-use assets on initial application of IFRS 16	34,175	117,942	87,087	-	239,204
Adjusted balance at 1 January 2019	4,127,440	4,651,541	274,945	282,691	9,336,617
Additions	28,198	229,404	120,720	247,151	625,473
Disposals/impairment					
Cost	(113,115)	(739,634)	(229,675)	-	(1,082,424)
Accumulated depreciation	71,543	582,668	223,079	-	877,290
Depreciation charge	(100,787)	(337,588)	(108,679)	-	(547,054)
Transfers	7,346	70,291	204	(77,841)	-
Closing net book amount	4,020,625	4,456,682	280,594	452,001	9,209,902
At 31 December 2019					
Cost or valuation	5,221,269	9,846,350	1,190,454	452,001	16,710,074
Accumulated depreciation	(1,200,644)	(5,389,668)	(909,860)	-	(7,500,172)
Net book amount	4,020,625	4,456,682	280,594	452,001	9,209,902
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

As at 31 December 2019, property, plant and equipment includes right of use assets of Shs 141,374,920 related to leased properties (see Note 28(i))

NOTES (continued)

19. Property, plant and equipment – Group

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:

	2019 KSh'000	2018 KSh'000
Cost	1,937,645	1,916,018
Accumulated depreciation	(461,471)	(421,413)
Net book amount	1,476,174	1,494,605

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

20. Investment in subsidiaries

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

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

21. Inventories

	Group 2019 KSh'000	Group 2018 KSh'000	Company 2019 KSh'000	Company 2018 KSh'000
Raw materials and consumables	4,821,497	5,426,545	4,820,848	5,426,545
Finished goods	574,962	757,373	494,178	578,122
	5,396,459	6,183,918	5,315,026	6,004,667

NOTES (continued)

22. Receivables and prepayments

	Group		Company	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Trade receivables	1,146,799	946,234	70,747	105,220
Statutory receivables	-	732,047	-	36,532
Other receivables	521,779	487,363	520,368	482,847
Prepayments	1,050,489	57,136	189,912	57,136
Due from related parties	904,489	601,629	870,919	1,732,483
	3,623,556	2,824,409	1,651,946	2,414,218

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	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Forward foreign currency contracts	42,799	4,745	16,989	7,947
Current	42,799	4,745	16,989	7,947
Non-current	-	-	-	-
	42,799	4,745	16,989	7,947

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.

24. Cash and cash equivalents

	Group		Company	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Cash at bank	1,811,443	190,257	1,811,443	187,675

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

	Group	
	2019 KSh'000	2018 KSh'000
Cash at bank	1,811,443	190,257
Bank overdrafts (Note 26)	-	(99)
	1,811,443	190,158

NOTES (continued)

25. Payables and accrued expenses

	Group		Company	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Trade payables	2,974,786	2,470,578	1,871,745	2,408,478
Statutory payables	1,695,258	1,268,137	1,594,888	1,266,349
Due to related companies	698,979	185,925	606,282	161,584
Other payables and accrued expenses	2,506,429	1,516,283	2,066,332	1,158,245
	7,875,452	5,440,923	6,139,247	4,994,656

26. Borrowings

	Group		Company	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Non-current				
Loan from BATIF	-	1,222,200	-	1,222,200
Lease liabilities	172,425	-	148,205	-
	172,425	1,222,200	148,205	1,222,200
Current				
Bank overdrafts	-	99	-	99
Lease liabilities	16,176	-	13,527	-
	16,176	99	13,527	99

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 loan was repaid during the course of the year.

The lease liabilities relate to lease arrangements that the group has entered into for warehouses, vehicles and office premises for administrative, marketing and distribution teams in the ordinary course of business.

The movement in borrowings is as follows;

	Group		Company	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Opening balance	1,222,299	1,222,299	1,222,299	1,222,299
Repayment of borrowings	(1,222,200)	-	(1,222,200)	-
Lease liability at 1 Jan 2019	267,581	-	239,204	-
Lease liability additions	51,556	-	51,654	-
Lease liability disposals	(112,839)	-	(112,839)	-
Payment of lease liabilities	(41,104)	-	(43,081)	-
Interest expense	29,308	-	26,695	-
Closing balance	188,601	1,222,299	161,732	1,222,299

NOTES (continued)

26. Borrowings (continued)

The Group and Company have the following undrawn borrowing facilities:

	2019 KSh'000	2018 KSh'000
Overdraft and short term loan facilities	11,760,000	8,088,423
Bond guarantees	4,034,096	37,265
	15,794,096	8,125,688

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	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Opening income tax asset	(297,400)	99,336	(128,806)	(41,332)
Charge to statement of profit or loss and other comprehensive income	(2,535,073)	(1,951,522)	(447,166)	(705,101)
Income tax paid	2,492,655	1,554,786	952,998	617,627
Closing income tax (liability)/asset	(339,818)	(297,400)	377,026	(128,806)
Current asset	377,026	-	377,026	-
Current liability	(716,844)	(297,400)	-	(128,806)
Closing income tax (liability)/asset	(339,818)	(297,400)	377,026	(128,806)

28. Leases

The Group leases warehouses, offices, vehicles and furniture. The leases typically run for a period ranging between 5-9 years. For certain leases, the Group is restricted from entering into any sub-lease arrangements. Information about leases for which the Group is a lessee is presented below.

(i) Right-of-use assets

Right -of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

Group	Land and Buildings KSh'000	Plant and Machinery KSh'000	Vehicles and Equipment KSh'000	Total KSh'000
2019				
Balance as at 1st January	46,161	117,942	103,478	267,581
Additions to right-of-use assets	5,673	-	45,981	51,654
Depreciation charge for the year	(1,207)	(706)	(28,187)	(30,100)
Derecognition of right-of-use assets	-	(117,236)	(6,485)	(123,721)
Balance as at 31st December	50,627	-	114,787	165,414

NOTES (continued)

28. Leases (continued)

Company	Land and Buildings KSh'000	Plant and Machinery KSh'000	Vehicles and Equipment KSh'000	Total KSh'000
2019				
Balance as at 1st January	34,175	117,942	87,087	239,204
Additions to right-of-use assets	5,673	-	45,981	51,654
Depreciation charge for the year	(967)	(706)	(24,089)	(25,762)
Derecognition of right-of-use assets	-	(117,236)	(6,485)	(123,721)
Balance as at 31st December	38,881	-	102,494	141,375

(ii) Amounts recognised in profit or loss

	Group		Company	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Lease under IFRS 16				
Interest on lease liability	29,308	-	26,695	-
Operating Lease under IAS 17				
Lease expense	-	47,593	-	41,709

(iii) Amounts recognised in cash flows

	Group		Company	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
Lease under IFRS 16				
Total cash outflows for leases	47,104	-	43,081	-
Operating Lease under IAS 17				
Total cash outflows for leases	-	47,593	-	41,709

Cancelation options

Vehicle leases contain options exercisable by the Group to end the lease contract before contract period elapses.

NOTES (continued)

29. Provisions for liabilities and charges

	Group KSh'000	Company KSh'000
Year ended 31 December 2019		
At start of year	45,654	45,654
Additional provisions	1,691,642	655,339
Unused amounts reversed	-	-
Utilized during the year	-	-
At end of year	1,737,296	700,993
Year ended 31 December 2018		
At start of year	87,377	87,377
Additional provisions	-	-
Unused amounts reversed	(2,800)	(2,800)
Credit to statement of profit or loss and other comprehensive income	(38,923)	(38,923)
At end of year	45,654	45,654

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

30. Cash generated from operations

	2019 KSh'000	2018 KSh'000
(a) Reconciliation of profit before taxation and cash generated from operations		
Profit before taxation	5,533,510	5,880,746
Adjustments for:		
Depreciation (Note 19)	551,391	516,513
Loss on decommissioned property, plant and equipment	-	381,921
Loss/(profit) on disposal of property, plant and equipment	12,617	(3,737)
Interest received (Note 10)	(436)	(520)
Interest expense (Note 10)	159,011	352,403
Interest on lease liability (Note 10)	29,308	-
Unrealised foreign exchange (gain)/losses on borrowings	-	(16,800)
Disposal of lease liability	(112,839)	-
Changes in working capital:		
■ inventories	787,459	(509,150)
■ receivables and prepayments (Note 30(b))	(799,147)	(35,760)
■ payables and accrued expenses	2,434,529	683,002
■ provisions for liabilities and charges	1,691,642	(41,723)
Cash generated from operations	10,287,045	7,206,895
(b) Reconciliation of movement in trade and other receivables		
Net decrease in trade and other receivables	(799,147)	(21,366)
Adjustment on initial application of IFRS 9	-	(14,394)
Cash generated from operations	(799,147)	(35,760)

NOTES (continued)

31. 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	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
(i) Sale of goods and services				
Subsidiary	-	-	17,530,059	18,609,106
Other related parties	8,104,858	7,509,229	8,104,858	7,509,229
	8,104,858	7,509,229	25,634,917	26,118,335
(ii) Purchase of goods and services				
Parent company	336,840	416,015	336,840	416,015
Other related parties	1,420,110	1,300,661	1,420,110	1,300,661
	1,756,950	1,716,676	1,756,950	1,716,676
(iii) Outstanding balances arising from sale and purchase of goods/services				
Receivables from other related parties	904,449	601,629	870,919	1,732,483
Payables to the parent company	-	10,086	-	10,086
Payables to other related parties	698,979	175,839	606,282	151,498
	698,979	185,925	606,282	161,584

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	
	2019 KSh'000	2018 KSh'000	2019 KSh'000	2018 KSh'000
(iv) Loans from related parties				
Loan from related party (BATIF)	-	1,222,200	-	1,222,200

NOTES (continued)

31. Related party transactions (continued)

	2019 KSh'000	2018 KSh'000
(v) Key management compensation		
Salaries and other short-term employment benefits	133,462	113,896
Other long-term benefits	111,728	82,736
	245,190	196,632

	2019 KSh'000	2018 KSh'000
(vi) Directors' remuneration		
Fees for services as a director	17,056	17,850
Other emoluments (included in key management compensation above)	87,363	84,084
Total remuneration of directors of the Company	104,419	101,934

32. 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 2,150,562,622 (2018: KSh 2,005,446,052), issued on its behalf in the normal course of business from which it is anticipated that no material liabilities will arise.

33. Capital commitments

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

	2019 KSh'000	2018 KSh'000
Property, plant and equipment	346,693	68,524

Principal shareholders and share distribution

Principal shareholders and share distribution as at 19 February 2020

Shareholder	No. of Shares	% Shareholding
Molensteegh Invest Bv.	60,000,000	60.00%
Standard Chartered Kenya Nominees Ltd, A/C KE003847	7,144,262	7.14%
Standard Chartered Nominees Non-Resd. A/C 9866	6,381,929	6.38%
Standard Chartered Nominees. A/C KE003262	3,548,485	3.55%
Stanbic Nominees Ltd A/C NR1030824	2,045,439	2.05%
Standard Chartered Kenya Nominees Ltd A/C KE23050	1,285,080	1.29%
Kenya Commercial Bank Nominees Limited A/C 915A	965,223	0.97%
Standard Chartered Nominees Ltd A/C KE20510	1,188.20	1.19%
Standard Chartered Nominees Non Resd A/C KE8723	778,300	0.78%
Kenya Commercial Bank Nominees Limited A/C 915B	730,045	0.73%
SHARES SELECTED	**84,066,967**	**84.07%**
Others (4,798 shareholders)	**15,933,033**	**15.93%**
TOTAL	100,000,000	100.00%

Summary of Shareholders as at 19 February 2020

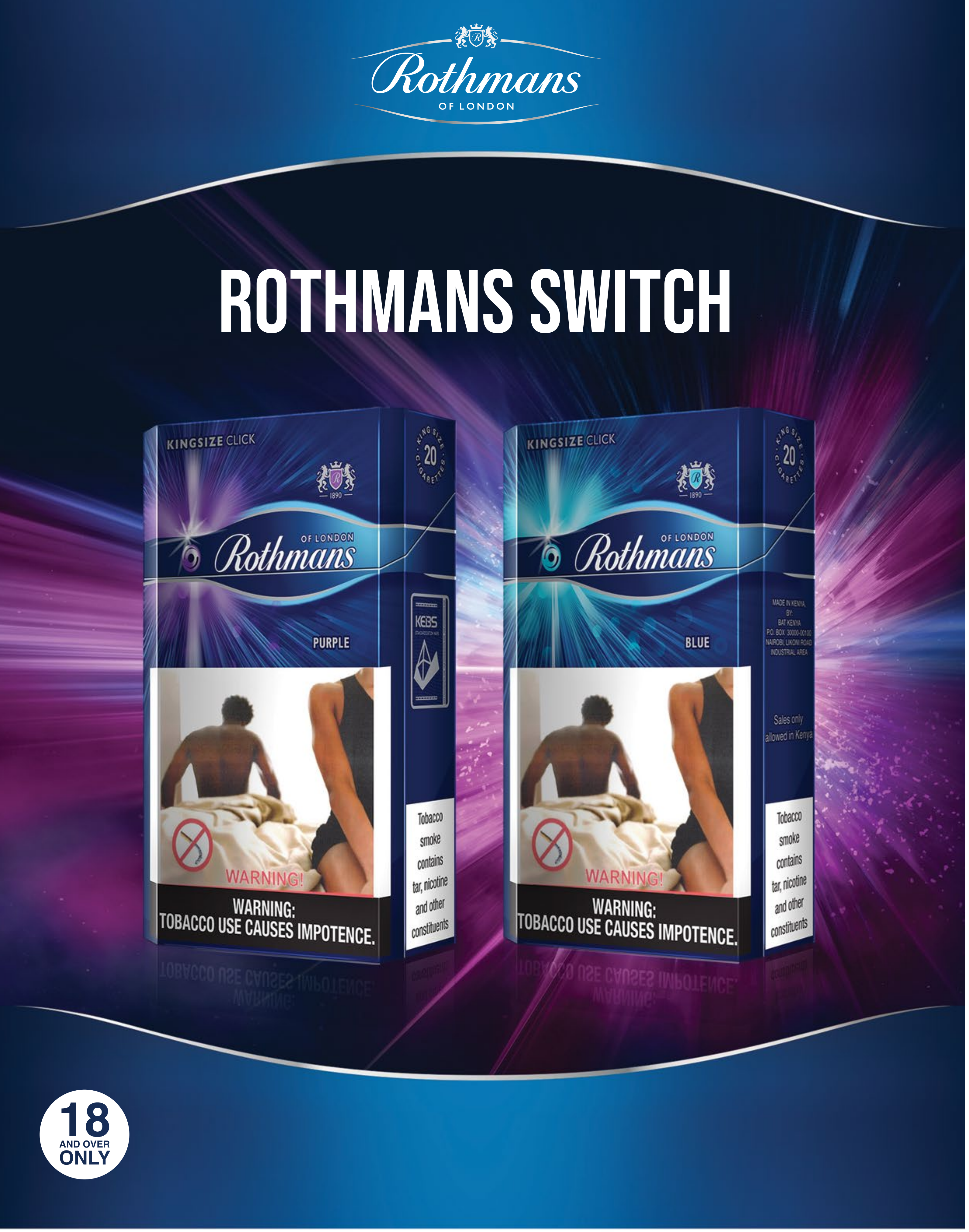
Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Foreign Companies	32	85,309,216	85.30%
Foreign Individuals	87	339,974	0.34%
Local Companies	448	8,735,273	8.74%
Local Individuals	4,241	5,615,537	5.62%
TOTAL	4,808	100,000,000	100.00%

Distribution of Shareholders as at 19 February 2020

Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Less than 500	2,637	564,434	0.56%
501 - 5,000	1,794	2,831,921	2.83%
5,001- 10,000	145	1,047,200	1.05%
10,001 - 100,000	197	5,537,999	5.54%
100,001 - 1,000,000	28	8,425,047	8.43%
Above 1,000,000	7	81,593,399	81.59%
TOTALS	4,808	100,000,000	100.00%

Directors' Shareholding as at 19 February 2020

Director's Name	Shareholdings
Carol Musyoka	200
Sidney Wafula	300



PROXY FORM

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

I/We ....

of mobile number .... and of P.O. Box ....

Email address: ....

CDS Account Number .... Number of Shares held ....

being a member/members of **British American Tobacco Kenya plc** appoint:

Name: ....

of mobile number .... and of P.O. Box ....

National ID / Passport number: .... ; or failing him/her, the Chairman of the Meeting as my/our proxy, to vote for me/us and on my/our behalf on any matter properly before the meeting, at the virtual Annual General Meeting ('AGM') of the Company to be held electronically at **9:00am** on Wednesday, **24th June 2020**, or at any adjournment thereof.

I approve the electronic registration of my/our proxy to participate in the said AGM and consent to use of the mobile number provided by my proxy above for purposes of voting during the AGM.

As witness my/our hand/s this .... day of 2020

....
(Signature)

NOTES:

1. If a member is unable to attend this meeting personally, this Form of Proxy should be completed and returned to Image Registrars Limited, 5th Floor, Absa Towers (formerly Barclays Plaza), Loita Street, Nairobi or alternatively to the Registered Office of the Company along Likoni Road, Industrial Area, Nairobi, so as to arrive not later than 2:30 p.m. on 19 June 2020. Duly signed proxy forms may also be emailed to info@image.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.

KENYA

HEAD OFFICE
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