A Better Tomorrow™

2020 Annual Report & Financial Statements

BAT KENYA

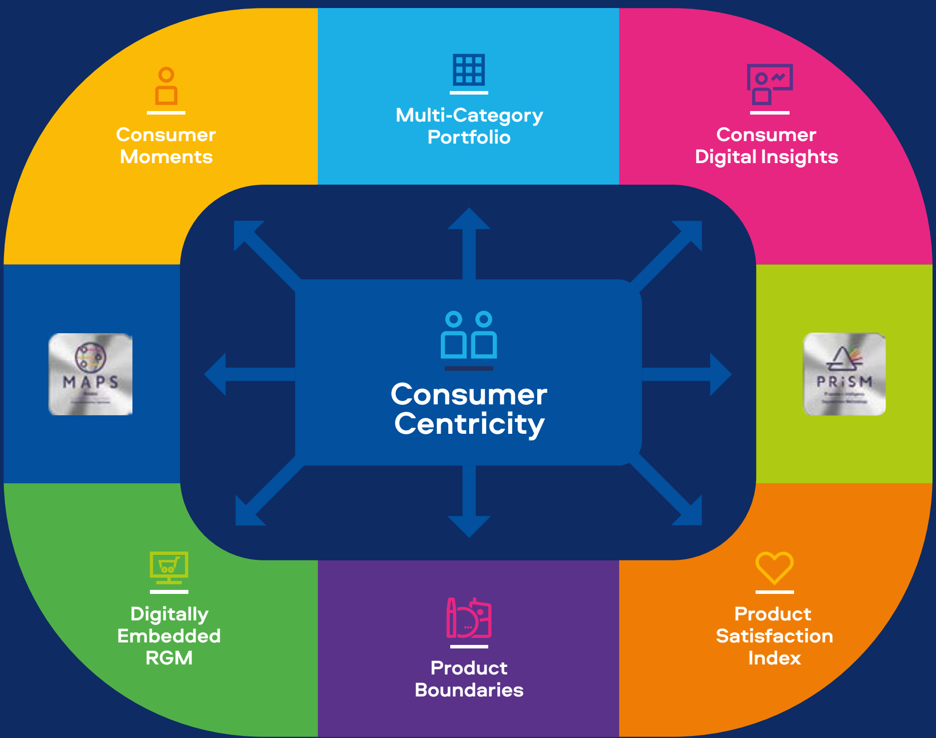
A BETTER TOMORROW™

Our purpose

To reduce the health impact of our business by offering a greater choice of viable and less risky products

We are clear that combustible cigarettes pose serious health risks. The only way to avoid these risks is not to start or to quit. However, we encourage those who would otherwise continue to smoke to switch completely to scientifically-substantiated, reduced-risk alternatives.*

In order to deliver this, BAT is transforming into a truly consumer-centric multi-category consumer products business.



* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

Inside this report

01 | Overview

02 | Strategic Report

03 | Business Review

04 | Corporate Governance Report

05 | Reports & Financial Statements

06 | Other Information

"We are proud of our rich heritage spanning over 110 years in Kenya, and we are working to build A Better Tomorrow for our stakeholders."

BRITISH AMERICAN TOBACCO KENYA PLC
2020 ANNUAL REPORT AND FINANCIAL STATEMENTS

This is the Annual Report and Financial Statements (Annual Report) of British American Tobacco Kenya plc (BAT Kenya), comprising of the Strategic Report, the Governance Report and the Audited Financial Statements for the year ended 31 December 2020.

This Annual Report has been drawn up and is presented in accordance with, and reliance upon, applicable Kenyan company law including 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 mail register 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, refers 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 its 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 Kenyan 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

British American Tobacco (BAT) began operations in Kenya in 1907. BAT Kenya has been listed on the Nairobi Securities Exchange since 1969 and has approximately 5,000 shareholders, of whom around 4,000 are local shareholders. The Company is in the business of tobacco farming and processing, cigarette manufacturing and the exporting and selling of cigarettes, other tobacco products and tobacco-free oral nicotine products.

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 strong brands, our new product innovations and our talented people – are the foundations of our continuing success.

Through our manufacturing hub in Nairobi and Green Leaf Processing plant in Thika, we make cigarettes chosen by a majority of Kenya's adult smokers. We also recently launched LYFT, a tobacco-free modern oral nicotine pouch.

We contribute to Kenya's socio-economic development in various ways, including through partnerships with over 80,000 trade and business partners, approximately 4,000 tobacco farmers in the counties of Bungoma, Busia, Migori, Homa-Bay, Meru, Embu and Tharaka Nithi, and providing direct and indirect employment opportunities for over 1,800 people.

We operate a sustainable business and invest in various initiatives to reduce the impacts of our business and contribute to the development and protection of the communities and ecosystems in which we operate. Our Environment, Social and Governance (ESG) agenda includes various programmes in Sustainable Agriculture and Environmental Conservation, including afforestation activities through which we have recorded over 54 million trees planted since 1978.

BAT Kenya is also a signatory to the UN Global Compact's Women Empowerment Principles (WEPs). This is a set of principles aimed at promoting the empowerment of women by helping participating companies set robust targets and take action to advance women's leadership in their organisations.

Read more at
www.batkenya.com

Notice of the 2021 Annual General Meeting

NOTICE IS HEREBY GIVEN that the 69th Annual General Meeting (AGM) of the Company will be held via electronic communication on **Wednesday, 12 May 2021 at 9:00 a.m**, for the purpose of considering, and if thought fit, passing the resolutions set out below. Shareholders may ask questions in advance of the meeting in the manner detailed below.

Ordinary business

1. To receive, consider and if approved, adopt the Company's audited Financial Statements for the year ended 31 December 2020, together with the reports of the Chairperson, Directors and Auditor thereon.

2. To confirm the interim dividend of KSh. 3.50 per ordinary share paid on 18 September 2020 and to approve a final dividend of KSh. 41.50 per ordinary share, to be paid net of Withholding Tax on 12 May 2021, to shareholders on the Register at the close of business on 16 April 2021.

3. To re-elect Directors:
   a) Rita Kavashe retires in accordance with Article 101 of the Articles of Association having been appointed by the Board after the last Annual General Meeting, and being eligible, offers herself for re-election as a Director.
   b) Crispin Achola retires in accordance with Article 101 of the Articles of Association having been appointed by the Board after the last Annual General Meeting, and being eligible, offers himself for re-election as a Director.
   c) Peter Mwangi retires by rotation in accordance with Article 102 of the Articles of Association and being eligible, offers himself for re-election as a Director.
   d) Dr. Martin Oduor-Otieno retires by rotation in accordance with Article 102 of the Articles of Association and being eligible, offers himself for re-election as a Director.
   e) André Joubert retires by rotation in accordance with Article 102 of the Articles of Association and being eligible, offers himself for re-election as a Director.

4. Re-election of Board Audit and Risk Committee Members:
   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 and Risk Committee, be elected to continue to serve as members of the said Committee.

5. To approve the remuneration of the Directors and the Directors Remuneration Report for the year ended 31 December 2020.

6. To appoint 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 2021.

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

Special Business

8. To consider, and if thought fit, pass the following resolutions as Special Resolutions, as recommended by the Directors:
   a) That Article 101 of the Company's Articles of Association be amended by the inclusion of the underlined section so that Article 101 will read as follows:
      "The Board shall have power at any time, and from time to time, to appoint any person to be a Director, either to fill a casual vacancy, or as an addition to the existing Directors, but so that the total number of Directors shall not at any time exceed the number fixed by or in accordance with these Articles. Any Director so appointed, <u>with the exception of the Managing Director and/or Executive Director(s)</u>, shall hold office only until the next following Annual General Meeting and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting."

   b) That Article 102 of the Company's Articles of Association be amended by the inclusion of the underlined section, so that Article 102 will read as follows:
      "At the Annual General Meeting of the Company in every year, one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest one-third (1/3), shall retire from office. A Director retiring at a meeting shall retain office until the dissolution of that meeting. <u>The provisions of these Articles regarding retirement by rotation shall not apply to the Managing Director and/or Executive Director(s) being at the time in the employment of the Company, and who is appointed under the provisions of Article 146."</u>

By Order of the Board

Kathryne Maundu (Ms.)
Company Secretary

12 April 2021

NOTES:

1. In view of the ongoing Coronavirus (COVID-19) pandemic and attendant public health regulations and directives passed by the Government, British American Tobacco Kenya plc has convened and is conducting this virtual Annual General Meeting in line with Article 62 (b) of the Articles of Association.

2. Any shareholder wishing to participate in the meeting should register for the AGM by dialling *483*806# on their mobile telephone line and following the various prompts regarding registration. A shareholder/proxy will require to have the ID/Passport number which was used to purchase shares and/or the CDSC Account number. For assistance, shareholders should call the following helpline number: **(+254) 709 170 000/ (+254) 709 170 030** between 9:00 a.m. and 5:00 p.m, Monday to Friday.

3. Registration for the AGM opens on **12 April 2021** and will close on **10 May 2021 at 5:00 p.m.** Shareholders will not be able to register after this time.

4. 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 (i) a copy of this Notice and the proxy form; and (ii) the Company's audited Financial Statements for the year ended 31 December 2020.

5. Any shareholder who is entitled to attend and vote at the AGM, is entitled to appoint a proxy to attend and vote on their behalf. Such proxy need not be a member of the Company.

6. A proxy form is provided in 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 attend the AGM are requested to complete and return the proxy form to Image Registrars Limited via the address above, or by email to info@image.co.ke or BATshares@image.co.ke. Alternatively, the form can be delivered to the Registered Office of the Company to arrive not later than 9:00 a.m. on 10 May 2021.

7. A proxy form must be signed by the appointor or his attorney duly authorised in writing. If the appointer is a corporate body, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an officer or duly authorised attorney of such corporate body.

8. All questions and/or clarifications must reach the Company on or before **10 May 2021 at 4:00 p.m.** Shareholders wishing to raise questions may do so by:

   i) Sending their written questions, by email to BATshares@image.co.ke;

   ii) Posting their written questions with a return address (physical, postal or email) for the attention of the Company Secretary, to the registered office of the Company: P.O. Box 30000 - 00100, Nairobi, or;

   iii) Physical delivery to Image Registrars offices at the address provided.

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

   The Company's Directors will provide written responses to the questions received, via 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.

9. The AGM will be streamed live via a link, which shall be provided to all shareholders who will have successfully registered to participate in the AGM. Registered shareholders and proxies will receive a short messaging service (SMS/USSD) prompt on their registered mobile numbers 24 hours prior to the AGM as a reminder to the AGM. A second SMS/USSD prompt shall be sent one hour prior to 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.

10. Duly registered shareholders and proxies may access the agenda and follow the proceedings of the AGM using the livestream platform. Duly registered shareholders and proxies may vote (when prompted by the Chairperson) via the USSD prompts as well as via the VOTE tab on the livestream link.

11. A poll shall be conducted for all the resolutions put forward in the Notice.

12. Results of the AGM shall be published on the Company's website www.batkenya.com within 24 hours of concluding the AGM.

13. The preferred method of paying dividends which are below KSh 300,000/- is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and have not registered for this mode of payment, can opt to receive future dividends via M-PESA when registering for the AGM via the USSD service, or contact Image Registrars (Tel: +254 20 2230330/ +254 20 2212065/ +254 20 2246449; Mobile: +254 724 699667/ +254 735565666/ +254 770 052116, Email: info@image.co.ke).

14. Shareholders are encouraged to continuously monitor the Company's website www.batkenya.com for updates relating to the AGM.

Explanatory notes to resolutions to be passed

Agenda Item 1:
Report and Financial Statements 2020
Resolution 1:
THAT the Report of the Directors and the Financial Statements for the year ended 31 December 2020, as audited and reported by the Company's auditor now submitted to this meeting, be and are hereby approved and adopted.

Agenda Item 2:
Declaration of Final Dividend
Resolution 2:
THAT the interim dividend of KSh. 3.50 per ordinary share paid on 18 September 2020 be and is hereby confirmed, and that a final dividend of KSh. 41.50 per ordinary share net of Withholding Tax, to be paid on 12 May 2021 to Shareholders on the Register at the close of business on 16 April 2021, be and is hereby approved.

The Company paid an interim dividend of KSh. 3.50 per Ordinary Share on 18 September 2020. The Board recommends a final dividend of KSh. 41.50 per Ordinary Share, bringing the total dividend for the year to KSh. 45.00 per Ordinary Share. Subject to approval by Shareholders, the final dividend will be paid on 12 May 2021 to Shareholders on the register on 16 April 2021.

Agenda Item 3 (a) and (b):
Directors seeking re-election pursuant to Article 101
Resolutions 3 (a) and (b):
THAT Rita Kavashe and Crispin Achola having been appointed by the Board after the last Annual General Meeting, each retires in accordance with Article 101 of the Articles of Association and being eligible, offer themselves for re-election as Directors.

THAT Rita Kavashe be and is hereby re-elected as a Director of the Company.

THAT Crispin Achola be and is hereby re-elected as a Director of the Company.

Agenda Item 3 (c-e):
Directors seeking re-election pursuant to Article 102
Resolutions 3 (c) (d) and (e):
THAT Peter Mwangi, Dr. Martin Oduor-Otieno and André Joubert retires by rotation in accordance with Article 102 of the Articles of Association and being eligible, offers themselves for re-election as Directors.

THAT Peter Mwangi be and is hereby re-elected as a Director of the Company.

THAT Dr. Martin Oduor-Otieno be and is hereby re-elected as a Director of the Company.

THAT André Joubert be and is hereby re-elected as a Director 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 respectable individuals in their respective fields and backgrounds. Their breadth 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 62 to 65 of this Annual Report.

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

Agenda Item 4:
Re-election of Audit & Risk Committee Members
Resolution 4:
THAT Dr. Martin Oduor-Otieno, Samuel Onyango, Carol Musyoka and Marion Gathoga-Mwangi be and are hereby elected to continue to serve as Members of the Board Audit and Risk Committee.

In accordance with the provisions of Section 769 of the Companies Act 2015, the Directors listed in Agenda Item 4 offer themselves for re-election to continue to serve as members of the Board Audit and Risk Committee.

Agenda Item 5:
Directors Remuneration
Resolution 5:
Resolution 5 is an advisory vote to approve the Directors' remuneration as prescribed by the Capital Markets Authority, Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015.

The Remuneration Report is set out on page 92 to 95 of this Annual Report.

Agenda Item 6:
Re-appointment of Auditor and Auditor's Remuneration
Resolution 6:
THAT in accordance with Section 721 (2) of the Companies Act, KPMG Kenya be re-appointed to continue in office as the External Auditor of the Company and that the Directors be and are hereby authorised to fix their remuneration.

With KPMG having expressed their willingness to continue in office as the Company's External Auditor in accordance with the provisions of Section 721 (2), it is proposed that Messrs KPMG Kenya be re-appointed as the External Auditor of the Company and that the Directors be authorised to fix their remuneration for the ensuing financial year.

Agenda Item 7:
Special Business: Amendment to the Company's Articles of Association
Resolution 7:
THAT Articles 101 and 102 be amended so as to cushion the Executive Directors in the Company, noting that they have employment contracts with the Company, from seeking re-election from shareholders at the Annual General Meeting, following appointment to fill a casual vacancy or as an addition to the existing Directors, and thereafter from the annual rotation process.

The amended document will be available for review on the Company's website: 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: 8 Likoni Road, Industrial Area, Nairobi, Kenya.

Corporate information

Board of Directors

Rita Kavashe*	(Chairperson)
Crispin Achola	(Managing Director)***
Beverley Spencer-Obatoyinbo	(Managing Director)****
Philemon Kipkemoi	(Finance Director)
André Joubert**	(Alternate Director: Sidney Wafula)
Dr. Macharia Irungu*	
Carol Musyoka**	
Peter Mwangi*	
Dr. Martin Oduor-Otieno*	
Samuel Onyango*	
Marion Gathoga-Mwangi*	
Kathryne Maundu	(Company Secretary)

Audit & Risk Committee

Dr. Martin Oduor-Otieno*	(Chairperson)
Carol Musyoka**	
Samuel Onyango*	
Marion Gathoga – Mwangi*	
Kathryne Maundu	(Committee Secretary)

Nominations & Governance Committee

Rita Kavashe*	(Chairperson)
Peter Mwangi*	
Dr. Macharia Irungu*	
Kathryne Maundu	(Committee Secretary)

Remuneration Committee

Peter Mwangi*	(Chairperson)
Carol Musyoka**	
Crispin Achola	
Philemon Kipkemoi	
Diana Johnson	(Committee Secretary)

* Independent Non-Executive Director
** Non-Executive Director
*** Appointed effective 1 January 2021
**** Resigned effective 31 December 2020

Company secretary
Ms. Kathryne Maundu
C/o Stamford Corporate Services LLP
5th Floor West Wing, ICEA Lion Centre
Riverside Park, Chiromo Road
P.O. Box 10643-00100
NAIROBI

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

Legal & Compliance Auditor
Anjarwalla & Khanna LLP
ALN House, Eldama Ravine Close
Off Eldama Ravine Road, Westlands
P.O. Box 200-00606
NAIROBI

Principal Advocates
Dentons 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
NCBA Kenya plc
Standard Chartered Bank Kenya plc

Shares Registrar
Image Registrars Limited
5th Floor Absa Towers
(formerly Barclays Plaza)
Loita Street
P.O Box 9287 – 00100
NAIROBI

Registered Office
British American Tobacco Kenya plc
8 Likoni Road, Industrial Area
P.O Box 30000-00100, GPO
NAIROBI

Chairperson's Statement

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.

Rita Kavashe
Chairperson

Welcome to our Annual Report for the year ended 31 December 2020. I am pleased to report that the Company delivered solid results despite a particularly challenging trading environment in Kenya and across our export markets.

It is almost six months now since I was appointed Chair of the Board of BAT Kenya. Within this short period of time, my team and I have worked hard to build on the excellent progress under my predecessor, George Maina. During 2020, the Board focused on addressing challenges within our operating environment, notably those arising as a result of the COVID-19 pandemic, as well as those that continue to impact the growth of our New Categories portfolio, which is critical to the growth and sustainability of our business.

Despite these challenges, the business has delivered solid underlying results driven by strong contribution from export revenue streams. This is reflected in the Board of Directors' recommendation of a final dividend of KSh 41.50 per share for 2020, payable net of Withholding Tax on 12 May 2021 to shareholders on the register as at 16 April 2021. The total dividend for 2020 will be KSh 45.00 per share (2019: KSh 33.50 per share).

An unprecedented and turbulent operating environment

Navigating the COVID-19 pandemic

Whilst the health impacts of COVID-19 have been substantial, the resulting economic strife has been equally significant. In Kenya, many businesses shut their doors and international borders closed, impacting domestic and international trading activity.

The economic recovery in 2019, ignited by renewed political stability and buoyed by positive investor sentiment, quickly gave way to sustained shrinkage in economic activity in 2020. This was mainly due to the impacts of COVID-19 but was also compounded by increasing political uncertainty and the growing national debt, which impacted foreign exchange rates. And while, various economic interventions such as tax cuts and holidays were enacted to mitigate the impacts of the pandemic, the strain of global and regional spill-over effects was considerable.

Pre-pandemic forecasts by the National Treasury of a 6% economic growth in 2020 were reduced to 1.5% (according to a World Bank report on post-COVID estimates, published in April 2020). Combined with significant levels of unemployment, the inevitable impact of this was the forestalling of developmental projects which would have otherwise stimulated economic growth. Towards the end of 2020, however, hope began to return with, amongst other Government initiatives, the commencement of the Nairobi expressway project which is set to improve productivity and economic performance by easing traffic flow and connecting key economic hubs in Kenya and the region.

Business performance

Rampant illicit trade and stretched consumers

Last year saw our domestic performance take a significant hit. Volumes declined by 24% as consumers responded to affordability challenges resulting from the impacts of COVID-19, by flocking to the illicit market. The increasing stretch on the consumer purse, together with high levels of unemployment, are a key driver of illicit trade. On the back of these challenges, illicit trade in tax-evaded cigarettes doubled during the year to 23% (source: 3rd Party Research). This was also driven by ongoing impacts of the 20% increase in tobacco excise duty imposed in 2019, and the Government's decision in 2020, to further impose an inflationary excise increase on certain excisable goods including tobacco.

Even more concerning is that despite the heightened border controls put in place in 2020 to mitigate the spread of COVID-19, our trade teams reported an increased presence of illegal tax-evaded cigarettes, particularly in western Kenya. This is consistent with third party research conducted at the end of last year, which indicates that more than 50% of illegal cigarettes sold in Kenya are smuggled across the Ugandan border. These illegal (tax-evaded) products continue to significantly impact industry revenues and deny Government in excess of an estimated KSh 4 billion per annum in revenue.

Whilst Kenya's ratification of the World Health Organisation (WHO) Framework Convention on Tobacco Control (FTCT) Protocol to Eliminate Illicit Trade in Tobacco Products (ITP) is an important step, we urge the Kenyan authorities to redouble their enforcement efforts and enhance cooperation with their Ugandan counterparts to stem the flow of these products into Kenya. This requires the identification of the source of these illegal products and their supply routes, as well as measures to bolster factory, border, and supply chain controls.

Our employer value proposition

BAT Kenya maintained its position as a Top Employer, certified by the global Top Employers Institute as one of the best companies to work for in both Kenya and

Africa. This certification – the third in a row - is a hard earned recognition of our commitment to building a winning organisation and a purposeful place to work for our employees. As a result, we continue 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. 2020 saw the appointment of Crispin Achola as the new Managing Director, effective 1 January 2021. Our long-serving former chairman, George Maina, stepped down as Board Chairman effective 31 August 2020, while Marion Gathoga-Mwangi and André Joubert were appointed as Non- Executive Directors to the Board, effective 28 May 2020. Sidney Wafula resigned as Finance Director, having taken up a more senior appointment within the Group. Subsequently, Philemon Kipkemoi was appointed as the Company's Finance Director effective 28 May 2020. Waeni Ngea resigned as Company Secretary, with the Board subsequently appointing Kathryne Maundu as her successor effective 27 June 2020. On behalf of the Board, I take this opportunity to thank them for their invaluable contributions and wish George, Sidney and Waeni the very best in their future endeavours.

I also thank Beverley Spencer-Obatoyinbo for her invaluable contribution as Managing Director of BAT Kenya for the last four years. She was instrumental in the establishment of our New Categories business which is setting the pace for industry transformation in Kenya. We wish her the very best in her next chapter. Her farewell message to shareholders can be found on page 22.

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 62 to 91.

Outlook for 2021

As we work to further enhance business resilience in 2021, our key focus remains on safeguarding employees' health and safety as the COVID-19 pandemic persists. Additionally, we will continue to contribute to the national dialogue on stability and predictability in the regulatory and fiscal environment, which will support economic recovery. This includes engagement with Government agencies to root out flows of illicit product. Importantly, we will be looking to continue to contribute to the development of a sustainable regulatory framework for our new category nicotine products. This is part of our evolved strategy and purpose to build A Better Tomorrow for our consumers by reducing the health impact of our business. We believe that Kenya can be part of the global success story where smokers are switching to tobacco-free alternative nicotine products that pose reduced-risk* compared with cigarettes.

It is clear that COVID-19 will persist for a considerable amount of time, presenting significant challenges for our business as well as many stakeholders in our domestic and regional supply chain. Our resolve to overcome these challenges is stronger than ever. On the back of our robust business continuity plan and set of mitigations – uncertainty notwithstanding - we believe that we are well positioned to deliver solid results in 2021.

I am proud of the work that the team has done to commence our transformational journey and of our commitment to tobacco harm reduction. I commend the Board of Directors, Leadership Team, employees, strategic partners, shareholders and stakeholders, for their invaluable contribution to our resilient performance in 2020.

Rita Kavashe
Board Chairperson

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

Taarifa ya Mwenyekiti

"Tunaendelea kujitolea kabisa kwenye mkakati na matarajio ya kuwapa wadau wetu kesho bora, tukiwa na uhakika kwamba itatoa mabadiliko yanayohitajika sana katika sekta yetu."

Twawakaribisha kwenye Ripoti yetu ya Mwaka kwa kipindi kilichokamilika 31 Desemba 2020. Nina furaha kuripoti kwamba Kampuni ilitoa matokeo thabiti licha ya mazingira magumu ya kibiashara nchini Kenya na katika masoko yetu ya uuzaji wa nje.

Karibu miezi sita imepita tangu nilipoteuliwa kuwa Mwenyekiti wa Bodi ya BAT nchini Kenya. Katika kipindi hiki kifupi, mimi na timu yangu tumetia bidii kuendeleza ukuaji mwema ulioachwa na mtangulizi wangu, George Maina. Mwaka wa 2020, Bodi ililenga kushughulikia changamoto katika mazingira yetu ya utendaji, haswa zile zinazotokana na janga la COVID-19, pamoja na zile zinazoendelea kuathiri ukuaji wa jalada jipya la jamii ya bidhaa, hatua ambayo ni muhimu kwa ukuaji na uendelevu wa biashara yetu. Licha ya changamoto hizi, Biashara imeweza kutoa seti thabiti ya matokeo ya msingi, haswa kutokana na mchango wa mito ya mapato ya uuzaji wa nje.

Hii imedhihirika katika pendekezo la Bodi ya Wakurugenzi la mgawo wa mwisho wa KSh 41.50 (kwa kila hisa) kwa mwaka wa 2020, unaotarajiwa kulipwa baada ya kutoa ushuru uliozuiliwa (withholding tax) mnamo Mei 12, 2021 kwa wenye hisa watakaokuwa kwenye sajili kufikia Aprili 16, 2021. Jumla ya mgawo wa 2020 itakuwa ni KSh 45.00 kwa kila hisa. Mwaka wa (2019 mgawo ulikuwa ni KSh 33.50 kwa kila hisa).

Mazingira yasiyotabirika na yenye misukosuko

Kukabiliana na janga la COVID-19

Huku athari za kiafya za COVID-19 zikiwa kubwa, mzozo wa kiuchumi uliosababishwa ulikuwa muhimu pia. Nchini Kenya, wafanyabiashara wengi walifunga biashara zao, na mipaka ya kimataifa ilifungwa, na kuathiri shughuli za kibiashara za ndani na kimataifa. Ufufuo wa uchumi mnamo 2019, kutokana na utulivu wa kisiasa na kuchochewa na hisia nzuri za wawekezaji, uligeuka kwa upesi na kupelekea kupungua kwa shughuli za kiuchumi mnamo 2020. Hayo haswa, yalitokana na athari za COVID-19 na kuongezwa na hali ya kutokuwa na uhakika katika siasa, zaidi ya deni kubwa la kitaifa ambalo liliathiri viwango vya ubadilishaji wa fedha za kigeni.

Licha ya kuibuliwa kwa mikakati ya kukabiliana na athari za COVID-19 kwa uchumi, kama vile kupunguzwa kwa ushuru na kutolewa kwa muda zaidi wa kulipa ushuru (likizo), athari kubwa za janga hili ziliendelea kushuhudiwa ulimwenguni na eneo hili. Utabiri uliofanywa kabla ya janga na Hazina ya Kitaifa ya Fedha wa ukuaji wa uchumi kwa asilimia sita (6%) mnamo 2020, ulipunguzwa hadi asilimia moja nukta tano (1.5%) (kulingana na Ripoti ya Benki ya Dunia juu ya makadirio baada ya COVID, iliyochapishwa mnamo Aprili 2020). Pamoja na kiwango kikubwa cha ukosefu wa ajira, athari yake ambayo haikuweza kuepukika ilikuwa ni kuzuiwa kwa miradi ya maendeleo ambayo ingechochea ukuaji wa uchumi. Kuelekea mwisho wa 2020, hata hivyo, matumaini yalianza kurejea, kati ya mipango mingine, Serikali ilianza mradi wa barabara ya Nairobi (Nairobi Expressway) ambayo imejengwa kuboresha uzalishaji na utendaji wa kiuchumi kwa kupunguza trafiki na kuunganisha vituo muhimu vya uchumi Kenya na eneo la Afrika Mashariki.

Utendaji wa biashara

Kuenea kwa biashara haramu na watumiaji walioenea

Mwaka jana, biashara yetu ya ndani iliadhirika sana. Kiwango cha iliadhirika kilipungua kwa asilimia 24 kutokana na kuwa watumiaji walikosa uwezo wa kununua kutokana na athari za COVID-19, na kuongezeka kwa bidhaa haramu sokoni.

Ongezeko la gharama ya maisha pamoja na kiwango cha juu cha ukosefu wa ajira, ni baadhi ya vichocheo muhimu vya biashara haramu. Kutokana na changamoto hizi, kumekuwepo na ongezeko maradufu la biashara haramu ya sigara zilizokwepeshwa ushuru mwakani -hadi asilimia 23 (kulingana na utafiti wa mashirika). Hii pia ilisababishwa na athari kutokana kuongezwa kwa ushuru wa bidhaa za tumbaku kwa asilimia 20 iliyowekwa mnamo 2019, na uamuzi wa Serikali mwaka wa 2020 wa kulazimisha marekebisho ya ongezeko la ushuru wa bidhaa uliosababisha mfumko wa bei ya baadhi ya bidhaa zikiwemo bidhaa za tumbaku.

Jambo la kushangaza zaidi ni kwamba licha ya udhibiti mkubwa mipakani uliowekwa 2020 ili kupunguza kuenea kwa COVID-19, maafisa wetu wa biashara waliripoti kuongezeka kwa uwepo wa sigara ambazo hazikuwa zimelipiwa ushuru nchini, haswa magharibi mwa

Kenya. Hii ni sawa na utafiti mwingine uliofanywa mwishoni mwa mwaka jana, ambao unaonyesha kwamba zaidi ya asilimia 50 ya sigara haramu zinazouzwa Kenya zinaingizwa kimagendo kupitia kwa mpaka wa Kenya na Uganda. Bidhaa hizi haramu (zilizokwepeshwa ushuru) zinaendelea kuathiri mapato ya sekta hii na kuinyima Serikali kimapato zaidi ya KSh4 bilioni katika mwaka mmoja.

Licha ya umuhimu wa Kenya kutia saini Mkataba wa Itifaki ya Biashara Haramu wa Shirika la Afya Ulimwenguni (WHO ITP), tunahimiza serikali ya Kenya kuongeza juhudi na kukuza ushirikiano na serikali ya Uganda ili kuzuia kuvukishwa mpaka kwa bidhaa haramu. Hii inahitaji kutambua chanzo cha bidhaa hizi na njia zake za usambazaji, na pia hatua za kuimarisha udhibiti wa viwanda, mpaka, na usambazaji wa bidhaa.

Pendekezo la uwajiri wetu

BAT Kenya ilidumisha msimamo wake kama Mwajiri bora zaidi, aliyethibitishwa na Taasisi ya Waajiri Wakuu Ulimwenguni -kama moja ya kampuni bora zaidi kufanya kazi nchini Kenya na Afrika. Hadhi hii - ya tatu mfululizo - ni utambuzi tunaoukaribisha kwani unaonyesha kujitolea kwetu katika kujenga shirika shindani na mahali pazuri pawafanyikazi wetu kufanyia kazi. Kutokana na hilo, tunaendelea kuvutia na kuhifadhi talanta bora zaidi sokoni.

Maendeleo ya Bodi

Muundo wa Bodi yetu unaendelea kubadilika tunapochukua hatua za makusudi kujenga biashara inayofaa ya siku zijazo. Mwaka wa 2020 Crispin Achola aliteuliwa kuwa mkurugenzi mkuu mpya kuanzia Januari 1, 2021. Aliyekuwa Mwenyekiti wetu kwa muda mrefu, George Maina, alijiuzulu kama Mwenyekiti wa Bodi kuanzia tarehe Agosti 31, 2020, ilhali Marion Gathoga-Mwangi na André Joubert waliteuliwa kama Wakurugenzi Wasio Watendaji kwa Bodi, kuanzia Mei 28, 2020. Sidney Wafula alijiuzulu kama Mkurugenzi Mtendaji wa Fedha na kuanza kazi nyingine kuu, katika kampuni. Baadaye, Philemon Kipkemoi aliteuliwa kama Mkurugenzi wa Fedha kuanzia Mei 28, 2020. Waeni Ngea alijiuzulu kama Katibu wa Kampuni, ambapo Bodi ilimteua Kathryne Maundu kama mrithi wake kuanzia Juni 27, 2020. Kwa niaba ya Bodi, nachukua fursa hii kuwashukuru George, Sidney na Waeni kwa michango yao muhimu na ninawatakia kila la heri katika jitihada zao za baadaye.

Ningependa kumshukuru pia Beverley Spencer-Obatoyinbo kwa mchango wake mkubwa kama Mkurugenzi Mkuu wa BAT Kenya kwa miaka minne iliyopita. Alikuwa muhimu katika kuanzisha biashara yetu za Jamii Mpya ya bidhaa kwa kuweka kasi mabadiliko ya tasnia nchini Kenya. Tunamtakia kila la heri katika ukurasa mpya atakaoufungua. Ujumbe wake wa kuwaaga wanahisa unapatikana kwenye ukurasa wa 22. Mabadiliko katika Bodi ya Wakurugenzi na habari kuhusu wanachama wa sasa wa Kamati za Bodi ya Kampuni zimeangaziwa katika ripoti ya Usimamizi wa Kampuni na ripoti ya Wakurugenzi ambazo zinaweza kupatikana kwenye ukurasa wa 62 hadi 91.

Mtazamo wa 2021

Tunapojikakamua kukuza uthabiti wa biashara mwaka wa 2021, lengo letu kuu linabaki kulinda afya na usalama wa wafanyikazi wetu, janga la COVID-19 linapoendelea. Zaidi, tutaendelea kuchangia mazungumzo ya kitaifa kuhusu utulivu na utabiri katika mazingira ya usimamizi ambayo yatasaidia kufufua uchumi. Hii ni pamoja na kushirikiana na mashirika ya Serikali kukomesha kusambaa kwa bidhaa haramu. Muhimu, tutakuwa tunatarajia kuchangia katika ukuzaji wa mfumo endelevu wa udhibiti wa bidhaa zetu mpya zinazotengenezwa kutokana na nikotini. Hii ni sehemu ya mkakati wetu na kusudi la kujenga Kesho Bora kwa watumiaji wetu kwa kupunguza athari za kiafya za biashara yetu. Tunaamini kwamba Kenya inaweza kuwa moja ya mataifa yanayohadithia mafanikio ulimwenguni, ambapo wavutaji sigara wanabadilisha bidhaa wanazozitumia na kuanza kutumia bidhaa zisizo na tumbaku zilizotengenezwa na nikotini zilizo na athari ndogo * ikilinganishwa na sigara.

Ni wazi kwamba COVID-19 itaendelea kuwepo kwa muda mrefu, na itaendelea kuibua changamoto sio haba kwa biashara yetu na pia kwa wadau wengi katika mkondo wetu wa usambazaji ndani na nje ya nchi. Hata hivyo, uamuzi wetu wa kukabiliana na kushinda changamoto hizi ni dhabiti zaidi ikilinganishwa na hapo awali. Tunaamini kwamba mwaka wa 2021 utakuwa bora, zaidi ya mpango wetu wa maendeleo endelevu katika biashara, licha ya mazingiria magumu.

Ninajivunia kazi iliyofanywa na kundi langu katika kuanzisha safari yetu ya mabadiliko na kujitolea kwetu katika kupunguza madhara ya tumbaku. Ninaipongeza Bodi ya Wakurugenzi, Kundi la Uongozi, wafanyikazi na washirika wote wa kimkakati, kwa mchango wao muhimu katika utendaji wetu bora mwaka wa 2020.

Rita Kavashe
Mwenyekiti wa Bodi

Managing Director's Overview

> Our industry is evolving and with this comes great opportunity. Our focus will be on accelerating our ambition to deliver products that offer more choice, innovation and reduced risk* for our consumers.

Crispin Achola
Managing Director

An exciting time for BAT

It is an exciting time for me to take over as Managing Director of BAT Kenya. I commend Beverley Spencer-Obatoyinbo for her remarkable job in leading the evolution of the business over the last four years, and putting in place strong fundamentals that will shape the next phase of the Company's transformation.

Our industry is evolving and with this comes great opportunity. With our depth of talent, our iconic brands and our evolved strategy and purpose, I am confident that we will take full advantage of these opportunities as we accelerate the transformation of BAT into a stronger multi-category tobacco and nicotine products Company.

Strong foundations

It gives me great comfort to know that the fundamentals of our business are in good shape. Our cigarette business continues to deliver sustained performance, and our efforts to transform our product portfolio and drive tobacco harm reduction are steadily moving forward. Our current strategy puts the consumer at the heart of everything we do. We know that the tastes and preferences of our consumers are evolving and fragmenting, and it is to meet these varied preferences that we are working to accelerate our New Categories portfolio, comprising products that offer lower risks* than combustible cigarettes.

To deliver this ambition, we continue to strengthen and improve our people agenda and business behaviours. A key enabler to deliver our ambition is our Ethos – Bold, Fast, Empowered, Diverse, Responsible - which guides behaviours across the entire BAT Group. It has been developed with input from our employees and promotes a culture that is future-fit by providing a foundation for sustainable growth.

As part of a leading global business, we understand our impact, the importance of high standards of integrity and our evolving societal responsibilities. As a result, we are moving from a business where sustainability has always been important, to one where it is front and centre in all that we do. Our business strategy is underpinned by a robust Environment, Social and Governance (ESG) agenda, which will enable us to reduce the health and environmental impacts of our business, deliver a positive social impact and ensure robust corporate governance across the business.

Accelerating the delivery of our strategy

Anchored on our renewed strategy and purpose – to build A Better Tomorrow for our stakeholders - we are accelerating the transformation of our business and industry by reducing the health impact of our business, through offering a greater choice of viable and less risky products for our consumers.

With confidence in our multi-category approach, we acknowledge that we are at the start of a long journey – a journey that begins with education and awareness. Our focus will be on accelerating our strategy to ensure that our products are able to meet the preferences of adult smokers and nicotine consumers who are still looking for viable alternatives that are less risky*, compared to their current products.

In order to further enhance the focus on our consumers, we continue to advocate for a sustainable regulatory framework for New Category products such as our tobacco-free oral nicotine pouch – LYFT.

Operating a responsible and future-fit business

BAT's commitment to Kenya is unwavering. This is evidenced by our sustained investment in our business over the last 114 years. And on the back of our long history and rich heritage, I am delighted to steer BAT's step change in Kenya, driving an evolved strategy which puts a sharper focus on our New Category products, fueled by investment from the continued delivery of our traditional tobacco business.

We believe that a stable regulatory and fiscal environment is crucial for sustainable business and economic growth. While we support Government efforts to address the concerns of the business community, including the economic impacts of COVID-19, the illicit trade in cigarettes and its relationship with excise remains 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. This is increasingly important as Kenya and other countries grapple with the impacts of the COVID-19 pandemic and work towards economic recovery.

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

Vision for success

The resilient performance of our business reflects our commitment to build a sustainable business that contributes to Kenya's manufacturing and economic growth. As we navigate the COVID-19 pandemic, our primary focus continues to be safeguarding the wellbeing of our employees, maintaining business continuity to protect jobs, and meeting evolving consumer preferences.

We now have a business with a new corporate identity that reflects our Company today and our journey ahead. We are becoming a business that defines itself not by the products it sells, but by the consumer needs it meets. Our total commitment to a multi-category business, powered by investment from our combustibles category, should drive sustainable growth. I am therefore excited about the challenges and opportunities that lie ahead for us. I am confident that we have the right strategy, the right foundations, the right vision, and, most importantly, employees with the right skills and attitude to deliver A Better Tomorrow for all our stakeholders, and keep growing the Company for many years to come.

Crispin Achola
Managing Director

Purpose

At BAT we are proud of the journey we are on to transform our business.

Our ambition is to accelerate this transformation through our range of alternative choices for adult consumers, which are already being used by millions of people worldwide.

Our goal is to continue to focus on our societal responsibilities and reduce the health impact of our business as we look to grow this number to 50 million by 2030.

These bold business objectives drive us everyday to continue building A Better Tomorrow™.

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*BAT Group

Tathmini ya Mkurugenzi Mkuu

"Sekta yetu inabadilika na hii imekuwa ni fursa nzuri sana kwetu. Mtazamo wetu utakuwa juu ya kukuza mkakati wetu kwa haraka ili kupunguza athari za kiafya kutokana na biashara yetu."

Wakati mzuri kwa BAT

Ni wakati mzuri kwangu kuchukua nafasi ya Mkurugenzi Mkuu wa BAT nchini Kenya. Ninampongeza Beverley Spencer-Obatoyinbo kwa kazi yake nzuri kwa kuongoza mabadiliko ya biashara kwa miaka minne iliyopita, na kuweka misingi imara ambayo itaunda awamu inayofuata katika mabadiliko ndani ya Kampuni.

Sekta yetu inabadilika na hii ni fursa nzuri. Pamoja na kina cha talanta zetu, chapa zetu za kipekee na mkakati wetu na kusudi lililobadilika, nina hakika kwamba tutatumia fursa hii kikamilifu wakati tunapojitahidi kuharakisha mabadiliko ndani ya BAT ili kuwa kampuni dhabiti na kubwa zaidi ya bidhaa za tumbaku na nikotini.

Misingi yenye nguvu

Inanipa faraja kubwa kujua kwamba misingi ya biashara yetu ni imara. Biashara yetu ya sigara inaendelea kutoa matokeo endelevu, na juhudi zetu za kubadilisha jalada la bidhaa na kukuza kupungua kwa madhara ya tumbaku zinaendelea mbele. Mkakati wetu wa sasa unamweka mtumiaji katikati mwa chote tunachokifanya. Tunajua kuwa ladha na mapendeleo ya watumiaji wetu inabadilika na kugawika, na ni kukidhi matakwa haya anuwai ambapo tunajikaza kufanikisha jalada mpya la jamii tofauti za bidhaa, linalojumuisha bidhaa zilizo na athari ya chini ikilinganishwa na sigara.

Ili kutimiza azma hii, tunaendelea kuimarisha na kuboresha ajenda yetu inayolenga watu na tabia za biashara tukisaidiwa na maadili yetu - Ujasiri, Upesi, Uwezo, Uzamaji na Uwajibikaji - ambayo yanaongoza tabia katika Kundi nzima la BAT. Ajenda hii imeandaliwa kutokana na maoni ya wafanyikazi wetu na inakuza utamaduni unaofaa siku za baadaye kwa kutoa msingi wa ukuaji endelevu.

Kama sehemu ya biashara inayoongoza ulimwenguni, tunaelewa athari zetu, umuhimu wa viwango vya juu vya uadilifu na wajibu wetu unaoendelea kubadilika katika jamii. Kutokana na hilo, tunaondoka kutoka kwa biashara ambayo uendelevu umekuwa muhimu kila wakati hadi kwa biashara ambayo uendelevu ni kitovu cha yote tufanyayo. Mkakati wetu wa kibiashara unategemea ajenda dhabiti katika Mazingira, Jamii na Sheria (ESG), ambayo itatuwezesha kupunguza athari za kiafya na kimazingira kutokana na biashara yetu, kutoa athari nzuri katika kijamii na kuhakikisha usimamizi bora wa kiushirika kwa biashara zetu zote.

Kuharakisha kwa utoaji wa mkakati wetu

Kwa kutegemea mkakati wetu mpya na lengo la kujenga Kesho Bora kwa washikadau wetu - tunaongeza kasi kubadilisha biashara yetu na sekta nzima kwa kupunguza athari za kiafya zinazotokana na biashara yetu, kwa kutoa chaguo kubwa zaidi la bidhaa zisizo hatari* kwa watumiaji wetu.

Kwa kuamini mpango wetu wa kuwa na bidhaa za jamii tofauti, tunakiri kwamba tuko mwanzoni mwa safari ndefu - safari inayoanza kwa kutoa elimu na ufahamu. Lengo letu litakuwa kuharakisha mkakati wetu ili kuhakikisha kuwa bidhaa zetu zina uwezo wa kukidhi matakwa ya watu wazima wanaovuta sigara na watumiaji wa nikotini ambao bado wanatafuta njia mbadala zinazofaa na ambazo sio hatari, ikilinganishwa na bidhaa wanazotumia kwa sasa.

Ili kulenga zaidi watumiaji wetu, tunaendelea kutetea mfumo endelevu wa udhibiti wa bidhaa za Jamii Mpya kama vile mkoba wetu usio na tumbaku wa nikotini ya mdomoni - LYFT.

Kuendesha biashara inayowajibika na inayofaa baadaye

Kujitolea kwa BAT nchini Kenya hakuyumbi. Hii inathibitishwa na uwekezaji wetu wa muda mrefu mwaka baada ya mwingine kwa miaka 114 kufikia sasa. Zaidi ya historia yetu ndefu na urithi wetu mkubwa, nina furaha kuongoza mabadiliko ya hatua ndani ya BAT nchini Kenya, kuendesha mkakati uliobadilika na ambao unatia mkazo zaidi kwa bidhaa zetu za Jamii Mpya na kuchochewa na uwekezaji zaidi katika uendelezaji wa biashara yetu ya jadi ya tumbaku.

Tunaamini kuwa mazingira thabiti ya udhibiti wa kisheria na fedha ni muhimu kwa ukuaji endelevu wa biashara na uchumi. Tukiendelea kuunga serikali mkono katika juhudi zake za kukabiliana na changamoto zinazowakabili wafanyabiashara, pamoja na athari za kiuchumi kutokana na COVID-19, biashara haramu ya sigara na uhusiano wake na ushuru kwa bidhaa bado ni suala ambalo halijashughulikiwa.

Kutokana na hilo, tunaendelea kuomba uwazi unaohitajika, utabiri na utulivu katika mazingira ya kifedha kutoka kwa Serikali. Hili sio tu litaongeza uwekezaji wa moja kwa moja kutokana na mapato ya kigeni; litawezesha pia mipango kwa wafanyabiashara na Serikali ili kukuza ukuaji endelevu. Hii inazidi kuwa muhimu wakati Kenya na mataifa mengine yanaendelea kukabiliana na athari za janga la COVID-19 na jitihada za kufufua uchumi.

Maono ya mafanikio

Matokeo thabiti ya biashara yetu yanaonyesha dhamira yetu ya kujenga biashara endelevu ambayo inachangia ukuaji wa uzalishaji wa bidhaa nchini Kenya pamoja na uchumi. Tunapoendelea kukabiliana na janga la COVID-19, lengo letu kuu linaendelea kuwa ulinzi wa ustawi na afya ya wafanyikazi wetu, kudumisha maendeleo ya biashara ili kulinda nafasi za kazi, na kukidhi matakwa ya watumiaji wa bidhaa zetu.

Sasa tuna biashara iliyo na utambulisho mpya, ushirika unaoonyesha kampuni yetu ilivyo kwa sasa na safari yetu tuliyoianza. Tumekuwa biashara inayojieleza sio tu kutokana na bidhaa inayouza, lakini pia kwa mahitaji ya watumiaji inayokidhi. Kujitolea kwetu kwa biashara changamani, inayochochewa na uwekezaji katika biashara ya tumbaku, kutachochea ukuaji endelevu. Kwa hivyo ninasisimuliwa na changamoto na fursa zilizo mbele yetu. Tuna mkakati sahihi, misingi sahihi, maono sahihi, na, muhimu zaidi, wafanyikazi walio stadi na wenye mtazamo sahihi wa kutoa Kesho Bora kwa wadau wetu wote, na kuendelea kukuza Kampuni kwa miaka mingi ijayo.

Crispin Achola
Mkurugenzi Mkuu

Finance Director's Review

With the challenging macro economic environment, it is crucial that the industry works with Government agencies to fight illicit trade in cigarettes, which overrides critical accountability and leads to loss of industry and tax revenues.

Philemon Kipkemoi
Finance Director

Key highlights

38.8 bn GROSS REVENUE (KSh)	**16 bn** TOTAL TAXES (KSh)
5.5bn PROFIT AFTER TAX (KSh)	**45** DIVIDEND PER SHARE (KSh)

Exports mitigate adverse impact of COVID-19 on domestic performance

The Company demonstrated resilience amidst the COVID-19 pandemic, which worsened an already challenging operating environment.

Net revenue increased by 5% to KSh 25.3 billion (while 2019 was up 16% at KSh 24 billion). This was driven by higher export revenues and lower Excise Duty and Value Added Tax (VAT), which offset a 24% decline in domestic sales volumes and reflects the reduction in VAT rate as part of Government's COVID-19 relief measures.

Profit before tax increased by 34% to KSh 7.4 billion, compared to a decline of 6% to KSh 5.5bn in 2019. This was largely driven by the increase in net revenue and a 3% reduction operating costs, resulting from pro-active cost saving initiatives undertaken to cushion business profitability from the impact of the COVID-19 pandemic.

Our operating margin increased by 6 percentage points to 30% in 2020 (2019: down 6 percentage points) in line with net revenue growth and the reduction in costs.

Earnings per share (EPS) growth underpins Dividend increase

Earnings per share was up 42% at KSh 55.17 (2019: KSh 38.86, down 5%) reflecting the higher profitability.

Dividends per share for 2020 will be KSh 45.00, an increase of 34% (2019: KSh 33.50, down 4%), in line with our commitment to increasing long-term value for our shareholders.

Taxes impacted by increased illicit trade

Taxes in the form of Excise Duty, VAT, Pay As You Earn (PAYE) and Corporation Tax reduced by KSh 2 billion (11%) to KSh 16 billion (2019: KSh 18 billion, down 2%) as a result of lower sales volumes in Kenya, as well as the VAT and Corporation Tax rate changes in April 2020.

In 2020, illicit trade in tax-evaded cigarettes doubled to an estimated 23% and continues to impact industry revenues and deny Government in excess of an estimated KSh 4 billion per annum in revenue. With the challenging macro economic environment, it is more crucial than ever that the industry works with Government agencies to root out flows of illicit product, both as a means of raising much needed Government revenues and ensuring long-term sustainability of legitimate manufacturers.

Looking ahead

We remain committed to our purpose – to build A Better Tomorrow by reducing the health impact of our business.

In furtherance of this purpose and to grow our contribution to the Government's Big 4 Agenda, we have invested significantly in a new factory based in Nairobi to manufacture modern oral nicotine pouches. It is critical that the Government develops an appropriate and sustainable regulatory framework that maximises the Tobacco Harm Reduction potential of these product categories.

Philemon Kipkemoi
Finance Director

“We are building A Better Tomorrow for shareholders by delivering sustainable and superior returns.”

Progress

At BAT we are proud of the progress we are making on the journey to transform our business.

We are committed to achieving our goal of £5 billion revenue from our new categories by 2025. As we are to tracking and sharing our progress.

We continue to focus on delivering strong returns for our shareholders, ensuring a progressive environment for our more than 50,000 global employees and addressing our impact on society as a whole.

These ambitions inspire us to keep accelerating towards building A Better Tomorrow™.

*BAT Group

Farewell note

After four proud years serving as Managing Director at BAT Kenya, I left the business at the end of March 2021 upon completion of the hand over to Crispin. Over the course of this period, I witnessed BAT evolve and grow, and I am confident that this will continue at pace especially during the dynamic period of change that the industry is driving today.

When I was appointed Managing Director for BAT Kenya in 2017, one of my main ambitions was to deliver on BAT's commitment to 'transform tobacco' through offering our consumers greater choice, more innovation and less risk. Over the last four years, this strategy - which in 2020 evolved into our purpose to build A Better Tomorrow for our stakeholders - enabled us to deliver outstanding year-on-year growth (3 year CAGR: Net Revenue 11%, Profit after Tax 18%) and sustained shareholder returns. All this, driven by innovation in our combustible portfolio, while simultaneously, kick-starting our new categories business designed to meet the evolving and varied preferences of today's consumers. In 2019, the completion of a KSh 0.6 billion investment in the transformation of our Nairobi offices created an energising and collaborative workplace for our People, delivering a truly "great place to work". We also launched the first ever tobacco-free oral nicotine pouch – LYFT – in Kenya and in 2020, during the pandemic year, completed construction of a world-class factory for the manufacture and export of this transformative product. A fantastic accomplishment and a first in Africa.

It has been a wonderful experience and therefore makes leaving bittersweet. I was privileged to lead an amazing, talented and diverse team that I will miss greatly. Although time has come for me to move on to a new adventure, I reaffirm my belief and support in the Company's transformational agenda and will closely follow how the business develops. As I pass the baton, I have no doubt that Crispin's broad experience combined with his passion for success, will help ensure the future growth of the Company.

I am tremendously proud of what we have achieved in the last four years. I thank everyone at BAT Kenya, the Board, our partners, shareholders and stakeholders for walking the journey with us, and wish you the very best for the future.

Kwaheri ya kuonana.

Beverley Spencer-Obatoyinbo
Outgoing Managing Director

BAT staff during a community clean-up activity to mark the World Clean-up Day 2019

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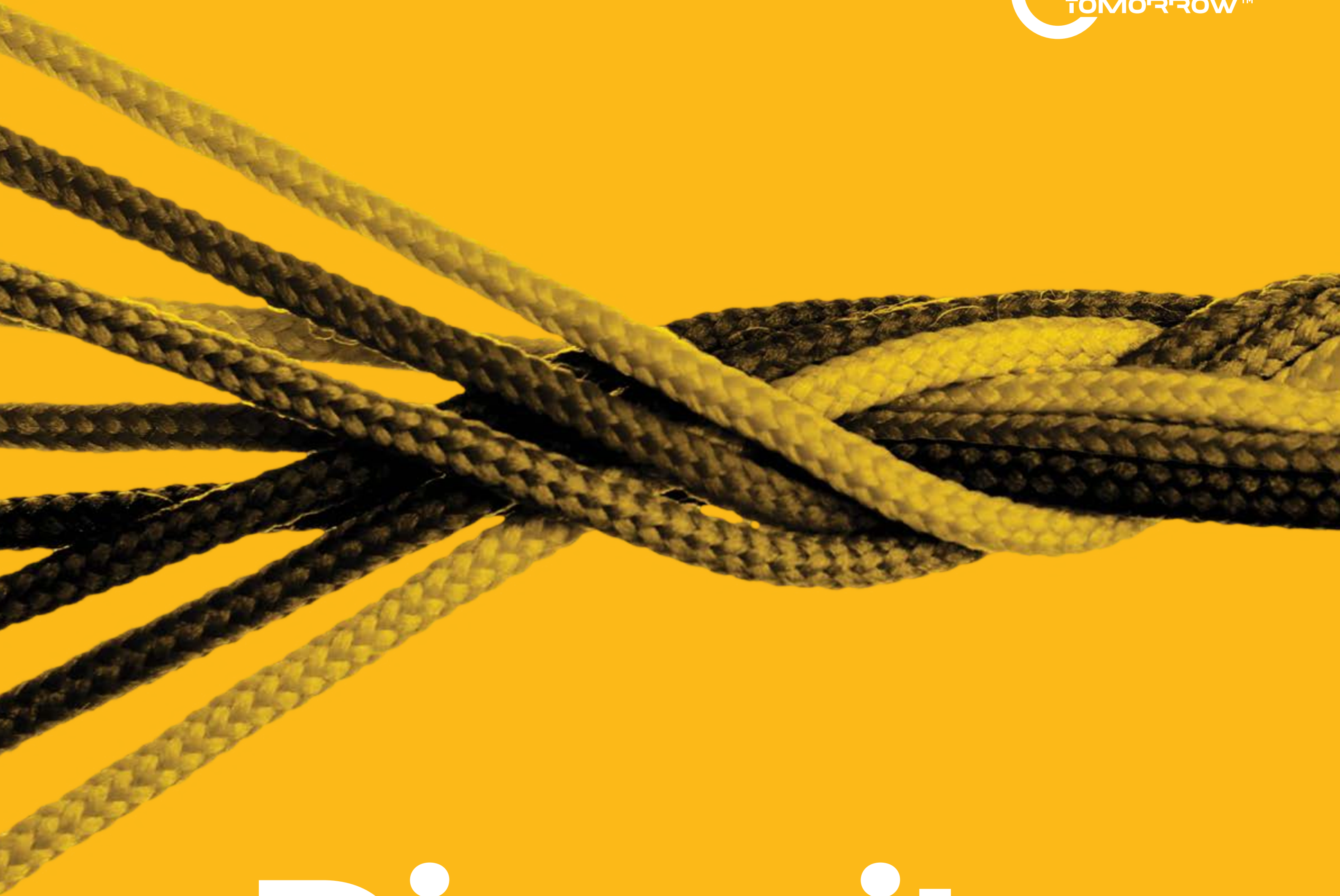


Diversity

At BAT we are proud to be building a modern organisation for all of our 50,000+ employees globally. But don't take our word for it.

For the fourth year in a row, BAT has been named as a Global Top Employer by the Top Employers Institute, as well as a Top Employer in 34 individual countries.

And for the second consecutive year, we featured in the Financial Times Diversity Leader rankings – a measure of an employer's diversity of gender, age, ethnicity, disability and sexual orientation.

This recognition inspires us to keep accelerating towards building A Better Tomorrow™.

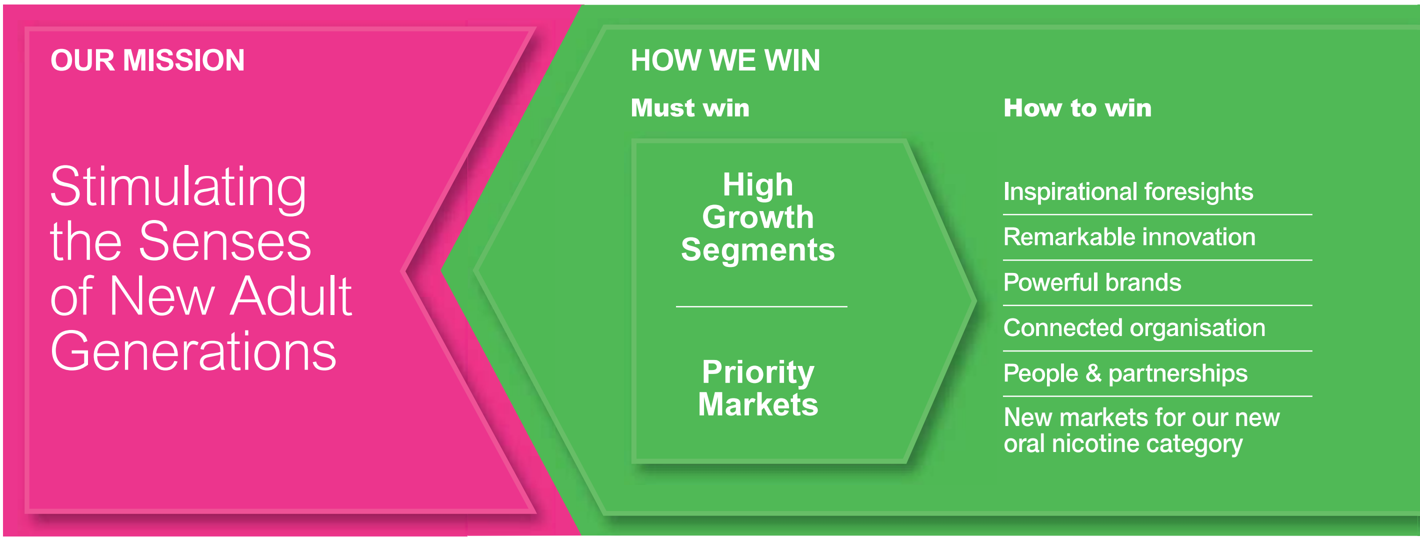
BAT
A BETTER TOMORROW

*BAT Group

Our purpose and strategy

In March 2020, BAT unveiled a new strategy and purpose: to build A Better Tomorrow™ for our consumers, society, employees and shareholders. 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*.

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 viable and 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 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 meet evolving consumer needs and preferences.

Our mission is to anticipate and meet 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 that 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 longest-standing and 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.

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

> 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.
>
> Crispin Achola, Managing Director

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 whom 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 key to ensuring sustainable growth.

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 PURPOSE

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 business model

Our business understands our diverse consumers, develops products to meet their preferences, and ultimately distributes them to over 13 markets in Africa.

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

IP / Technology

72.6mn KSh OpEx
spend in 2020

Environmental

55mn+
trees planted since
1978

Manufacturing

2.5bn KSh
earmarked investment in world-class tobacco-free oral nicotine factory

Social

80,000+
local strategic partners in our value chain

Financial

34%
growth in dividend payout 2020 Vs 2019

Human

600mn+ KSh
investment in refurbishment of our Nairobi hub offices

1A
ST. JAMES'S ST.
LONDON SW1

HOUSE OF DUNHILL
LEADER IN PROGRESSION

WARNING: SMOKING HARMS PEOPLE NEXT TO YOU
ILANI: UVUTAJI WA TUMBAKU UNAWADHURU WALIO KARIBU NAWE

Our sustainability agenda

As our Group strategy evolves, our Sustainability Agenda is also evolving. 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 Sustainability Agenda is integral to our evolved Group strategy. Our Sustainability Agenda reflects our commitment to reducing the health impact of our business and excellence across our other ESG priorities. Our approach is driven by extensive stakeholder insights, and through this process, we engage with a wide range of stakeholders to understand what matters most to them, complemented with ongoing risk monitoring, research and benchmarking. This approach ensures we keep pace with emerging topics and stakeholder expectations. Outlined here are the priority areas that form the core of our Sustainability Agenda.

S

Reducing the HEALTH impact of our business

- Consumer choice
- World-class science
- Standards and regulation

E

Excellence in ENVIRONMENTAL management

- Climate change
- Water and waste
- Sustainable agriculture
- Circular economy

S

Delivering a positive SOCIAL impact

- Human rights
- Farmer livelihoods
- Health and safety
- People and culture

G

Robust corporate GOVERNANCE

- Business ethics
- Responsible marketing
- Regulation and policy management

Created shared value for

- Consumers
- Society
- Employees
- Shareholders

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 unconscious 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

Business Review

03

Growth

Delivering A Better Tomorrow™ through inspirational foresights to drive cross category portfolio development and sustainable partnerships.

Our unique view of consumer needs across categories is increasingly driven by powerful data and analytics. These insights ensure that the development and responsible marketing of our products is fit to continuously anticipate and meet the preferences of our consumer.

Portfolio transformation

In 2020, we continued the journey to transform our cigarette portfolio through rationalisation to fewer, stronger global brands. This will enable us to deliver enhanced consumer value through increased access to, and investment in, innovation. At the start of the year, we completed modernisation of our premium segment through the Embassy to Dunhill migration, with outstanding results. This lays a strong foundation for the growth of this segment to deliver increased portfolio and consumer value.

To ensure delivery of our strong value for money (VFM) propositions, our portfolio transformation continues to focus on establishing one strong brand, Rothmans, as the value and innovation driver within the VFM segment. The SM to Rothmans migration was completed in early 2020, enhancing our presence within the growing innovative flavour pace. This migration was testament to the agility of our teams, who found innovative ways, including virtual engagements with our partners, to deliver exceptional results despite COVID-19 constraints.

In the second half of the year, we kicked off the transformation of our local hero brand, Sportsman, with a successful upgrade of the pack to a modern hinge lid, as a first step. The initial steps to migrate Sportsman to Rothmans have also begun, with completion expected in 2021. The move to Rothmans will allow us to tap into the brand's innovation pipeline and offer even greater value to our consumers.

New Category Products
In line with our purpose to deliver A Better Tomorrow™, we continued to focus on delivering our Tobacco Harm Reduction strategy by offering adult smokers and nicotine consumers with an alternative tobacco-free oral nicotine product - Lyft. Notwithstanding the evolving regulatory environment, we remain firm in our ambition to deliver viable alternatives to adult smokers and nicotine consumers.

As pioneers within the oral nicotine category, we will continue with our efforts to enhance category understanding while driving responsible sales practices, underpinned by strong and robust Under-18 Access Prevention measures.

Being first in the market with reduced-risk* alternatives for smokers has helped augment the key role BAT plays in meeting consumer needs in tobacco and beyond.

Driving growth through sustainable trade partnerships

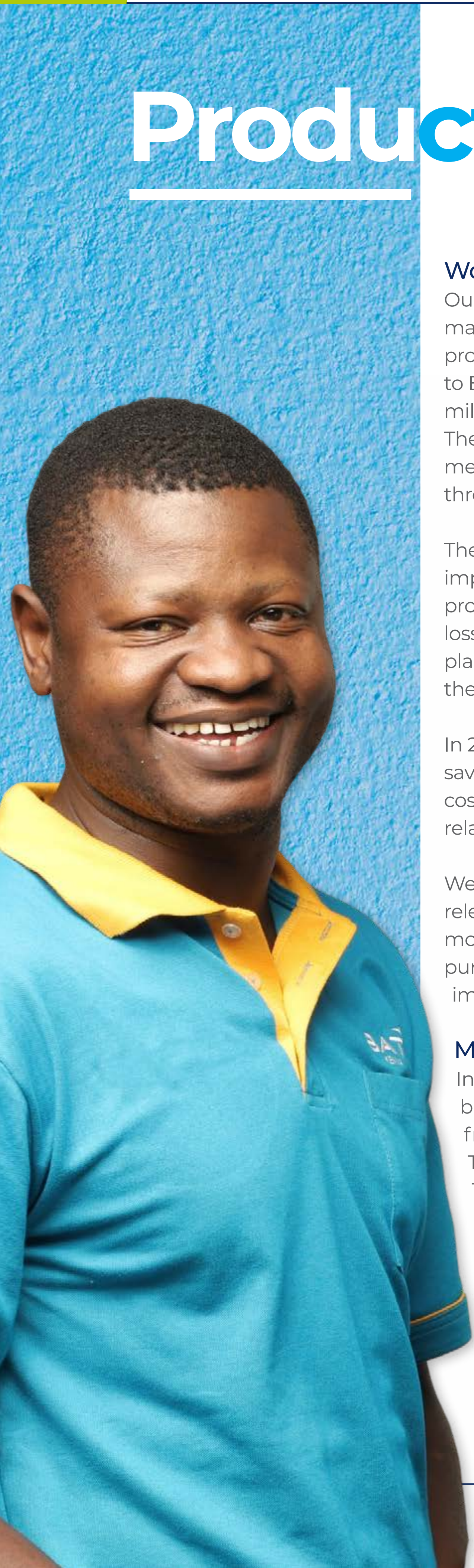
Route to market
2020 was a unique year on the back of challenges posed by COVID-19, necessitating adoption of new ways of working to maintain effectiveness while keeping our people safe. We maintained high levels of customer service and satisfaction amongst our trade partners by leveraging tele-sales platforms to flexibly serve to serve the market despite the COVID-19 related restrictions.

In the second half of 2020, we partnered with local banks to facilitate trade financing support to help our retail business partners to rebuild their businesses and maintain product availability.

Responsible marketing
We market our products in accordance with the Group's International Marketing Principles and local laws. In addition, we have in place a robust Under-18 Access Prevention programme which we work to continuously improve and enhance. Clear health warnings and age restrictions are affixed on the product packaging so that parents and all adults are clear that the product is not suitable for anyone under the age of 18 years. The active ingredient is also clearly identified on the packaging. We have also gone a step further and enhanced this programme through initiatives such as:

- Regular training and education workshops for our retailers and trade partners on compliance with the applicable regulations and guidelines on the sale of our products.
- Retailer spot checks carried out by BAT trade representatives to ensure all points of sale display the appropriate health warnings and minimum legal age information notices.
- Contractual requirements and undertaking by traders to adhere to applicable regulations and guidelines, including requirements not to promote or sell products to persons below 18 years.
- Instruction of our retailers to place our alternative nicotine products away from the reach of consumers, ideally, alongside cigarette products. This is aimed to ensure that they are associated with age-restricted purchases by adult smokers and nicotine consumers.

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.



Productivity

World class manufacturing capabilities

Our Nairobi factory continued to position itself as a key manufacturing hub for the BAT Group. In 2020, total cigarette production increased by 5.3% vs 2019, mainly due to export volumes to Egypt, while exports of cut rug tobacco (CRT) increased to 5.1 million Kilograms from 3.9 in 2019, driven by orders from Sudan. These achievements were enabled by robust COVID-19 mitigation measures which enabled the factory to continue operating throughout 2020.

The sustained performance was also driven by our continued implementation of Integrated Work Systems (IWS), a key factory productivity driver in building employee capabilities and eliminating losses in both our processes and machinery. These efforts have placed the Kenya factory at top position in BAT's operations within the Americas and Sub-Saharan Africa region.

In 2020, our IWS-driven focus on loss elimination delivered cost savings of approximately KSh 520 million, which offset inflationary cost increases and were reinvested in the factory and consumer related innovations.

We continued with our working capital optimisation initiatives, releasing a further KSh 716 million, which was reinvested in the modern oral nicotine factory to support our evolved strategy and purpose to deliver A Better Tomorrow™ by addressing the health impact of our business.

Manufacturing for the future

In November 2020, we completed the first phase of a KSh 2.5 billion investment in a Nairobi based factory, to produce tobacco-free oral nicotine pouches for the African market and beyond. This modern manufacturing facility, is the first of its kind in Africa. The factory comes with state-of-the-art machinery, a world class Manufacturing Execution System (MES) that supports traceability, and a real time performance monitoring system. It boasts of the highest quality and safety standards including a world class hygiene room. The oral nicotine factory is projected to create more than 80 full time skilled jobs when operating at full capacity, and the team has already been trained to operate the facility according to Good Manufacturing Practices (GMP).

The factory was designed with the help of leading global experts with vast experience in GMP. The installation of equipment was completed in September and in another first within the BAT Group, it was implemented virtually due to COVID-19 restrictions. We also continue to work with Government agencies and a pool of local and global experts to establish the Kenya factory as the best for manufacture of oral nicotine pouches globally in BAT.

At the same time, we are continuing the drive to modernise our cigarette manufacturing factory, with plans already in gear to commission a high-speed line and install enhanced capability for innovative filter making.

Energy management

In 2020, we continued our focus on energy-saving initiatives such as the ongoing solar installation project geared at reducing the total energy consumption per unit of production, as well as our carbon footprint. It is noteworthy that our site is the best performing company in energy consumption in the BAT Group. Towards the end of the year, we reinforced our energy conservation agenda by running a Sustainability Week aimed at enhancing awareness on our sustainability agenda amongst our staff. This covered various thematic areas such as energy efficiency, CO_2 emissions, circular economy and waste management as well as sustainable agriculture and environmental conservation.

In 2020, BAT Kenya was recognised yet again at the Kenya Association of Manufacturers (KAM) Energy Management Awards, for excellence in electricity savings and water efficiency initiatives for the Nairobi factory and Thika Green Leaf Threshing plant (GLT) plant respectively. In addition, we participated in KAM-led roll out of the country's Centre for Green Growth and Climate Change.

Health and safety

The health and safety of our employees, contractors and visitors to our sites is a top priority for the Business. In 2020, we registered zero accidents within our operations as a result of the continued deployment of various proactive interventions. These initiatives were also recognised during the Annual Safety Awards held in March. Among other milestones, we rolled out enhanced Environment, Health and Safety (EHS) Golden Rules, which we believe will sustain our zero-accidents culture. Another notable milestone was the completion of the first virtual EHS compliance review by the Global EHS team, with an impressive 93% compliance rate.

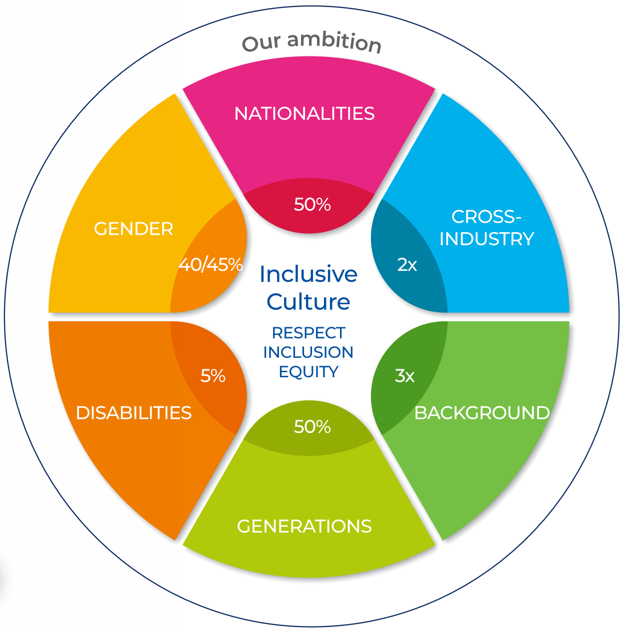
Finally, in line with the ongoing digital transformation within the organisation, we were able to digitise various safety processes by setting up online and mobile application tools for managing, reporting and tracking incidents as well as deploying corrective actions. Other than eliminating inefficient offline processes, this initiative will provide improved response intervention compared to a manual system.

A purposeful organisation

Our People priorities for A Better Tomorrow™

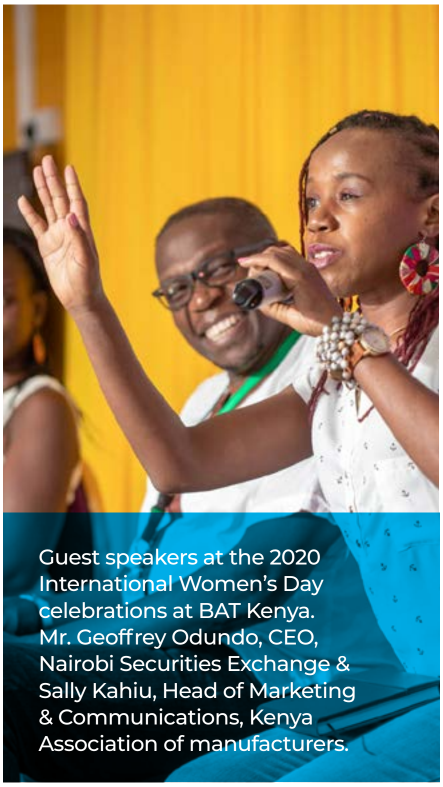
A non-stop Talent Agenda despite a tough 2020
It is likely that the way we work will be forever changed as a result of COVID-19. 2020 was all about the pandemic's impact on the workforce and how our robust People & Culture Agenda was able to quickly adapt and innovate to support the organisation's response to the pandemic.

On a positive note, the challenges of 2020 brought out the best in us as we came together to live our Ethos – BOLD, FAST, EMPOWERED, DIVERSE, RESPONSIBLE. Our leaders have been at the center of a rapid and successful response to COVID-19 and played a central role in keeping our teams engaged, productive and resilient.



Attracting Top Talent
Despite a challenging year, we continued to drive an energising, strong and agile environment where people are empowered to deliver.

Our **40+ new joiners** in 2020 experienced an innovative onboarding experience, which included a virtual repository of relevant business content alongside virtual one-to-one sessions


Guest speakers at the 2020 International Women's Day celebrations at BAT Kenya. Mr. Geoffrey Odundo, CEO, Nairobi Securities Exchange & Sally Kahiu, Head of Marketing & Communications, Kenya Association of manufacturers.

BAT Kenya Global Graduates 2020


BAT Group's Battle of Minds global winners

with the respective business leaders. After their first 90 days, another virtual session with the HR Director and a pulse survey captured first impressions and gathered feedback on our employee value proposition. As a highlight, our targeted recruitment programs – Battle of Minds, Internship and Global Graduates programmes – were successfully deployed and their acceleration development activities delivered through virtual tools.

Next Generation Talent joiners in 2020

Gender	Interns	GG
F	8	2
M	4	2

Battle of Minds 2020 - A "World Cup Final" feeling

BAT's global internship competition - Battle of Minds - aims to support innovation and development of future leaders. It is a unique opportunity for talented university students over the age of 18, to register their ideas, engage with other like minds around the world, and be mentored by experienced professionals as they compete for the grand prize - a year-long internship at BAT.

In 2020, out of initial 4,632 registrations, 500 case submissions across 35 countries and 10 finalists had the opportunity to compete in a virtual global round. We were immensely proud to have the winning team coming from Kenya as a result of their business case - Envo-Plastic - a plastic waste recycling initiative harnessing 3D printing technology to provide affordable housing solutions!

Antony Mathu (KCA University), Eric Bakuli (Kenyatta University) and Gerald Ayieye (Moi University), not only won a trip to our London headquarters but also Harvard training vouchers and an Internship position at BAT Kenya.

Judges were so thrilled with the quality of the presentation that Envo-Plastic's initiative is being considered for development at BAT's Innovation Lab in the United Kingdom.

Global Graduates Programme

In 2020, we onboarded four new graduate management trainees into our Operations department. As part of the programme, our graduates are immersed into commercial aspects of the business in order to develop their business acumen and leadership capabilities. Later, they proceed to the BAT Academy – an 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. This year, due to the pandemic, the Academy was held virtually and delivered an amazing digital experience.

For the final 'Up or Out' phase of the programme, the graduate trainees present a summary of their six-month experience covering their contribution to the business and innovative ideas. Successful candidates are promoted into an entry-level managerial role within BAT, in preparation to become our future generation of senior leaders.

In November 2020, BAT Kenya led the way on the Group's digital journey by piloting a new Assessment Centre for Global Graduates using a fully online platform. Candidates participate in group and individual exercises that provides a "day-in-BAT" experience as part of their recruitment process. The full version of the platform is scheduled for launch in 2021.


An employee engagement session in 2019

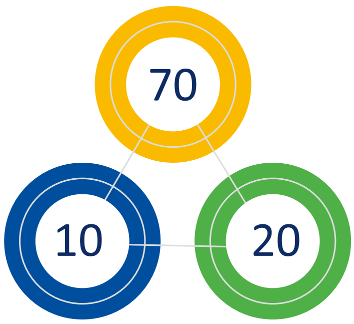
Investing in leaders

I started my career with BAT in November 2018 as a Marketing Global Graduate in Kenya. Little did I know the extent of the word Global in Global Graduate at the time. During the one year programme, I worked not only in different departments, but also with people from different countries and cultures from the East Africa Markets as the Company worked to develop me into a well-rounded manager.

After graduating from the programme, my first managerial role was an international assignment at BAT's Headquarters in London, UK. Here, I worked as a Global Insights Executive in the Strategy, Planning and Insights Department. During my time there, I worked not just on new and upcoming product categories in the Company, but also got to network with people from all over the world at all levels of seniority within BAT.

Rebecca (Becky) Gichanga, Global Insights Executive

BAT's Business and Leadership Capability Model which is aligned with our Ethos, defines what we expect from our leaders and provides a foundation for our approach to developing leaders. Despite a challenging environment in 2020 in which our teams were working partially remotely, we managed to deploy our 70/20/10 Leadership and Development agenda on time and in full, **100% virtual.**



70

- Virtual onboarding
- Cross functional projects
- Lateral moves
- International Assignees

20

- Coaching
- Mentoring revamp
- BATalks!
- Buddy system
- Skip level feedback
- Talent spotlight

10

Scope of training / upskilling / engagement	No of participants
Presentation skills	[15]
Reward strategy	[110]
Excel upskilling	[13]
Leading managers	[10]
Leading teams	[10]
Leading self	[10]
Amazing managers	[25]
Unconscious bias	[95]
Junior women leadership	[32]

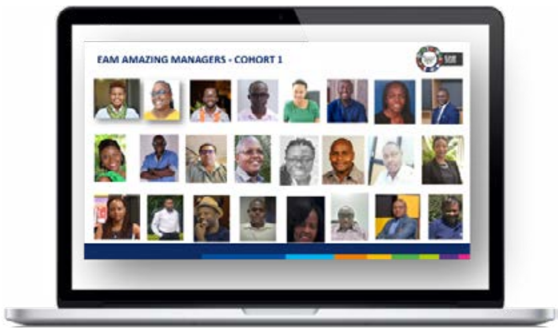
Employees receive both local and global training

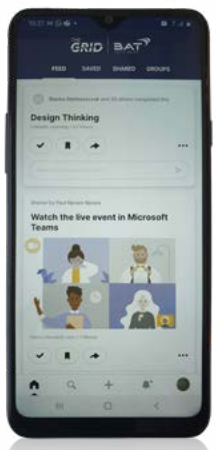
Highlight – *developing "Amazing Managers"*

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.

Due to COVID-19 restrictions, the programme was split into 6 virtual modules, supported by a comprehensive playlist of short learning videos and materials hosted on 'The Grid'.

**The Grid aims to expand and embed self-learning and training opportunities for employees. It offers high-quality online materials – Harvard content, LinkedIn learning, Ted Talks etc - to develop skills and capabilities. It allows you to create a learning pathway which is linked to your development plan and interests, accessing content anytime, anywhere.*





As we continue to develop our talent to embrace new exciting challenges in 2020, we also increased our number of 'Assignees Out' by sending 12+ local talent to other BAT Units around the world, bringing to 26, the total of talent being developed abroad.

Leadership for change

Diversity and Inclusion
BAT Kenya is committed to driving an inclusive culture that respects and embraces the diversity of employees, clients and communities.

We believe that 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. In 2020, we reinforced our commitment to the Diversity and Inclusion agenda, through three main strategic pillars:

Leadership Readiness	Certification and Partnership	Corporate Enablers
Sr Women in Leadership – Global training (+2 nominations in 2020)	**NSE Gender Report by Equileap** – 13th place	D&I Dashboard for monitoring
Jr Women in Leadership– developed locally (+30 female talent)	**Top Employer – 2nd place Kenya** and 3 years in a row Top Employer in Africa	D&I policies review
Unconscious Bias - 100% managerial population trained in 2020	**WEP (Women Empowerment Principles)** - UN Women signatories	Accessibility in the Workplace
Diversity Talks and International Women's Day Initiatives	**Partnership with ANDY** – people with disabilities agenda and **30% Club** – fostering female in senior levels	Six (6) Kenyan D&I champions

Walking the talk

From November 2020, role titles for HR leaders in the organisation changed to reflect our commitment to Diversity & Inclusion.

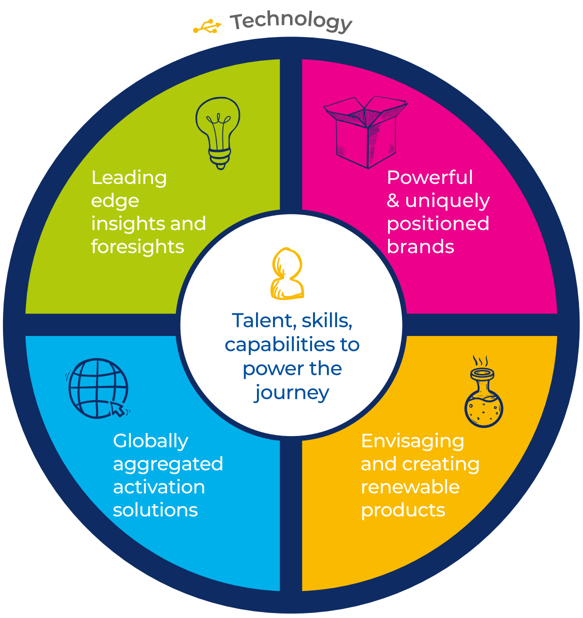
FROM	TO
Director of Talent & Culture	Director of Talent, Culture & inclusion
Group Head of Talent & OE	Group Head of Talent, OE & Inclusion
Group Head of Talent Development & Diversity	Group Head of Talent Development & Inclusion
Group Head of HR (Function)	Group Head of HR & Inclusion (Function)
Regional Head of HR	Reional Head of Talent, Culture & inclusion
Senior Vice President HR	Senior Vice President HR & Inclusion
DRBU HRDs	HR & Inclusion Directors
Talent & OE Managers	Talent, OE & Inclusion Managers

Building future capabilities

As BAT accelerates its transformation agenda to build A Better tomorrowTM, we are leading the pace on deploying future capabilities development tools. An example is the Marketing 2.0 programme which brings to life our mantra 'stronger, simpler, faster' through six macros and foundations for our employees in Marketing.

In order to step up and prepare our teams, we are deploying the Marketing 2.0 content through exciting Live sessions with senior leaders, alongside a robust Grid playlist to consolidate learnings and concepts.

This is anchored on the objectives framework below.



Empowered organisation

As we drove an energised, strong and agile culture and reinforced our Ethos – we introduced a digital, fun and instant recognition tool. With the simple click of a button on Outlook, employees can send Ethos-themed Thank You e-cards to colleagues to show recognition and appreciation.

Create a recognition card!

Employer value proposition

- leveraging from a strong employer branding

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, developing and retaining diverse top talent. As a result of this commitment and robust People & Culture Agenda, we have been awarded the Top Employer certification three years in a row by the global Top Employers Institute, with the 2020 certification being received in January 2021.

top EMPLOYER AFRICA 2020 CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

top EMPLOYER KENYA 2020 CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

BAT Kenya employees at the KAM Energy Management Awards 2020 where we were recognised for excellence in water and electricity savings initiatives

Gender pay report

Introduction

BAT is committed to championing better work-life quality for all our employees. We 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. We also 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 will report our gender pay data for 2020 below.

BAT 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 all the rewards.

We believe that pay equity is the most important aspect of our reward scheme. Equity is not treating everybody the same, it is differentiation supported by clear and objective criteria. As such, we strongly believe in transparency of our pay policies and decisions.

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

Concepts and abbreviations

- **Grade (G):** job positions at the same level which are combined into salary bands. 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 November 2020 payroll data;
- **Annual salary review (ASR):** annual exercise of awarding salary increases based on the employee's annual performance rating, and
- **Years of service (YOS):** the total period that an employee has worked in the Company.

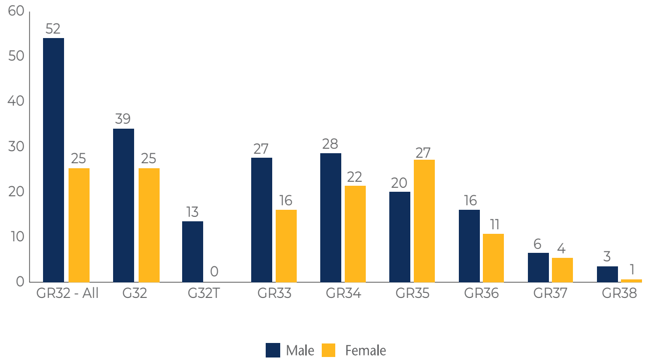
BAT Kenya gender pay reporting

To note: gender pay gaps can fluctuate month on month and across pay ranges, depending on changes to headcount due to joiners, movers and leavers. It is important to monitor gender pay gap across the year(s), as it provides 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 Assignees In – across grades.

Headcount - Grade vs Gender - Fig 1



Highlights

Overall, we have a higher representation of males in each of the grades than females. However, as we look deeper into our numbers and our Female Talent Acceleration Strategy, most of our internal moves – considering managerial promotions and expatriation – were dominated by female talent, which has increased in the last year from 41% to 47% in Managerial levels.

Fig.2

Year	2019		2020	
Managerial Grade	M	F	M	F
34	26	16	28	22
35	29	23	20	27
36	16	12	16	11
37	8	5	6	4
38	2	1	3	1
Total	81	57	73	65
	59%	41%	53%	47%

As seen in Fig.1, the overall female representation is 40% (132/335), impacted by the low numbers in Operations/Factory. When we consider managerial levels, our representation comes to 47% as illustrated in Fig.2.

"I am married and a mother of two. I started my career at BAT as an office administrator back in 2008, a position I held for a couple of years before transitioning to a Trade Marketing Representative, a Distribution Development Executive and now Area Sales Manager.

I must say it has been a very interesting career journey for me, growing from an admin to a leadership position in the business, yet it hasn't been easy.

Being a woman, it is a bigger challenge achieving work-life balance. What has worked for me is the strong support I receive from my family. My spouse and children encourage me to be the best version of myself and that inspires me a lot. More so, I believe in a higher being and I have a lot of faith in God that "I can do all things through Christ who strengthens me".

BAT also has great women in leadership roles who inspire me immensely. I tell myself a lot of times, if they can lead this great organisation, I can also be great at my level."

Patricia Githinji, Area Sales Manager

Highlights per Function

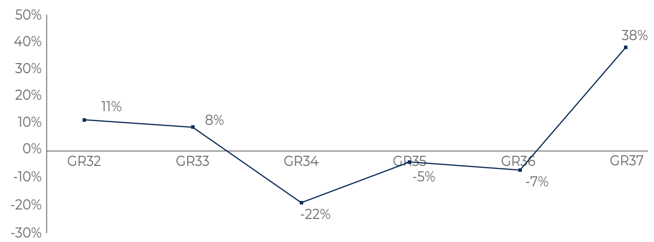
BAT uses Total Pay to recognise performance. We invest significantly in development to ensure that employees can perform at an optimal level and bring their unique contribution to the business. For each grade level, we have market-competitive pay ranges – built on an annual salary survey - that our talent 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.

Fig.3

Average Time in Grade (yrs)		
Grade	Male	Female
GR32 - All	6.6	4.6
GR32	2.0	4.6
GR32T	11.1	0.0
GR33	4.5	3.8
GR34	3.5	2.8
GR35	4.4	3.2
GR36	3.9	3.0
GR37	2.3	3.3
GR38	3.3	3.1

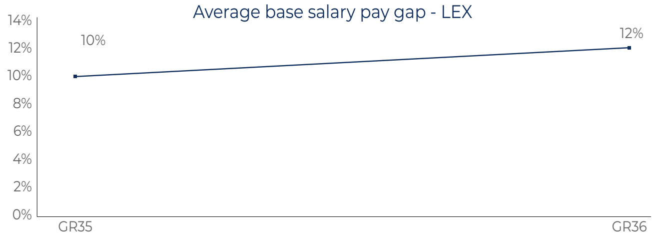
The charts below highlight the pay distribution within the grades which is impacted by YOS and ASR. Based on the numbers, our male population has a double average time in grade - Male 4.5 years vs. Female 3 years – Fig 4 - which means that on average they have stayed longer within the same pay grade than females.

Average base salary pay gap - Marketing

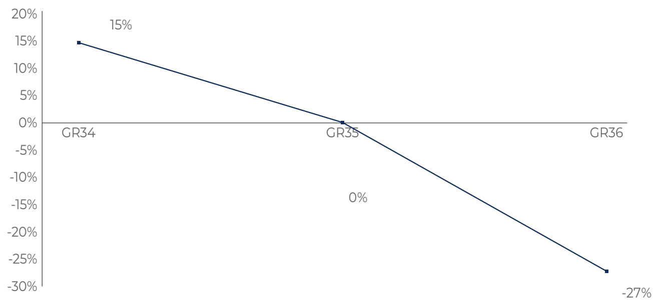


Average base salary pay gap - Operations

Average base salary pay gap - LEX



Average base salary pay gap - Finance



BAT Kenya was recognised by the Kenya Association of Manufacturers for championing diversity and inclusion initiatives for women in manufacturing, in 2020.

Progress towards our goal

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

Training and development:

- Unconscious Bias training: internal training which addresses how bias can impact recruitment, right through to salary conversations and progression opportunities. In 2020, all line managers in the business undertook this training.
- Junior Women in Leadership: programme launched in 2019 focusing on enhancing leadership capabilities and offering the support and coaching needed to help female talent to progress in their careers. In 2020, 30+ junior female managers completed this programme.

Corporate enablers:

- Parents @ BAT - provides coaching support for new parents and their line managers to help them manage quality career discussions and to create a successful transition to and from maternity or adoption leave. It contains expert advice for managing a colleague who is preparing to leave and for employees to make confident comebacks.
- At BAT Kenya, we champion flexible working across the organisation, having refreshed our flexible working practice with the emergence of COVID-19. Taking into consideration the special needs for parents to adapt at this moment, we introduced a flexible rotation system in which employees book their days/time in the office through a digital platform – Office Planner.
- In addition, we launched a Ways of Working survey to collect employees' perceptions and suggestion on COVID-19 measures and future of work. As a result, +88% were very satisfied with the Company's practices and flexible working arrangements.

Our Managing Director's Perspective

"We are committed to being a diverse and inclusive organisation and as such, understanding 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 statistics across all levels of the organisation requires understanding and focus from leadership, the Board 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 some 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 that we have an ambition to show leadership in diversity at every level as well as training all our people to understand the difference, how to manage, treat, and develop people from all backgrounds. An 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."

Crispin Achola, Managing Director

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. We, at BAT Kenya, are passionate about diversity. We will therefore continue to focus on improving our diversity performance year on year.

We are **BOLD** | We are **FAST** | We are **EMPOWERED** | We are **DIVERSE** | We are **RESPONSIBLE**

Our sustainability approach

Our Sustainability Agenda is integral to our evolved strategy and is underpinned by a drive for excellence across our ESG priorities.

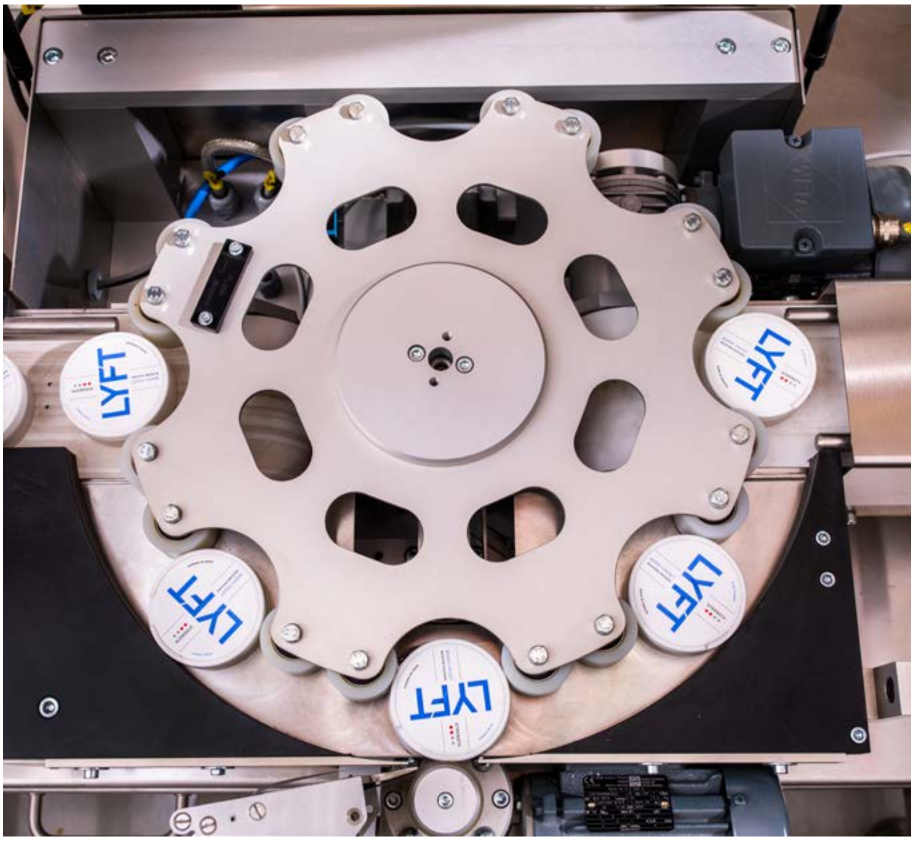
Effective governance is critical to ensuring that we manage our sustainability impacts, and our wider business, responsibly. Our governance structure starts at the Board of Directors, who have oversight of strategic issues, while our Board Audit Committee has responsibility for monitoring our performance. We also have clear policies, principles and standards that detail the way we do business and how we behave and conduct our business.

Our socio-economic contribution

We have consistently invested in our business and sought to increase our contribution to the socio-economic development of the country since BAT started operating in Kenya 114 years ago.

We 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 and sale, 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 approximately KSh 5 billion in tobacco farming, leaf processing and our cigarette



manufacturing factory in Nairobi and have paid over KSh 89 billion to the Exchequer in form of various taxes.

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, our transformation journey towards tobacco harm reduction is well underway, with the introduction of our tobacco-free oral nicotine pouch - LYFT - into the Kenyan market in 2019.

Our plans to further grow our new categories product portfolio through a KSh 2.5 billion investment in a new world class factory for the manufacture of tobacco-free Modern Oral Nicotine products, are well advanced with the construction having been completed and the factory licensed for production. The factory - the first of its kind in Africa - is expected to contribute significantly to the Kenyan economy, creating over the first five years, up to an additional 80 jobs, over KSh. 75 billion in export revenue, KSh. 1.5 billion in import duty from inputs for manufacturing, and further supporting over 50,000 Kenyans and local businesses in our extended value chain. Subsequently, this is expected to deliver enhanced value for approximately 4,000 local shareholders. The proposed investment is testament to our commitment to Kenya and our support for the Government's Big Four Agenda on manufacturing.

However, the lack of a sustainable fiscal and regulatory environment for modern-oral nicotine products in Kenya and across the continent continues to put the Tobacco Harm Reduction agenda and subsequently, the factory investment at risk. We continue to engage and work closely with the relevant regulators towards creating a sustainable regulatory framework for new category products in Kenya.

Enhancing the livelihoods of our tobacco farmers

In 2020, we continued to partner with approximately 4,000 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 2020, our crop insurance scheme paid out KSh 86 million to farmers whose crop was impacted as a result of harsh weather and diseases during the 2019/2020 tobacco growing season.

To enhance our farmers' health and safety, we issued our farmers with CPA waste collection bags. This allows the farmers to collect all agrochemical containers safely, and for BAT Kenya to dispose of them appropriately, in conjunction with the National Environment Management Authority (NEMA) and the Agrochemical Association of Kenya (AAK) approved agents. This enabled us to collect and properly dispose a total of 1.5 tons of Crop Protection Agents (CPA) empty containers.

Despite the ever-changing climate conditions, our partnership with our tobacco farmers yielded 8.3 million kilograms of tobacco, earning them net pay of KSh 1.41 billion in 2020. To drive crop diversification and food security, farmers were also issued with 23.1 tons of certified maize seeds to promote food security and provide extra income from sale of any surplus maize harvested.

The farmer Savings and Cooperative 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 2020 we trained 4,773 farmers in farm management skills and labour practices, including child labour prevention and biodiversity management.

In efforts to manage plastic waste, we are at the centre of the Kenya Association of Manufacturers' efforts to spearhead the first Extended Producers Responsibility scheme (EPR) for plastics, aimed at increasing recycling of plastics from the market, as well as championing the use of bio-degradable packaging materials. Our waste management track record remained excellent in 2020 with a sustained zero waste to landfill scorecard for the year.

We protect the environment in which we operate

Reducing the environmental impact of what we do is a key priority for us. In addition to implementing various energy and productivity initiatives, we also work with local communities and relevant authorities to address the impact of our business, as well as environmental pressures caused by the evolution of our ecosystems, such as climate change and impacts of human activity.

In 2020, we planted 2.21 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 690 tons of briquettes, saving over 2,000 trees that would have been used in tobacco curing. 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 thousands of trees.

Our approach to regulation

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 2020, we continued engaging with various government departments in pursuing a balanced and predictable regulatory and fiscal environment for our business.

Devolution

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

This fundamentally undermines the ease of doing business in the country and will adversely impact the manufacturing industry, our business and that of our traders. The costs implications alone will contribute to increased illicit trade across a number of industries.

Excise tax

Unpredictable and steep excise increases continue to adversely impact consumer affordability, leading to a higher incidence of illicit trade at the expense of the legitimate industry and tobacco-related Government revenues. This has been further compounded by the resultant differentials in excise rates with Kenya's neighbouring EAC partners states, with the excise payable in Kenya, being double that of Uganda and Tanzania.

The COVID-19 pandemic worsened an already challenging business environment. The containment measures taken by Government to curb the spread of COVID-19 led to significant shrinkage in economic activity and increased unemployment, resulting in reduced consumer spending. Stretched consumers opted to reduce their purchases or to consume cheaper tax-evaded cigarettes, driving up demand for illicit cigarettes.

On the back of these challenges, illicit trade in tax-evaded cigarettes doubled during the year to an estimated 23% (source: 3rd Party Research), driven by consumers downtrading in their search for cheaper products. This translates to an estimated 1 billion sticks, resulting in an annual loss of over KSh. 4 billion in Government revenues. We estimate that the Government has lost an estimated KSh. 15 billion since 2016 as stretched consumers switch to cheaper tax evaded cigarettes. A major component of this is cross-border tax-evaded cigarettes, which accounts for the majority of the illicit trade problem.

Items made from recycled tobacco waste.

The border containment measures implemented by the Government to curb the spread of COVID-19 did not stem the flow of illicit cigarettes into Kenya. Indeed, it is increasingly clear that the problem of tax-evaded cigarettes cannot be tackled by enhanced enforcement alone, but must also consider fiscal policy, including addressing excise differentials between neighbouring jurisdictions and current economic realities.

Fighting Illicit trade in tobacco products

In 2020, we continued engaging the relevant government agencies to address the increasing levels of illicit cigarettes in the market, even in the face of closed borders as a result of the COVID-19 pandemic. We specifically advocated for increased controls on manufacturing processes and export volumes, enhanced supply chain due diligence requirements and improved border controls. Together with greater penalties, we believe that these measures, if implemented and strictly enforced, have the potential to significantly bring down the levels of illicit trade in tobacco products in Kenya.

On 4 May 2020, the Government of Kenya ratified the FCTC Protocol to Eliminate Illicit Trade in Tobacco Products. This is a step in the right direction, and we hope that it will lead to enhanced and holistic efforts to bring down the levels of illicit in Kenya. The Protocol sets out various measure governments need to take at local and regional levels to eradicate the illicit trade in tobacco products.

In June 2020, the Cabinet Secretary for the National Treasury & Planning enacted the Excise Duty Regulations, 2020. We strongly believe that full enforcement of these Regulations will see the closure of a number of gaps that exist in various parts of the supply chain of excisable goods such as cigarettes. The Regulations seek to put controls in the primary and secondary supply chains for all excisable goods, including cigarettes.

Some of these controls will require the mandatory registration and licensing for all handlers of raw materials and inputs into the manufacture of excisable goods. The Regulations also require stricter controls in manufacturing processes, including granting the Kenya Revenue Authority remote access and control over manufacturing facilities, requiring documentation and registers for all manufacturing machinery and equipment, as well as setting out controls in the movement of raw materials, intermediate and finished excisable goods.

DIGITAL DNA: **DRIVING DIGITAL INNOVATION AND TRANSFORMATION**

Innovation is at the centre of business and culture transformation at BAT Kenya. Our Information and Digital Technology (IDT) strategic plan for 2020 was anchored on accelerating our digital transformation to deliver enhanced value to the business. Our focus was on facilitating progress in three priority areas: *A step-change in the New Categories portfolio, driving Combustibles growth and simplifying the business.*

To accelerate our digital transformation, we deployed activities and processes that interact with consumers and staff by exploiting data science, machine learning and driving a winning culture in our ways of working. For example, we deployed chatbots to support the process of onboarding and knowledge searching, as well as automating previously manual tasks and making them accessible on mobile apps, thereby enhancing the user experience and agility. To drive collaboration in innovation, we trained 10 key staff ambassadors in the process of innovation (Design, Discover, Develop and Deploy). A digital innovation platform is now available to all staff to submit their ideas on meeting specific business-wide challenge questions or sharing just-in-time ideas. The reward is the deployment of winning ideas, which has a significant impact on driving a positive digital transformation mindset and culture.

Driving Combustibles value growth and a step-change in New Categories through trade excellence

During 2020, we accelerated the expansion of our digital footprint and capabilities in the trade. This was mainly through digitising the business-to-business (B2B) transaction experience and data protection, especially on the back of increased digital activity occasioned by COVID-19 restrictions. We put in place a robust digital infrastructure to enable mobile sales with our trade partners, which included secure marketing technologies, mobile money and remote telesales operations.

Mobile technology has enabled real-time capture and visibility of market data and insights, further helping our trade team in their fight against illicit trade in cigarettes. The launch of an anti-illicit trade application for the business in 2020 saw delivery of rich, geospatial crowdsourced information, which helped provide daily insights into illicit hotspots and trends. This supported a fully data-driven decision-making approach in the engagement of key stakeholders on Illicit trade matters.

Business simplification: building a future-fit business

At the core of IDT's drive to simplify the business is the automation of staff experiences to enable empowered, agile and collaborative teams. Our digital infrastructure includes investment in cybersecurity, cloud services (collaboration among virtual teams), augmented reality, big data analytics and artificial intelligence.

Prior to the remote working new normal of 2020, our robust testing of business continuity plans in previous years enabled the Company to swiftly and effectively run its business with most of its staff working remotely. Some of the IDT-enabled activities included, home capability activation of more than 400 employees and contractors in less that six hours at the onset of the COVID-19 pandemic. Our investment in a robust IDT infrastructure also helped mitigate business interruption throughout 2020.

Our people agenda was a key beneficiary of our IDT investments in 2020, with remote learning made easier through mobile data provisioning of an average of 10GB (gigabytes) per month with a running total of more than 80TB (terabytes).

Setting records: Fully remote factory installation

For BAT Kenya, 2020 saw many firsts in business simplification, enabled through collaboration with third parties and a robust foundation of superior capabilities and technology. One of our proudest moments was the virtual installation (hardware and software) of our new Oral Nicotine factory, which was enabled through augmented reality solutions. Further, we deployed artificial intelligence image recognition technology in the production process, increasing operator efficiency and effectiveness, while reducing waste.

In June 2020, our world-class digital capabilities delivered our first ever record-setting virtual Annual General Meeting. The event registered over 500 attendees and provided a sign language interpreter for people with hearing impairments.

Digitising our tobacco farming operations

In 2020, we migrated farmer transactions and processing capabilities from local data centres to the cloud, as part of our drive for cloud-first services. We also introduced a mobile app through which Field Technical Officers can instantaneously capture geospatial data on our contracted tobacco farms, including details of visits to farmers and photographs of the tobacco crop. This provides real time and accurate data to facilitate decision-making by the business. A land measurement tool was also embedded in the mobile app, improving data accuracy on the tobacco growing farms.

The leaf buying experience was also enhanced through incorporation of digital weighing scales to eliminate data capture errors. With these developments, the speed of managing data related to our tobacco growing operation improved from about two weeks of manual data capture and processing, to instant data capture.

Agile business operations

With the COVID-19 pandemic accelerating a remote world of work and business, we ramped up the use of digital tools to facilitate business continuity and save resources. This includes digital approvals and contract management platforms. These solutions have resulted in approximately 30% reduction in printing of documents, driving significant savings in wood, water, carbon and general waste.

1,151 kg
of wood

28,286 litres
of water

2,702 kg
of carbon

187 kg
of waste

It was a challenging but exciting 2020. At the end of the year, we received two awards at the 2020 CIO 100 awards: the “Gold Mark” which was awarded for the second year in a row for our use of digital technology and innovation in manufacturing to reduce waste; and the “Green Edge Award” which we won for the first time, after emerging as the top technology-driven sustainable manufacturing company in the East African Region. The global CIO 100 awards aim to recognise and celebrate leaders and businesses driving change in their organisations through technology.

As we look to 2021 with optimism, our focus will be on enabling a robust environmental conservation agenda for the business, including driving a circular economy within the IDT department. This will include enhancing hardware and data capabilities with a focus on customer and consumer experience, continuous learning as well as leveraging big data, the internet of things (IoT) and analytics.

Tree planting activity on World Environment Day 2020.

SPECIAL FEATURE:
Navigating the COVID-19 pandemic

As a key contributor to the manufacturing sector and Kenyan economy, we are playing an active role in adapting to the new ways of working in order to keep Kenya moving and deliver A Better Tomorrow™ for our stakeholders. At the onset of the pandemic, we put in place various measures to facilitate business continuity, mitigate the spread of COVID-19 and support local communities.

Our commitment to Kenya means that we are doing everything we can to ensure we continue with business operations to stimulate the economy and contribute to its recovery once this is all over. As part of this, we continued with our investment of KSh 2.5 Billion in a new world- class factory to manufacture tobacco-free oral nicotine pouches. This investment is on the back of our new corporate purpose and strategy - to build A Better Tomorrow™ for our stakeholders.

To mitigate business disruption in the immediate term, we quickly kicked-off our Pandemic Business Continuity Plan which addresses three clear priorities:

a) **Employee welfare and keeping our people as safe as possible;**

Guided by our Ethos, we endevour to always take deliberate, responsible and careful actions when it comes to our people, and this is true even during these unprecedented and challenging times.

In addition to keeping our people safe, we implemented several initiatives that cut across financial management and employee engagement. These have in turn supported business continuity and so far, enabled us to retain jobs and provide full remuneration. These measures include:

- *Workforce planning:* through continuous monitoring and rationalisation of employment costs, such as temporary halting of non-essential hiring and expenditure.
- *Employee wellness:* We launched virtual forums with qualified professionals and personal 1:1 follow-up sessions to ensure that our people are well and safe, as well as their families. In addition, we put in place a 24-hour hotline as well as counselling services at our on-site clinic.
- *Flexibility and agility:* We enabled employees to be agile and embrace the new normal by providing them with the necessary resources and support (data bundles, work-from-home schedules and tips, revised ways of working, etc). This helped them adapt their daily routines to deliver at work as well as support their families. Additionally, we quickly adapted our talent processes to include aspects such as virtual onboarding and an updated fully digital Learning portfolio.
- *Reinforcing trust and a sense of belonging:* We took measures to keep staff well informed and engaged, ensuring that decisions affecting them were communicated in a timely manner. We sent business updates on a regular basis, while also checking-in on each other in person (1:1 phone calls by management).

  We also conducted virtual townhalls and social forums for employees to engage with their peers and the Leadership Team at a more personal level – asking questions and giving input towards decision-making. This enabled us to reinforce trust, thereby keeping employees involved, engaged and motivated to continue delivering as one.

Health and safety initiatives:

- Provision of protective equipment such as masks and gloves where necessary.
- Temperature thermo-screening upon entry and exit.
- Regular disinfecting of our premises and provision of hand sanitisers to all staff and placement at all our sites.
- Facilitating social distancing including working from home for non-essential staff and using technology as much as possible to stay connected and keep the business going.

b) Enabling business continuity in order to preserve jobs

- We directly and indirectly employ over 1,800 people and partner with over 80,000 Kenyans in our supply chain. It was therefore very important to take steps to ensure that we continued manufacturing. In liaison with our staff union, various interventions were therefore put in place to facilitate this.
- On the production front, we ensured that finished goods were in line with our maximum stock-keeping policies in readiness for any prolonged market disruption. We also fast-tracked our tobacco leaf buying schedule to ensure that our farmers brought in the harvested tobacco and got paid on time.
- On the people front, we made various adjustments to facilitate compliance with government directives such as the national curfew and social distancing. These included:
  - ✓ Reconfiguring factory shift schedules and the introduction of shift segregation to avoid interaction between incoming and outgoing staff
  - ✓ Providing additional transport to ensure that factory staff adhered to curfew regulations and social distancing in vehicles
  - ✓ Adjusting canteen mealtimes to accommodate all employees and minimise the need for them to leave the workplace for lunch with a view to minimise external contact

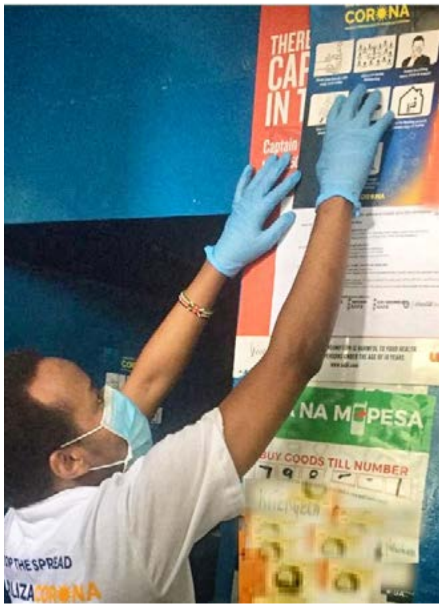
c) Supporting our local communities

In an effort to drive a positive social impact, we undertook the following community support initiatives:

- Donated KSh 10.6 million to the National COVID-19 emergency Fund
- Distribution of hand sanitisers: we mobilised our supply chain network, in partnership with Government and select private sector partners to distribute hand sanitiser to vulnerable communities in the country
- Provision of hand-washing facilities and restoration of water supply in tobacco farming and processing communities: we partnered with the county governments of Kiambu, Embu, Meru and Bungoma to facilitate installation of hand-washing facilities for public use
- Health awareness activities in the Trade: our trade teams distributed COVID-19 health awareness materials to retail outlets in our network of over 50,000 Kenyans

In addition, the BAT Group is also undertaking research into the development of a COVID-19 vaccine at the BAT Group's US biotech subsidiary. The vaccine is being developed using new, fast-growing tobacco plant technology as tobacco plants have the potential for faster and safer vaccine development compared to conventional methods.

At BAT, we believe that if we work together to stay safe, we can get through this together and come out stronger on the other side.



Corporate Governance

04

Board of Directors

RITA KAVASHE
Non-Executive Chairperson

Nationality: Kenyan

Position: Independent Non-Executive Chairperson since September 2020 and Chair of the Nominations & Governance Committee.

Skills and experience: Rita is currently the Managing Director of Isuzu East Africa Limited (formerly General Motors East Africa), the largest motor vehicle assembler in East Africa. She joined General Motors in 1995 and has held several key roles in Sales and Marketing, in Kenya and South Africa. Rita holds a Bachelor's degree in Education from Moi University, Eldoret and a Master 's degree in Business Administration (MBA) from the University of Nairobi. She is also an Executive Coach certified by the Academy of Executive Coaches (AOEC) UK. In 2017, Rita was awarded a state honour, the Moran of the Order of the Burning Spear (MBS) for exemplary service to the country in her capacity as a business leader.

Key Appointments: She is the Chairperson of the Kenya Roads Board, Non-Executive Director on the Board of Bamburi Cement Ltd (Lafarge Group), Vice-Chair of the Kenya Private Sector Alliance (KEPSA) and serves as a member of the Kenya Vision 2030 Delivery Board and the University of Eldoret Endowment Trust Board of Trustees.

CRISPIN ACHOLA
Managing Director

Nationality: Kenyan

Position: Managing Director since January 2021

Skills and experience: Crispin most recently worked for the Kimberly-Clarke Corporation where he held the position of General Manager; West, East & Central Africa (WECA) and Managing Director Nigeria. Prior to this, he worked for BAT from 1999 through to 2017, during which he held various senior roles within BAT Kenya and the Group; including Managing Director Mozambique, Cluster General Manager- Mozambique, Zambia, Zimbabwe & Malawi, and Managing Director, Sudan.

Key Appointments: He is also the General Manager for BAT East Africa based in Nairobi.

PHILEMON KIPKEMOI
Finance Director

Nationality: Kenyan

Position: Finance Director since May 2020.

Skills and experience: Philemon has been with BAT Group for 14 years. He joined BAT Kenya in 2007 as Audit Manager, from PricewaterhouseCoopers (PWC). He has subsequently held various senior Finance Leadership roles within the Group, including, Finance Controller (Uganda & Big Ben Tobacco DRC), Finance Controller (East & Central Africa), Head of Operations Finance (East & Central Africa) and most recently Head of Finance (Horn of Africa & Indian Ocean Islands).

Key Appointments: Philemon is also Chairman of the Board of Trustees, BAT Kenya Staff Provident Fund and Head of Finance for BAT East Africa, based in Nairobi.

PETER MWANGI
Non-Executive Director

Nationality: Kenyan

Position: Independent Non-Executive Director since February 2015. Chairman of the Remuneration Committee and a Member 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 Funguo Investments Ltd and Digital Opportunity Trust.

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, both locally and internationally. He holds a Doctor of Philosophy degree in Strategic Management from the 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. In June 2020, he was awarded the Presidential Order of Services – Uzalendo award, for his exemplary service in steering Kenya through the COVID-19 pandemic. 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 is a Board Member of KAG East University Council.

CAROL MUSYOKA
Non-Executive Director

Nationality: Kenyan

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

Skills and experience: Carol is a lawyer and a banker by profession, and is the Founder and Chief Executive Officer of Carol Musyoka Consulting Limited, a corporate governance and leadership consultancy. 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 Corporate Director at Barclays Bank of Kenya Ltd and Executive Director at K-Rep Bank (now Sidian Bank). She currently provides consulting and training services for various local and 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 the Chairperson of the Business Registration Services; a Non-Executive Director at East African Breweries Limited, Kenya Airways plc, Kenya Breweries Limited, UDV (Kenya) Limited, the Industrial and Commercial Development Corporation (ICDC) and an adjunct faculty at the Strathmore University Business School.

ANDRÉ JOUBERT
Non-Executive Director

Nationality: South African

Position: Non-Executive Director since May 2020.

Skills and experience: André joined the BAT Group in November 1999. He has over 21 years' experience in various senior finance and management roles, having worked as the Regional Head of Finance, East Europe, Middle East & Africa; Area Director, Caucases & Central Asia; General Manager, Southern Africa Markets, among others. He brings a wealth of experience from the tobacco, mining, banking and audit industries and across several jurisdictions, notably the United Kingdom, South Africa, Indonesia, Switzerland and Zimbabwe. He is a licensed Chartered Accountant (South Africa) amongst other qualifications.

Key Appointments: He is also the Area Director of BAT East and Southern Africa Area.

SAMUEL OKECH ONYANGO
Non-Executive Director

Nationality: Kenyan

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

Skills and experience: Samuel is the immediate former CEO of Deloitte East Africa. He has extensive audit and advisory experience, having served for 38 years in various audit roles. He 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 then East, Central and Southern Africa Federation of Accountants (ECSAFA), which he also represented in the International Federation of Accountants (IFAC). Samuel holds a Bachelor of Commerce, Accounting Option (First Class Honors) from the University of Nairobi and is a Fellow of the Institute of Certified Public Accountants of Kenya (FCPA), a Fellow of the Institute of Chartered Accountants in England & Wales (FCA) and the Institute of Certified Public Secretaries of Kenya. He is also a trained Arbitrator and Mediator at the International Law Institute, George Town University, Washington DC.

Key Appointments: He is a Non-Executive Director at Equity Bank Kenya Limited and a Director at Jadala Investments Ltd.

MARION GATHOGA-MWANGI
Non-Executive Director

Nationality: Kenyan

Position: Independent Non-Executive Director since May 2020 and Member of the Board Audit & Risk Committee

Skills and experience: Marion is an accomplished Senior Executive with over 20 years of local and international experience in Commercial and General Management predominantly in the manufacturing sector. She is currently the Managing Director of BOC Kenya plc, the leading gases and engineering solutions company in Kenya. BOC Kenya Plc is listed on the Nairobi Securities Exchange (NSE). Prior to her current role, she served as the Head of the Association of Certified Chartered Accountants (ACCA) - Kenya. She has previously served as the Country Head, Groupe Lactalis – Parmalat Botswana (Pty); Country Director, Cadbury Kenya & East Africa Limited; General Manager, Unga Limited and had a long and distinguished career with Bayer East Africa. She holds a Bachelor of Science (Honours) degree in International Business Administration from the United States International University (USIU) Kenya and is a practicing Continual Improvement (CI) Kaizen expert.

Key Appointments: She is a Board Member of the Kenya Association of Manufacturers (KAM), is a long serving Trustee of the Palmhouse Foundation (an education trust), a Member of Women Corporate Directors and Women on Boards Network (WoBN) and is a Council member of Superbrands East Africa.

Dr. MARTIN ODUOR-OTIENO
Non-Executive Director

Nationality: Kenyan

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

Skills and experience: Martin is the Founder and CEO of The Leadership Group Limited, a Nairobi-based consulting firm, which is involved in facilitating board practice, leadership training as well as providing executive coaching and business advisory services. Prior to this, Martin worked with Deloitte East Africa as a Financial Services Partner and with KCB Group as Chief Executive Officer among other senior private sector appointments. He has also served as Permanent Secretary, Treasury in the Government of Kenya. He holds an honorary Doctor of Business Leadership degree from KCA University, Executive MBA from ESAMI/Maastritch School of Management and Bachelor of Commerce degree from University of Nairobi. He is also an alumnus of the Harvard Business School's Advanced Management Program. In recognition for his contribution to national development, Martin was awarded the honour of Chief of the Order of the Burning Spear (CBS) by the Head of State. Martin is a Fellow of the Kenya Institute of Bankers, Institute of Certified Public Accountants of Kenya, Institute of Directors Kenya and Institute of Certified Public Secretaries of Kenya in addition to holding an International Coaching Federation Credential as an Associate Certified Coach.

Key Appointments: He is a Non-Executive Director at Standard Bank Group and Standard Bank of South Africa, Non-Executive Director at Kenya Airways plc and GA Life Assurance Limited. He is the Group Chairman of the Board of East African Breweries Limited, Chairman of the Board of Kenya Breweries Limited and UDV (Kenya) Limited and the immediate past President of the International Coaching Federation (ICF) Kenya Chapter.

KATHRYNE MAUNDU
Company Secretary

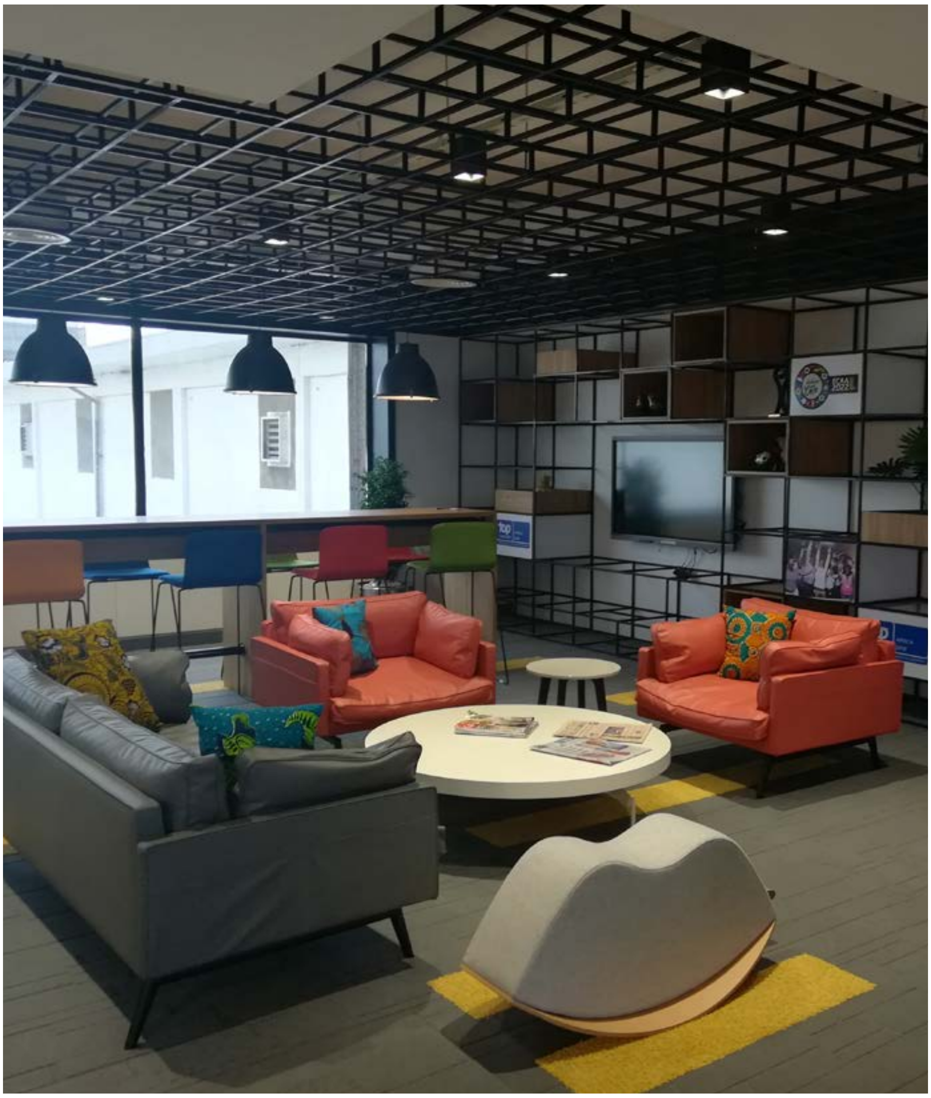
Nationality: Kenyan

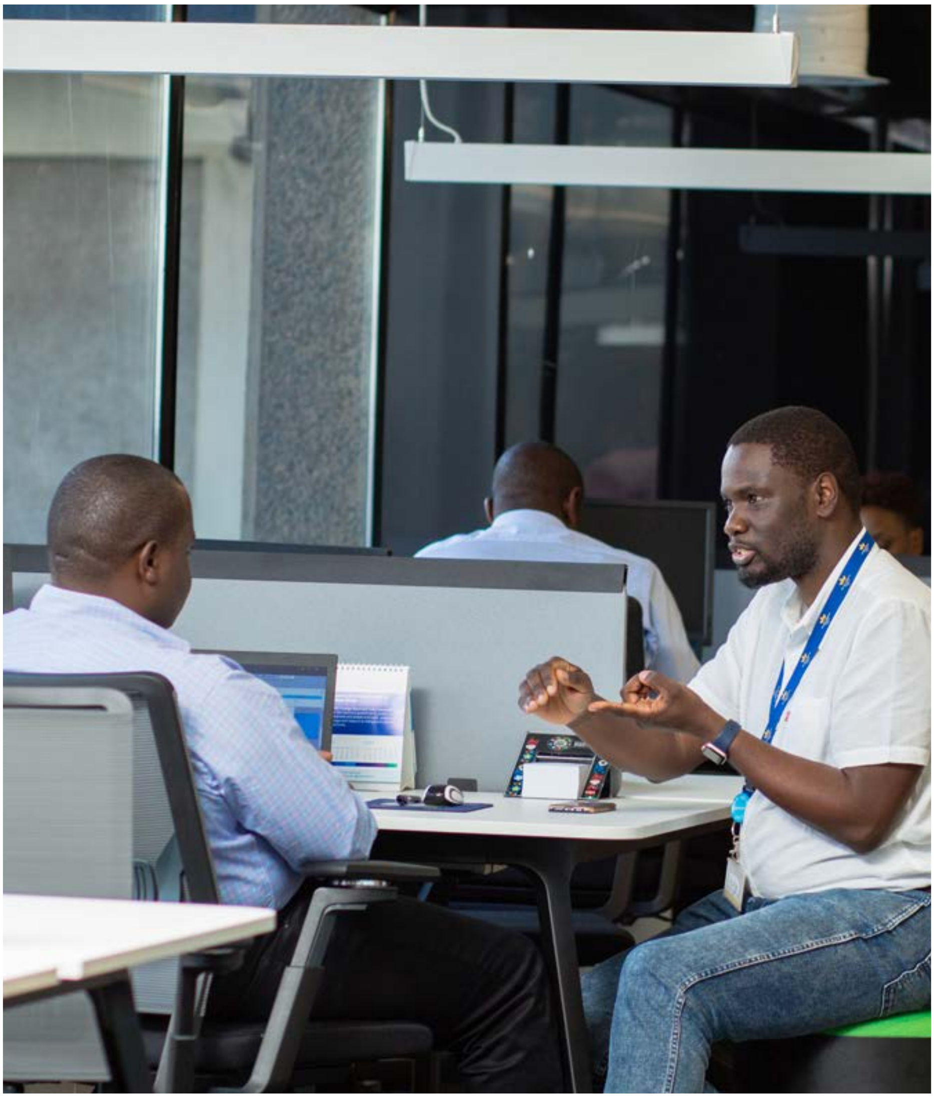
Position: Company Secretary since June 2020.

Skills and experience: Kathryne is a Partner at Stamford Corporate Services LLP, part of Bowmans Coulson Harney LLP. She is a leading expert in Corporate Governance within the East Africa region and has been instrumental in advising leading corporates in the public and private sector, over the last 15 years. She is an Advocate of the High Court of Kenya, a registered Certified Public Secretary and an Accredited Governance Auditor with the Institute of Certified Secretaries of Kenya. Kathryne is recognized as a leader and mentor in society and has been named as one of the Top 40 under 40 Women in Kenya – 2018, amongst other accolades.

Key Appointments: Council member - Institute of Certified Public Secretaries of Kenya; a Director of the Anti - Doping Agency of Kenya; Member of the Women on Boards Network and Women Corporate Directors and a Member of the Law Society of Kenya.


deliver as One





BAT Kenya's modern offices in Nairobi's Industrial Area

Leadership Team

Crispin Achola
Managing Director

Crispin most recently worked for the Kimberly-Clarke Corporation where he held the position of General Manager; West, East & Central Africa (WECA) and Managing Director Nigeria. Prior to this, he worked for BAT from 1999 through to 2017, during which he held various senior roles within BAT Kenya and the Group; including Managing Director Mozambique, Cluster General Manager-Mozambique, Zambia, Zimbabwe & Malawi, and Managing Director, Sudan. He is also the Cluster Director for BAT East Africa, based in Nairobi.

Philemon Kipkemoi
Finance Director

Philemon has been with BAT Group for 14 years. He joined BAT Kenya in 2007 as Audit Manager, from PricewaterhouseCoopers (PWC). He has subsequently held various senior Finance Leadership roles within the Group, including, Finance Controller (Uganda & Big Ben Tobacco DRC), Finance Controller (East & Central Africa), Head of Operations Finance (East & Central Africa) and most recently Head of Finance (Horn of Africa & Indian Ocean Islands). Philemon is also Chair of the Board of Trustees, BAT Kenya Staff Provident Fund and Head of Finance for BAT East Africa based in Nairobi.

Connie Anyika
Head of External Affairs

Connie joined BAT in 2007 and has held various senior roles in External Affairs, Government Affairs and Legal in End Market, Regional and Global roles. She worked in Kenya and East & Central Africa Area prior to her move to London in 2016 as lead counsel for Western Europe Region and thereafter as Head of Regulatory Engagement for Asia Pacific and Middle East Region based in Hong Kong. Most recently, she was Head of Global Regulatory Policy & Foresights in London. Connie is also the Head of External Affairs for BAT East Africa, based in Nairobi.

Kenneth Gichubi

Head of Trade

Kenneth has immense experience in Trade Management having joined BAT Kenya as 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.

Diana Johnson

Head of Human Resources

Diana joined BAT in 2007 as Talent and Organization Effectiveness Manager for Souza Cruz|BAT Brazil. Prior to joining BAT, she worked with other FTSE companies, such as 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.

William Elliott

Head of Legal

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, civil litigation and counselling on administrative law and commercial human rights. Prior to his current role, he was Head of Legal and External Affairs for BAT East and Central Africa Area from 2019, and before that, a Senior Counsel in BAT's Litigation and Regulation Centre of Excellence in London, UK. William is also the Head of Legal for BAT East and Southern Africa Area and a Director of BAT Distribution Tanzania Limited.

Rachel Muchiri
Head of Marketing

Rachel re-joined BAT in 2012 and is a seasoned marketing executive with immense experience across various marketing disciplines, including Strategic Planning & Insights, Brand Management and Trade, Marketing & Distribution. She has experience in the FMCG sector spanning different markets within Sub-Saharan Africa including Egypt, DRC, Mauritius and South Africa. Rachel recently returned from a two-year assignment in the East and Southern Africa Area head office in South Africa. Rachel is also the Head of Marketing for BAT East Africa, based in Nairobi.

Edgar Okioga
Head of Information & Digital Technology

Edgar has more than 20 years of experience in information and digital technology. He joined BAT in 2008 as the Service Level Manager for East Africa and has held several other roles at a regional capacity. Prior to BAT, he served in various roles including IT Manager at the World Food Program, IT Manager UNDP Somali and Geographical Information Specialist at FAO. He holds a Master of Science degree in Information Systems and a Bachelor of Science degree in Civil Engineering, both from the University of Nairobi. Edgar is the Digital DNA Lead for BAT East and Southern Africa and Head of IDT for BAT East Africa, based in Nairobi.

Oscar Ali Niño
Head of Supply Chain

Oscar joined BAT Venezuela in 2008 as Production Manager. Prior to joining BAT, he worked with Procter & Gamble, mainly in their manufacturing business. In 2013, He was transferred to BAT Chile as Supply Chain Project Manager to lead the implementation of the Americas Planning Hub project. In 2015, He was transferred to BAT Costa Rica as Head of Supply Planning for BAT's Americas and Sub-Saharan Africa (AmSSA) region. He joined BAT Kenya in 2020 as Head of Supply Chain. Oscar is also the Head of Supply Chain for BAT East and Southern Africa Area, based in Nairobi.

WARNING: SMOKING HARMS PEOPLE NEXT TO YOU
ILANI: UVUTAJI WA TUMBAKU UNAWADHURU WALIO KARIBU NAWE


INTEGRITY
committed to our business standards
I am accountable for what I do
Honest
Suppliers →
illicit % →
2011
Adults only.

Statement of the Legal and Compliance Auditor

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

The Board is also responsible for ensuring that the compliance strategy is aligned to the operations of the Company. In compliance with the provisions of the Corporate Governance Code for Issuers of Securities to the Public, 2015, an independent legal and compliance audit for the financial year ending 31 December 2020 was undertaken with the objective of ascertaining the Company's state of compliance with applicable laws, regulations and standards.

The independent legal and compliance audit was carried out by Anjarwalla & Khanna LLP, led by Ms. Rosa Nduati-Mutero, an Advocate of the High Court of Kenya in good standing with the Law Society of Kenya. The legal and compliance audit confirmed that during the year ended 31 December 2020 the Company was generally in compliance with applicable laws and regulations including the Companies Act, 2015, the Tobacco Control Act, 2007, and the Occupational Safety and Health Act, 2007.

Ms. Rosa Nduati-Mutero
Anjarwalla & Khanna Advocates

Leadership and responsibilities

Overview

Corporate governance refers to the structures and processes that guide the effective, accountable and prudent leadership of a Company. The Company 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 2020 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 ten (10) Directors, eight (8) being Non- Executive Directors including the Chairperson, and two (2) Executive Directors. Of the eight Non-Executive Directors, six (6) are Independent. 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.

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;
- Approving 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 Chairperson and the Managing Director have distinct and clearly defined duties and responsibilities.

The separation of the functions of the Chairperson (an Independent Non-Executive Director) and the Managing Director (Executive Director) supports and ensures the independence of the Board and Management. The balance of power, increased accountability, clear definition of responsibilities and improved decision-making are attained through a clear distinction between the non-executive and executive roles.

Leadership and responsibilities (continued)

The Chairperson is responsible for the leadership of the Board, for ensuring its effectiveness on all aspects of its role and for facilitating the productive contribution of all Directors. She sets the agenda for Board meetings in consultation with the Managing Director and the Company Secretary. She is also responsible for ensuring that the interests of the Company's shareholders are safeguarded and that there is effective communication with them. The Chairperson 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. He provides leadership to enable successful planning and execution of the objectives and strategies agreed by the Board. He is also responsible for stewardship of the Company's assets and, jointly with the Chairperson, for representation of the Company externally.

Non-Executive Directors

The Board had eight (8) Non-Executive Directors as at 31 December 2020 and as at the date of this Annual Report. The role of the Non-Executive Directors includes: 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 2020, grouped under the Company's four strategy pillars, are set out on pages 79 to 80.

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, Nominations and Governance Committee and Remuneration Committee after each Committee meeting. The Board receives high quality, up-to-date information for review in good time ahead of each meeting.

The Company Secretary

During the financial year, the Company changed the model of the provision of the Company secretarial services and outsourced the same to an external consultant. Consequently, Waeni Ngea ceased to be the Company Secretary with effect from 26 June 2020 and Kathryne Maundu was appointed as Company secretary with effect from 27 June 2020. The Company Secretary is a member in good standing with the Institute of Certified Secretaries (ICS).

Role of the Company Secretary

- Ensuring good information flows within the Board and its Committee and between the Non-Executive Directors and Senior Management;
- Advising the Board through the Chairperson on all corporate governance matters;
- Assisting the Board with the evaluation exercise;
- Keeping custody of the Company's seal, maintaining a record of its use and accounting to the Board for its use;
- Keeping and updating a register of conflicts of interest;
- Coordinating the governance audit process;
- Facilitating effective communication between the organization and the shareholders;
- Keeping formal records of Board discussions and following up on the timely execution of agreed actions.
- Preparing agendas and minutes of meetings, arranging for them to be approved by the Chairperson of the relevant meeting and circulating them as appropriate; and
- Under the direction of the Chairperson, ensuring that the Board and its Committees receive high quality, up-to-date information for review in good time ahead of each meeting;

Leadership and responsibilities (continued)

The composition of the Board

The composition of the Board as at 31 December 2020 and as at the date of this Annual Report is set out on pages 62 to 65.

Board and Annual General Meeting attendance in 2020:

Name	19.02.2020	23.04.2020	(AGM) 24.06.2020	15.07.2020	03.12.2020
Rita Kavashe[1]	-	-	-	✓	✓
George Maina[2]	✓	✓	✓	✓	-
Beverley Spencer-Obatoyinbo[3]	✓	✓	✓	✓	✓
Philemon Kipkemoi[4]	-	-	✓	✓	✓
Sidney Wafula[5]	✓	✓	-	-	-
Dr. Martin Oduor-Otieno	✓	✓	✓	✓	✓
Peter Mwangi	✓	✓	✓	✓	✓
Carol Musyoka	✓	✓	✓	✓	✓
Samuel Onyango	✓	✓	✓	✓	✓
Dr. Macharia Irungu	✓	✓	✓	✓	✓
Marion Gathoga-Mwangi[6]	-	-	✓	✓	✓
André Joubert[7]	-	-	✓	✓	✓

The following changes to the Board composition occurred in 2020:

1. Rita Kavashe was appointed as a Director with effect from 15 July 2020. She was subsequently appointed as the Chairperson of the Board with effect from 1 September 2020.
2. George Maina retired as a Director and Chairman of the Board with effect from 31 August 2020.
3. Beverley Spencer-Obatoyinbo resigned as a Director with effect from 31 December 2020.
4. Philemon Kipkemoi was appointed as a Director with effect from 28 May 2020.
5. Sidney Wafula resigned as a Director with effect from 24 June 2020 and was appointed as an alternate Director to André Joubert with effect from 25 June 2020.
6. Marion Gathoga-Mwangi was appointed as a Director with effect from 28 May 2020.
7. André Joubert was appointed as a Director with effect from 28 May 2020.

Board effectiveness

The effectiveness of the Board in its oversight and leadership role is enhanced by a robust support system. This is facilitated through the following: -

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 on pages 62 to 65. The Board's Diversity Policy can be read on the Company's website (www.batkenya.com).

Independence

As at 31 December 2020, six (6) of the Non-Executive Directors were Independent as defined in the Code and accordingly, majority of the Board constitutes 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 Chairperson 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 an agenda in all Board and Committee Meetings prior to discussion of the substantive agendas. Directors who have an interest in a matter are excluded from the quorum and do not vote in respect of that matter. No material conflicts were reported by the Directors in 2020.

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.

Due to COVID-19 pandemic restrictions in 2020, a market visit was not conducted.

Training and development

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 Chairperson is tasked to meet each Non-Executive Director to discuss their individual training and development plans. During the financial year under review, the Directors engaged in e-learning and facilitator-led training from credible sources on areas of Governance. Topics discussed included: Data Protection Laws held on 3 December 2020. The Board also held its Strategy training session on 25 September 2020. Matters discussed included portfolio transformation, business continuity during COVID-19.

During 2020, each Director was able to secure at least six (6) hours of training on areas of governance and regulatory compliance from the Company; this is against the backdrop that a majority of the trainings were cancelled in the year as a result of the COVID-19 pandemic.

Access to independent advice

The Board recognises that there may be occasions when one or more Directors considers it necessary to take independent advice on various matters such as legal or financial advice, at the Company's expense. This is provided for in the Board Charter.

Board effectiveness (continued)

Board evaluation

Evaluation process

In line with the provisions of the Code, the Board undertook an annual evaluation of its performance as an entity, its committees, the Chairperson and each individual Director and the Company Secretary. This was aimed at enabling the Board and its members and the committees to gauge their performance and identify areas of improvement. The 2020 Board evaluation was conducted by the Company Secretary using the Thinking Board platform.

The findings from the Board evaluation exercise were presented to the full Board and recommendations for improvements discussed and approved at the Board meeting that was held on 23 April 2020 for implementation by the various Committees.

The evaluation established that the Board and its committees continue to function/perform well and have sufficient balance of skills, expertise, knowledge and diversity. The wide range of skills and diverse backgrounds of members is a key strength of the Board, as is the effective leadership from the Chairperson. The Board members have a good understanding of the business and heightened appreciation of the risk landscape that the Company is operating in and receive the information they need to make informed decisions.

Constructive feedback

Individual feedback was given by the Chairperson 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 Chairperson's, Managing Director's 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, and the Capital Markets Authority circular on Governance Audits, the Company was granted an exemption from conducting a governance audit for the year ended 31 December 2020. The Company continues to review and implement the recommendations from the prior audits.

Legal and Compliance Audit

In compliance with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, the Board appointed an external consultant to conduct the Company's Legal & Compliance Audit for the year ended 31 December 2020 with the aim of establishing the extent of adherence to applicable laws, regulations and standards in order to deliver long term value to stakeholders.

The Report of the External Legal & Compliance Auditor is set out on page 73.

Shareholder engagement

The Company's Annual General Meeting (AGM) is an opportunity for shareholder engagement when the Chairperson 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 also attend, unless illness or pressing commitments preclude them from doing so.

The Company typically holds investor briefings twice a year. This facilitates engagement with key stakeholders from the Nairobi Securities Exchange, Capital Markets Authority and representatives of various institutional and foreign investors. The Managing Director and Finance Director are among senior management members at hand at investor briefings to respond to stakeholder queries.

During the AGM held on 24 June 2020 and at the two investor briefings held in February 2020 and July 2020, shareholders and stakeholders were keen to hear more on the Company's performance in light of COVID-19 pandemic, employees' welfare during COVID-19 pandemic, latest developments in industry regulation, dividends payable, the Company's sustainability initiatives and the Company's strategy in light of the COVID-19 pandemic.

Strategic Board activities in 2020

- Providing the overall oversight to the Management team in navigating the COVID-19 impact and response strategy.
- Managing the challenges presented by the COVID-19 pandemic was critical for the Board. Key for the Board was putting in place mechanisms for: sustaining the business; protecting its people and supporting of the community.
- Discussions on how to navigate the regulatory challenges in respect of LYFT, excise and the solatium levy.
- Fighting illicit trade in light of COVID-19 impact on household incomes.
- Focusing on organisational changes by ensuring completion of Project Quantum, with business continuity as a focus.

Growth

Growth remains the Board's key strategic objective

Activities in 2020

- Reviewing and agreeing the Company's strategy and ensuring that the necessary financial and human resources are in place to meet the 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;
- Accelerating the product portfolio transformation by investing in reduced-risk* products e.g. LYFT;
- Focusing on the competitive and external environment by engaging government on 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 2020

- 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 SM to Rothmans which had been completed as at the date of this report;
- 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.

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

Strategic Board activities in 2020 (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 2020

- Reviewing the Company's regulatory strategy in the context of the current regulatory landscape, including engagements on illicit trade;
- Monitoring the status of the Company's litigation proceedings;
- Monitoring the progress of the construction of a world class factory to manufacture modern oral nicotine products which as at the date of this report, has been completed and is awaiting commissioning;
- 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 impact 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.

Purposeful organisation

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

Activities in 2020

- 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 2020; and
- Ensuring effective roll out of the Work from Home protocols.

Board committees

Nominations and Governance Committee

Current Members

- Rita Kavashe (Chairperson)
- Peter Mwangi
- Dr. Macharia Irungu
- Kathryne Maundu (Secretary)

Attendance at meetings in 2020:

Name	16.04.2020	14.07.2020
Rita Kavashe[1]	-	-
George Maina[2]	✓	✓
Peter Mwangi	✓	✓
Dr. Macharia Irungu	✓	✓
Kathryne Maundu (Secretary)	-	✓

Permanent invitees:

- Crispin Achola (Managing Director)
- Philemon Kipkemoi (Finance Director)

The following changes to the Committee composition occurred in 2020:

1. Rita Kavashe was appointed to the Committee with effect from 15 July 2020 and was appointed as the Chairperson of the Committee effective 1 September 2020.
2. George Maina ceased to be a member and Chairman of the Committee with effect from 31 August 2020.

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 Chairperson 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 2020

- Reviewing succession planning for the Board and the Leadership Team including appointment of emergency alternates for the following key Board roles: Board Chairperson, Board Committee Chairs and Company Secretary;
- Directors' annual appointment and re-election at the AGM including renewal of the appointment of Beverley Spencer-Obatoyinbo, Carol Musyoka, Dr. Macharia Irungu, Samuel Onyango, Philemon Kipkemoi, André Joubert and Marion Gathoga-Mwangi;
- 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 have letters of appointment for an initial term of two (2) years. Letters of appointment are renewable after the initial two (2) years as per the Board's policy

Board committees (continued)

on tenure and upon recommendation by the Nominations and Governance Committee. The Board takes into account the need for it to refresh its membership progressively over time.

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 12th May 2021, the Company will submit the following eligible Directors for re-election: Peter Mwangi, Martin Oduor-Otieno and André Joubert. The Nominations and Governance 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
- Marion Gathoga-Mwangi[1]
- Kathryne Maundu (Secretary to the Committee)

Attendance at meetings in 2020:

Name	18.02.2020	14.07.2020	17.11.2020
Dr. Martin Oduor-Otieno	✓	✓	✓
Carol Musyoka	✓	✓	✓
Samuel Onyango	✓	✓	✓
Marion Gathoga-Mwangi[1]	-	✓	✓
Kathryne Maundu	-	✓	✓

Permanent invitees:

- Crispin Achola (Managing Director)
- Philemon Kipkemoi (Finance Director)
- William Elliott (Head of Legal)
- Aurelian Panfile (Internal Auditor)

The following changes to the Committee composition occurred in 2020:

1. Marion Gathoga-Mwangi was appointed to the Committee on 28 May 2020.

Mandate and role of the Audit and Risk Committee 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 auditor. 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.

Board committees (continued)

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.

Key Audit and Risk Committee activities in 2020
The following items were considered by the Committee:

- The Company's 2020 full year and 2020 full year financial results;
- The external auditor's report and 2020 external auditor's work plan;
- Progress on the 2020 internal audit plan and proposed 2021 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, fraud 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;
- Annual review of the external auditor's effectiveness and independence;
- Finance Director's reports which included a review of unclaimed financial assets;
- Progress of actions arising from the 2019 Governance Audit; and
- Reviewing and assessing compliance with the CMA Corporate Governance Practices for Issuers of Securities to the Public, 2015.

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.

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 2020. No significant failings or weaknesses were identified, and the Board is satisfied that,

Board committees (continued)

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.

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 24 June 2020.

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

- Reporting on Company ethics performance
- Integrated reporting for accountability, risk management and internal control

Remuneration Committee
Current Members

- Peter Mwangi (Chairman)
- Crispin Achola
- Carol Musyoka
- Philemon Kipkemoi
- Diana Johnson (Secretary to Committee)

Attendance at meetings in 2020:

Name	16.04.2020	14.07.2020
Peter Mwangi	✓	✓
Carol Musyoka	✓	✓
Beverley Spencer-Obatoyinbo	✓	✓
Sidney Wafula[1]	✓	-
Philemon Kipkemoi[2]	-	✓
Diana Johnson (Secretary to the Committee)	✓	✓

Permanent invitee

- Kathryne Maundu (Company Secretary)

The following changes to the Committee composition occurred in 2020:

1. Sidney Wafula resigned as a member on 24 June 2020
2. Philemon Kipkemoi was appointed to the Committee with effect from 25 June 2020

Mandate and role of the Remuneration Committee
The Remuneration Committee considers the remuneration policy annually for employees, Executive and Non-Executive Directors. The 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 Chairperson, 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

Board committees (continued)

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.

The Committee had two meetings in the year under review and the following were the key matters that were discussed: -

- Salary reviews and Pay Strategy
- Salary ad hoc and turnover analysis for Kenya
- HR Strategy and People Plans
- Board remuneration review
- Review of the Terms of Reference of the Committee

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 68 to 70 of this Annual Report.

The key responsibilities of the Leadership Team include:

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

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.

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

Dispute Resolution Policy

BAT Kenya is committed to reaching a prompt and fair resolution of any disputes, conflicts or disagreements that may arise from time to time. The dispute resolution policy therefore provides guidance on the management of disputes and is intended to contribute to effective dispute resolution for the Company, whilst preserving the Company's relationships with its stakeholders.

This Policy establishes the principles and formal processes necessary:

(a) to guide the resolution of certain categories of internal and external disputes in accordance with this objective;

(b) to ensure the Company adopts a cost-effective, fast and efficient approach to dispute resolution; and

(c) to promote an approach to conflict management that utilizes litigation as a last resort and promotes conciliation with the party involved.

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.

Governance policies (continued)

Environmental, Health and Safety Policies

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

The Company also maintains an Energy Policy, aimed at achieving the highest practicable levels of energy conservation and reducing CO_2 emissions, for the conservation of the environment and the sustainability of natural resources.

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

Corporate Social Investment (CSI) and Responsibility

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 BAT Group's CSI strategy is derived from our belief in adding value to the communities in which we operate. Our CSI framework is anchored on relevant Sustainable Development Goals (SDGs) and tailored to local needs and realities.

Principles of Engagement

We are committed to corporate transparency and recognise that as a responsible company, all engagement activities we undertake must be guided by internal standards. All employees are required to act in accordance with the Principles for Engagement. BAT Uganda does engage with third parties on policy issues but will never ask a third party to conduct itself in any way that contravenes these 'Principles for Engagement'.

Reports & Financial Statements

05


A BOAT DOESN'T GO FORWARD If each ONE is rowing THEIR OWN WAY
Swahili Proverb

DIRECTORS' REPORT

The Directors submit their report together with the audited Financial Statements for the year ended 31 December 2020, 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, tobacco products and tobacco-free nicotine products.

Results and Dividend

The net profit for the year of KSh 5,517,492,000 (2019: KSh 3,885,649,000) has been added to retained earnings. During the year, an interim dividend of KSh 350,000,000 (2019: KSh 350,000,000) was paid. The Directors recommend the approval of a final dividend of KSh 4,150,000,000 (2019: KSh 3,000,000,000).

Directors

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

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

- Philemon Kipkemoi, André Joubert and Marion Mwangi were appointed as Directors on 28 May 2020.
- Sidney Wafula resigned as a Director on 24 June 2020 and was re-appointed as an alternate Director to André Joubert on 25 June 2020.
- Rita Kavashe was appointed as a Director effective 15 July 2020.
- George Maina resigned both as a Director and Chairman effective 31 August 2020.
- Rita Kavashe was appointed Chairperson effective 1 September 2020.
- Beverley Spencer-Obatoyinbo resigned as a Director effective 31 December 2020.
- Crispin Achola was appointed as a Director effective 1 January 2021.

Business overview

The Company maintained profitability despite the impact of COVID-19 pandemic.

Gross revenue reduced by 2% to KSh 38.8 billion. This was driven by lower domestic sales reflecting the adverse economic impact of the COVID-19 pandemic, the impact of excise-led price increases on consumer affordability and illicit trade incidence in Kenya. The revenue decline was mitigated by higher export sales, which demonstrates the continued strategic importance of BAT Kenya hub factory in ensuring a balanced and sustainable business.

Net revenue increased by 5% to KSh 25.3 billion, driven by higher export revenues, lower Excise Duty and Value Added Tax (VAT), which reflects the impact of the decline in domestic sales volumes and the reduction in VAT rate in April 2020 as part of Government's COVID-19 relief measures.

Cost of operations decreased by 3% to KSh 17.8 billion mainly due to pro-active cost saving initiatives undertaken to cushion business profitability from the impact of the COVID-19 pandemic. Operating margin increased by 6 percentage points to 30% in line with net revenue growth and the reduction in costs. Profit after tax increased by KSh 1.6 billion to KSh 5.5 billion reflecting the increase in net revenue, reduction in costs and the reduction in Corporation Tax rate in April 2020 .

Taxes in the form of Excise Duty, VAT, Pay As You Earn (PAYE) and Corporation Tax reduced by KSh 2 billion (11%) to KSh 16 billion as a result of lower sales volumes in Kenya, as well as the VAT and Corporation Tax rate changes in April 2020.

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 100 to 150 were approved and authorised at a meeting of the Directors held on 18 February 2021.

By order of the Board

Kathryne Maundu (Ms.)
Company Secretary

18 February 2021

RIPOTI YA WAKURUGENZI

Wakurugenzi wanawasilisha ripoti yao pamoja na taarifa za kifedha zilizokaguliwa za mwaka uliokamilika Disemba 31, 2020, ambazo zinaonyesha hali halisi ya mambo yalivyo katika Kundi na Kampuni.

Shughuli kuu

Shughuli kuu za Kundi hili ni utengenezaji na uuzaji wa sigara na tumbaku

Matokeo na Mgawo

Faida halisi mwaka huo ilikuwa ni KSh 5,517,492,000 ambapo KSh 3,885,649,000 kutoka mwaka wa 2019 zimeongezewa kwa mapato yaliyohifadhiwa. Katika mwaka huo gawio la mpito la KSh 350,000,000 (2019: KSh 350,000,000) lililipwa. Wakurugenzi wanapendekeza kuidhinishwa kwa gawio la mwisho la KSh 4,150,000,000 (2019: KSh 3,000,000,000).

Wakurugenzi

Wakurugenzi ambao waliokuwepo afisini mwaka huo na hadi tarehe ya ripoti hii wamechapishwa kwenye ukurasa wa tano (5).

Mabadiliko yafuatayo yamefanyika katika Bodi ya Wakurugenzi tangu Mkutano Mkuu wa Mwaka uliopita:

- Philemon Kipkemoi, André Joubert na Marion Mwangi waliteuliwa kama Wakurugenzi mnamo 28 Mei 2020.
- Sidney Wafula alijiuzulu kama Mkurugenzi mnamo 24 Juni 2020 na aliteuliwa tena kama Mkurugenzi mbadala wa André Joubert mnamo 25 Juni 2020.
- Rita Kavashe aliteuliwa kama Mkurugenzi mnamo 15 Julai 2020.
- George Maina alijiuzulu kama Mkurugenzi na Mwenyekiti kuanzia tarehe 31 Agosti 2020.
- Rita Kavashe aliteuliwa kuwa Mwenyekiti tarehe 1 Septemba 2020.
- Beverley Spencer-Obatoyinbo alijiuzulu kama Mkurugenzi kuanzia 31 Desemba 2020.
- Crispin Achola aliteuliwa kama Mkurugenzi mnamo 1 Januari 2021.

Muhtasari wa biashara

Kampuni ilidumisha faida licha ya athari za janga la COVID-19.

Mapato ya jumla yalipungua kwa asilimia mbili- hadi KSh 38.8 bilioni. Upungufu huo ulichochewa na mauzo ya chini ya ndani, kuonyesha athari mbaya za kiuchumi kutokana na janga la COVID-19 na athari za kuongezeka kwa bei kutokana na ongezeko la ushuru kuliko athiri uwezo wa watumiaji wa kununua, pamoja na visa vya biashara haramu nchini Kenya. Mapato hayakupungua sana kutokana na kupungua kwa mauzo ya juu nje ya nchi, kuonyesha umuhimu wa kimkakati katika kiwanda na kitovu cha BAT nchini Kenya katika kuhakikisha biashara yenye usawa na endelevu.

Mapato halisi yaliongezeka kwa asilimia tano -hadi KSh 25.3 bilioni, kutokana na mapato ya juu ya uuzaji wa nje, ushuru wa chini unaotozwa bidhaa na Ushuru wa Ongezeko la Thamani (VAT) - yanayoonyesha athari za kupungua kwa ujazo wa mauzo ya ndani na kupunguzwa kwa kiwango cha VAT Aprili 2020 kama sehemu ya hatua za serikali za kupunguza makali ya COVID-19 kwa biashara.

Gharama ya shughuli za kibiashara ilipungua kwa asilimia tatu -hadi KSh17.8 bilioni, haswa kutokana na mipango kabambe ya kupunguza gharama ambazo zingeathiri faida ya biashara kutokana na athari ya janga la COVID-19. Kiwango cha uendeshaji biashara kiliongezeka kwa asilimia sita - hadi asilimia 30 kutokana na ukuaji wa mapato halisi na kupungua kwa gharama. Faida baada ya ushuru iliongezeka kwa KSh 1.6 bilioni -hadi KSh 5.5 bilioni, kuonyesha kuongezeka kwa mapato halisi, kupunguzwa kwa gharama na kupunguzwa kwa kiwango cha Ushuru wa Mashirika mnamo Aprili 2020.

Ushuru unaotozwa bidhaa, Ushuru wa Ongezeko la Thamani (VAT), Ushuru wa Mapato(PAYE) na Ushuru wa Mashirika ulipungua kwa KSh 2 bilioni (asilimia 11) hadi KSh 16 bilioni kutokana na kiwango cha chini cha mauzo nchini Kenya, pamoja na mabadiliko ya kiwango cha VAT na Ushuru wa Mashirika mnamo Aprili 2020.

Mkaguzi

Mkaguzi, KPMG Kenya, anastahiki na amejitolea kuteuliwa tena kulingana na mahitaji ya Sehemu ya 721 ya Sheria ya Kampuni za Kenya, 2015.

Habari muhimu ya ukaguzi

Wakurugenzi waliokuwa afisini wakati wa kuandikwa kwa ripoti hii wanathibitisha kuwa:

- Hakuna habari inayofaa ya ukaguzi ambayo mkaguzi wa Kampuni hajui; na
- Kila mkurugenzi amechukua hatua zote ambazo alipaswa kuchukua ili kujua habari zote muhimu za ukaguzi na kuhakikisha kuwa mkaguzi wa Kampuni anajua habari hizo.

Idhini ya taarifa za kifedha

Taarifa za kifedha kwenye kurasa za 98 hadi 148 ziliidhinishwa na kuruhusiwa katika mkutano wa Wakurugenzi uliofanyika 18 Februari 2021.

Kwa amri ya Bodi

Kathryne Maundu (Ms.)
Katibu wa Kampuni

18 Februari 2021

DIRECTORS' REMUNERATION REPORT

Information not subject to audit

Our Remuneration Policy 2020

The Remuneration Policy and Remuneration Report for the Executive Directors and the Non-Executive Directors applicable in 2020 were approved by shareholders at the 2019 Annual General Meeting held on 10 May 2019. The Report has been prepared in accordance with the relevant provisions of both the CMA Code of Corporate Governance guidelines on Directors' remuneration and the Kenyan Companies Act, 2015.

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).

We have summarised the key elements below to facilitate the understanding of the Directors' Remuneration Report.

The table below summarized the main elements of the remuneration packages of the Executive Directors as compensation for their role as key management within the BAT Group.

Reward	Purpose and link to strategy	Mechanics of Reward	Performance metrics
Basic salary	Attract and retain high calibre individuals to deliver the Company'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 ■ Tax equalisation payments	None

DIRECTORS' REMUNERATION REPORT (continued)

Information not subject to audit (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.	■ Value share growth- 10% (2019: 10%), ■ Strategic portfolio revenue -30% (2019: 10%), ■ New Categories revenue - consolidated under Strategic Portfolio revenue (2019: 10%), ■ Adjusted profit from operations - 30% (2019: 30%) ■ Net cash - 30% (2019: 20%)
Long term incentives	Incentivise and promote the long-term sustainable success of the Group.	■ Targets are set covering a three-year period for BAT Group UK results. ■ The award vests on the third anniversary of the award. ■ The number of shares that ultimately vest will depend on the extent that the performance conditions of the BAT Group (UK) have been met during the three-year performance period.	■ Earnings per share (EPS), ■ Total share-holder 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 and the Group's drive to deliver A Better Tomorrow™ by growing the new categories and strategic brands.

Chairperson and Non-Executive Directors

The quantum and structure of Non-Executive Directors' remuneration is assessed primarily against the same remuneration comparator group of companies use 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)

Information not subject to audit (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 and Finance Director are on permanent and pensionable contracts with the following execution dates:

Executive Director	Execution date	End date
Beverley Spencer-Obatoyinbo	2 May 2017	31 December 2020
Sidney Wafula	2 May 2017	24 June 2020
Philemon Kipkemoi	28 May 2020	-
Crispin Achola	1 January 2021	-

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 ■ 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 and compensation as key management for the year ended 31 December 2020

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 2020 together with comparative figures for 2019:

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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Beverley Spencer- Obatoyinbo (up to 31 December 2020)	19,162	19,004	8,614	9,150	7,037	9,909	18,032	20,814	2,723	2,816	55,568	61,694
Sidney Wafula (up to 24 June 2020)	4,826	9,833	813	2,059	1,573	5,392	2,043	6,252	434	885	9,690	24,421
Philemon Kipkemoi (from 28 May 2020)	5,339	-	1,151	-	1,766	-	1,294	-	480	-	10,030	-
Total remuneration	29,327	28,837	10,578	11,210	10,375	15,301	21,370	27,065	3,638	3,701	75,288	86,115

In the year 2020, 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 5,404 shares (2019: 5,710 shares), Sidney Wafula was awarded 1,105 shares (2019: 1,663 shares) and Philemon Kipkemoi was awarded 289 shares (2019; nil). The values of these shares have been included in the table above under Long-term incentives.

DIRECTORS' REMUNERATION REPORT (continued)

Information not subject to audit (continued)

The following table shows a summary of remuneration for the Non-Executive Directors in respect of qualifying services as Directors, for the year ended 31 December 2020 together with comparative figures for 2019:

Non-Executive Directors	Fixed retainer		Sitting allowance		Chairperson's Honoraria		Total	
	KSh'000		KSh'000		KSh'000		KSh'000	
Name	2020	2019	2020	2019	2020	2019	2020	2019
George Maina (upto 31 August 2020)	2,558	3,549	260	300	4,167	2,500	6,985	6,349
Gayling May (upto 4 September 2019)	-	1,299	-	175		-	-	1,474
Carol Musyoka	2,348	1,917	285	225	-	-	2,633	2,142
M. Janmohamed (upto 10 May 2019)	-	691	-	50	-	-	-	741
Marion Gathoga-Mwangi (from 28 May 2020)	1,451	-	210	-	-	-	1,661	-
Peter Mwangi	2,348	1,917	260	175	-	-	2,608	2,092
Dr. Martin Oduor-Otieno	2,348	1,917	260	200	-	-	2,608	2,117
Dr. Macharia Irungu (from 1 July 2019)	2,348	958	235	100	-		2,583	1,058
Samuel Okech Onyango (from 1 July 2019)	2,348	958	260	125	-	-	2,608	1,083
Rita Kavashe (15 July)	1,745	-	120	-	-	-	1,865	-
André Joubert (From 28 May 2020)	-	-	-	-	-	-	-	-
Sidney Wafula (Upto 24 June - Alternate to Andre Joubert)	-	-	-	-	-	-	-	-
Total remuneration	**17,494**	**13,206**	**1,890**	**1,350**	**4,167**	**2,500**	**23,551**	**17,056**

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 2020 AGM and engagement with shareholders

During the 2020 AGM, held on 24 June 2020, there were no votes cast against or votes held with respect to the Directors' remuneration policy and report.

Director's shareholding

Director's shareholding in British American Tobacco Kenya plc as at 31 December 2020 is as follows:

Director	2020	2019
Sidney Wafula	300	300
Carol Musyoka	200	200

By order of the Board

Kathryne Maundu (Ms.)
Company Secretary | 18 February 2021

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 100 to 150 which comprise of Consolidated and Company Statements of Financial Position as at 31 December 2020, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated and Company Statements of Changes in Equity and Consolidated and Company Statements of Cash Flows for year then ended, and notes to the Financial Statements including 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 Company and its subsidiaries (together, 'the Group') 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:

Rita Kavashe Chairperson	Crispin Achola Managing Director	Philemon Kipkemoi Finance Director

18 February 2021

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

Opinion
We have audited the consolidated Financial Statements of British American Tobacco Kenya plc ("the Group" and "Company") set out on pages 100 to 150 which comprise the consolidated and company statements of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements 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 2020 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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 consolidated 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, and 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 Directors and Statutory information, the Director's Report, the Directors' Remuneration Report, the Statement of Directors' Responsibilities and Principal Shareholders and Share Distribution, but does not include the Financial Statements and the auditor's report thereon, which we obtained prior to the date of this auditor's report, and the other information to be included in the published 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 except to the extent otherwise explicitly stated in our report, 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 we have performed on the other information that we have 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BRITISH AMERICAN TOBACCO KENYA PLC (continued)

Directors' responsibilities for the Financial Statements

As stated on page 96, 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.

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 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, actions taken to eliminate threats or safeguards applied.

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.

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

Report on other legal and regulatory requirements
As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that: in our opinion:

i. the information given in the Report of the Directors on page 90 is consistent with the Financial Statements; and

ii. the auditable part of the Directors' Remuneration Report on pages 92 to 95 has been prepared in accordance with the requirements of the Kenyan Companies Act, 2015.

The Signing Partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha – P/1610.

KPMG Kenya
Certified Public Accountants of Kenya
PO Box 40612-00100
Nairobi

18 February 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 31 December 2020 KSh'000	2019 KSh'000
Gross revenue		**38,845,053**	**39,827,481**
Excise duty and Value Added Tax (VAT)		(13,505,816)	(15,787,863)
Net revenue	6	**25,339,237**	**24,039,618**
Raw materials and manufacturing costs	7	(14,606,403)	(14,591,245)
Marketing and distribution costs	8	(1,738,305)	(1,908,959)
Administration and other expenses	9	(1,537,151)	(2,153,060)
Other income		131,542	340,335
Operating profit		**7,588,920**	**5,726,689**
Finance costs	10	(173,190)	(193,179)
Profit before tax	11	**7,415,730**	**5,533,510**
Income tax expense	13	(1,898,238)	(1,647,861)
Profit for the year		**5,517,492**	**3,885,649**
Other comprehensive income			
Items that may be reclassified to profit or loss – net fair value (loss)/gain (page 103 and 104)		(26,638)	20,308
Total comprehensive income for the year		**5,490,854**	**3,905,957**
Earnings per share:			
Basic and diluted (KSh per share)	14	55.17	38.86

The notes on pages 109 to 150 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2020 KSh'000	2019 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
Revaluation surplus	17	1,726,977	1,755,585
Retained earnings		4,979,065	3,932,965
Proposed dividend	15	4,150,000	3,000,000
Total equity		**11,856,065**	**9,715,211**
Non-current liabilities			
Borrowings	26	48,135	172,425
Deferred income tax	18	1,528,229	1,698,214
Total non-current liabilities		**1,576,364**	**1,870,639**
Total equity and non-current liabilities		**13,432,429**	**11,585,849**
Non-current assets			
Property, plant and equipment	19	10,481,820	10,097,866
Deferred income tax	18	432,397	587,213
		10,914,217	**10,685,079**
Current assets			
Inventories	21	3,703,968	5,396,459
Receivables and prepayments	22	4,715,931	3,623,556
Derivative financial instruments	23	5,043	42,799
Current income tax	27	482,301	377,026
Cash and cash equivalents	24	1,884,392	1,811,443
		10,791,635	**11,251,283**
Current liabilities			
Payables and accrued expenses	25	6,235,909	7,875,452
Borrowings	26	19,422	16,176
Derivative financial instruments	23	15,519	4,745
Current income tax	27	223,411	716,844
Provisions for liabilities and charges	29	1,779,162	1,737,296
		8,273,423	**10,350,513**
Net current assets		**2,518,212**	**900,770**
Total assets less current liabilities		**13,432,429**	**11,585,849**

The notes on pages 109 to 150 are an integral part of these Financial Statements. The Financial Statements on pages 100 to 150 were approved and authorised for issue by the Board of Directors on 18 February 2021 and signed on its behalf by:

Rita Kavashe
Chairperson

Crispin Achola
Managing Director

Philemon Kipkemoi
Finance Director

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2020 KSh'000	2019 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
Revaluation surplus	17	1,726,977	1,755,585
Retained earnings		4,979,065	3,932,965
Proposed dividend	15	4,150,000	3,000,000
Total equity		**11,856,065**	**9,715,211**
Non-current liabilities			
Borrowings	26	44,171	148,205
Deferred income tax	18	1,528,229	1,698,214
Total non-current liabilities		**1,572,400**	**1,846,419**
Total equity and non-current liabilities		**13,428,465**	**11,561,630**
Non-current assets			
Property, plant and equipment	19	8,973,723	9,209,902
Investment in subsidiaries	20	12,000	12,000
		8,985,723	**9,221,902**
Current assets			
Inventories	21	3,619,389	5,315,026
Receivables and prepayments	22	3,790,270	1,651,946
Derivative financial instruments	23	5,043	42,799
Cash and cash equivalents	24	1,884,539	1,811,443
Current income tax	27	482,301	377,026
		9,781,542	**9,198,240**
Current liabilities			
Payables and accrued expenses	25	4,489,289	6,139,247
Borrowings	26	17,978	13,527
Derivative financial instruments	23	15,519	4,745
Provisions for liabilities and charges	29	816,014	700,993
		5,338,800	**6,858,512**
Net current assets		**4,442,742**	**2,339,728**
Total assets less current liabilities		**13,428,465**	**11,561,630**

The notes on pages 109 to 150 are an integral part of these Financial Statements. The Financial Statements on pages 100 to 150 were approved and authorised for issue by the Board of Directors on 18 February 2021 and signed on its behalf by:

Rita Kavashe	Crispin Achola	Philemon Kipkemoi
Chairperson	Managing Director	Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

2020	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 2020		1,000,000	23	26,638	1,755,585	3,932,965	3,000,000	9,715,211
Comprehensive income for the year								
Profit for the year		-	-	-	-	5,517,492	-	5,517,492
Transfer of excess depreciation	13	-	-	-	(40,868)	40,868	-	-
Deferred income tax on transfer	13	-	-	-	12,260	(12,260)	-	-
Fair value loss recognised through OCI		-	-	(88,236)	-	-	-	(88,236)
Fair value gain from OCI to P&L		-	-	46,843	-	-	-	46,843
Deferred tax in respect of fair value gain		-	-	14,755	-	-	-	14,755
Net gains recognised directly in equity		-	-	(26,638)	-	-	-	(26,638)
Transactions with owners								
Distribution to owners (dividends):								
■ Final for 2019 paid	15	-	-	-	-	-	(3,000,000)	(3,000,000)
■ Interim for 2020 paid	15	-	-	-	-	(350,000)	-	(350,000)
■ Proposed final for 2020	15	-	-	-	-	(4,150,000)	4,150,000	-
Total transactions with owners		-	-	-	-	(4,500,000)	1,150,000	(3,350,000)
Balance as at 31 December 2020		**1,000,000**	**23**	**-**	**1,726,977**	**4,979,065**	**4,150,000**	**11,856,065**

The notes on pages 109 to 150 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

		Share capital	Share premium	Hedging reserve	Reval-uation surplus	Retained earnings	Proposed dividends	Total equity
2019	Notes	KSh'000	KSh'000	KSh'000	KSh'000	KSh'000	KSh'000	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 loss recognised through OCI		-	-	126,623	-	-	-	126,623
Fair value gain 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)
Balance as at 31 December 2019		**1,000,000**	**23**	**26,638**	**1,755,585**	**3,932,965**	**3,000,000**	**9,715,211**

The notes on pages 109 to 150 are an integral part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

2020	Notes	Share capital KSh'000	Share premium KSh'000	Hedging reserve KSh'000	Reval-uation surplus KSh'000	Retained earnings KSh'000	Proposed dividends KSh'000	Total equity KSh'000
Balance as at 1 January 2020		1,000,000	23	26,638	1,755,585	3,932,965	3,000,000	9,715,211
Comprehensive income for the year								
Profit for the year		-	-	-	-	5,517,492	-	5,517,492
Transfer of excess depreciation	13	-	-	-	(40,868)	40,868	-	-
Deferred income tax on transfer	13	-	-	-	12,260	(12,260)	-	-
Fair value loss recognised through OCI		-	-	(88,236)	-	-	-	(88,236)
Fair value gain from OCI to P&L		-	-	46,843	-	-	-	46,843
Deferred tax in respect of fair value gain		-	-	14,755	-	-	-	14,755
Net gains recognised directly in equity		-	-	(26,638)	-	-	-	(26,638)
Transactions with owners								
Distribution to owners (dividends):								
Final for 2019 paid	15	-	-	-	-	-	(3,000,000)	(3,000,000)
Interim for 2020 paid	15	-	-	-	-	(350,000)	-	(350,000)
Proposed final for 2020	15	-	-	-	-	(4,150,000)	4,150,000	-
Total transactions with owners		-	-	-	-	(4,500,000)	1,150,000	(3,350,000)
Balance as at 31 December 2020		**1,000,000**	**23**	**-**	**1,726,977**	**4,979,065**	**4,150,000**	**11,856,065**

The notes on pages 109 to 150 are an integral part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

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 loss recognised through OCI		-	-	126,623	-	-	-	126,623
Fair value gain 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)
Balance as at 31 December 2019		**1,000,000**	**23**	**26,638**	**1,755,585**	**3,932,965**	**3,000,000**	**9,715,211**

The notes on pages 109 to 150 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2020 KSh'000	2019 KSh'000
		For the year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	30	7,417,870	10,287,045
Interest received	10	3,572	436
Interest paid	10	(177,826)	(159,011)
Income tax paid	27	(2,497,361)	(2,492,655)
Net cash generated from operating activities		**4,746,255**	**7,635,815**
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(1,291,613)	(1,437,743)
Proceeds from disposal of property, plant and equipment		12,061	192,517
Net cash used in investing activities		**(1,279,552)**	**(1,245,226)**
Cash flows from financing activities			
Dividends paid to the Company shareholders	15	(3,350,000)	(3,500,000)
Repayment of borrowings	26	-	(1,222,200)
Payment of lease liabilities	26	(43,754)	(47,104)
Net cash used in financing activities		(3,393,754)	(4,769,304)
Net movement in cash and cash equivalents		**72,949**	**1,621,285**
Cash and cash equivalents at beginning of year		1,811,443	190,158
Cash and cash equivalents at end of year	24	**1,884,392**	**1,811,443**

The notes on pages 109 to 150 are an integral part of these Financial Statements.

COMPANY STATEMENT OF CASH FLOWS

	Notes	2020 KSh'000	2019 KSh'000
		For the year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	30	(293,327)	4,351,374
Interest received	10	3,572	436
Interest paid	10	(177,378)	(158,745)
Income tax paid	27	(449,603)	(952,998)
Net cash generated from operating activities		**(916,736)**	**3,240,067**
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(654,708)	(573,819)
Proceeds from disposal of property, plant and equipment		12,061	192,517
Net cash used in investing activities		**(642,647)**	**(381,302)**
Cash flows from financing activities			
Dividends received from subsidiary		5,018,568	3,530,284
Dividends paid to the Company shareholders	15	(3,350,000)	(3,500,000)
Repayment of borrowings	26	-	(1,222,200)
Payment of lease liabilities	26	(36,089)	(43,081)
Net cash generated from/(used in) financing activities		**1,632,479**	**(1,234,997)**
Net movement in cash and cash equivalents		**73,096**	**1,623,768**
Cash and cash equivalents at beginning of year		1,811,443	187,675
Cash and cash equivalents at end of year	**24**	**1,884,539**	**1,811,443**

The notes on pages 109 to 150 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:

8, 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.

(a) Basis of preparation

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by Kenyan Companies Act, 2015. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The Financial Statements are presented in Kenya Shillings (KSh), rounded to the nearest thousand.

The preparation of Financial Statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires Directors to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 4.

The Group has applied the exemption within section 646 of the Kenyan Companies Act, 2015 which allows omission of company statement of profit or loss when group Financial Statements are prepared.

(b) New standards, amendments and interpretations

(i) New and amended standards adopted during the year

Amendments to References to Conceptual Framework in IFRS Standards	1-Jan-20
Definition of a Business (Amendments to IFRS 3)	1-Jan-20
Definition of Material (Amendments to IAS 1 and IAS 8)	1-Jan-20
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1-Jan-20
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1-Jan-20

Amendments to References to Conceptual Framework in IFRS Standards

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- a new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions;
- updated recognition criteria for assets and liabilities; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which outlines the consequential amendments made to affected IFRS standards. This was done to support transition to the revised Conceptual Framework for companies that develop and apply accounting policies using the Conceptual Framework when no IFRS standard or interpretation applies to a particular transaction.

The revised Conceptual Framework will form the basis of new IFRS standards set by the IASB as well as future amendments to existing IFRS standards

The adoption of these amendments did not have a significant impact on the Financial Statements of the Group.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(b) New standards, amendments and interpretations (continued)

(i) New and amended standards adopted during the year (continued)

Definition of a Business (Amendments to IFRS 3)

Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

In October 2018 the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments:

- Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs.
- Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The adoption of these amendments did not have a significant impact on the Financial Statements of the Group.

Definition of Material (Amendments to IAS 1 and IAS 8)

The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity."

The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change – the refinements are not intended to alter the concept of materiality.

The adoption of these amendments did not have a significant impact on the Financial Statements of the Group.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

The adoption of these amendments did not have a significant impact on the Financial Statements of the Group.

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

Differing effective dates of IFRS 9 Financial Instruments and the new insurance contracts standard could have had a significant impact on insurers. In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, the International Accounting Standards Board (the Board) issued amendments to IFRS 4 Insurance Contracts in 2017 with an effective date of 1 January 2020.

The amendments introduced two options that could reduce the impacts but include various complexities as summarised as follows;

NOTES (continued)

2. Summary of significant accounting policies (continued)

(b) New standards, amendments and interpretations (continued)

(i) New and amended standards adopted during the year (continued)

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) (continued)

Temporary exemption from IFRS 9

- Rather than having to implement IFRS 9 in 2018, some companies are permitted to continue to apply IAS 39 Financial Instruments: Recognition and Measurement.
- To qualify, a reporting company's activities need to be predominantly connected with insurance.

Overlay approach

- This optional solution provides an overlay approach to presentation to alleviate temporary accounting mismatches and volatility.
- For designated financial assets, a company is permitted to reclassify between profit or loss and other comprehensive income (OCI), the difference between the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39.

On the issue of IFRS 17 (Revised) Insurance Contracts in June 2020, the end date for applying the two options under the IFRS 4 amendments was extended to 1 January 2023, aligned with the effective date of IFRS 17.

The adoption of these amendments did not have a significant impact on the Financial Statements of the Group.

(ii) New standards and interpretations not yet adopted

At the date of authorisation of the Financial Statements of British American Tobacco Kenya plc for the year ended 31 December 2020, the following Standards and Interpretations were in issue but not yet effective:

Interest Rate Benchmark reform-Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1-Jan-21
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1-Jan-22
Annual Improvements to IFRS Standards 2018–2020	1-Jan-22
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1-Jan-22
Reference to the Conceptual Framework (Amendments to IFRS 3)	1-Jan-22
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1-Jan-23
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1-Jan-23
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1-Jun-20
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28	Available for optional adoption/ effective date deferred indefinitely

All standards and interpretations will be adopted at their effective date (except for those standards and Interpretations that are not applicable to the entity).The adoption of these amendments are not expected to have a material impact on the Financial Statements of the Group.

Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 37)

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, issued by the International Accounting Standards Board, clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both:

- the incremental costs – e.g. direct labour and materials; and
- an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments will be recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives will not be restated. Earlier application is permitted.

The amendments are not expected to have a material impact on the Group.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(b) New standards, amendments and interpretations (continued)

(ii) New standards and interpretations not yet adopted (continued)

Annual Improvements to IFRS Standards 2018-2020

■ IFRS 1 First-time Adoption of International Financial Reporting Standards	The amendment permits a subsidiary (as a first-time adopter of IFRS that applies IFRS later than its parent) that applies IFRS 1.D16(a) to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
■ IFRS 9 Financial Instruments	The amendment clarifies that for the purpose of performing the ''10 per cent test" for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
■ IFRS 16 Leases	The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive.
■ IAS 41 Agriculture	The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 Fair Value Measurement.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted.

The amendments are not expected to have a material impact on the Group.

Property, plant and equipment: proceeds before intended use (Amendments to IAS 16)

The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Proceeds from selling items before the related item of property, plant and equipment is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 Inventories should be applied in identifying and measuring these production costs.

Companies will therefore need to distinguish between:

- costs associated with producing and selling items before the item of property, plant and equipment is available for use; and
- costs associated with making the item of property, plant and equipment available for its intended use.

Making this allocation of costs may require significant estimation and judgement.

The amendments apply for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the Financial Statements in which the Company first applies the amendments.

The amendments are not expected to have a material impact on the Group.

Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendment has:

- Updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- added to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and

NOTES (continued)

2. Summary of significant accounting policies (continued)

(b) New standards, amendments and interpretations (continued)

(ii) New standards and interpretations not yet adopted (continued)

Reference to the Conceptual Framework (Amendments to IFRS 3) (continued)

- added to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendment is effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

The amendments are not expected to have a material impact on the Group.

IFRS 17 Insurance Contracts (and its related amendments)

IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:

- Reinsurance contracts held;
- Direct participating contracts; and
- Investment contracts with discretionary participation features.

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.

The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity's Financial Statements.

The entity is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future Financial Statements.

The standard is effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted only if the entity applied IFRS 9.

The amendments are not expected to have a material impact on the Group.

Classification of liabilities as current or non-current (Amendments to IAS 1)

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the Board has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

There is limited guidance on how to determine whether a right has substance and the assessment may require management to exercise interpretive judgement.

The existing requirement to ignore management's intentions or expectations for settling a liability when determining its classification is unchanged.

The amendments are to be applied retrospectively from the effective date.

The amendments are not expected to have a material impact on the Group.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

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

The IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

When a parent loses control of a subsidiary in a transaction with an associate or joint venture (JV), there is a conflict between the existing guidance on consolidation and equity accounting.

Under the consolidation standard, the parent recognises the full gain on the loss of control. But under the standard on associates and JVs, the parent recognises the gain only to the extent of unrelated investors' interests in the associate or JV.

In either case, the loss is recognised in full if the underlying assets are impaired.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(b) New standards, amendments and interpretations (continued)

(ii) New standards and interpretations not yet adopted (continued)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (continued)

In response to this conflict and the resulting diversity in practice, on 11 September 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The amendments are not expected to have a material impact on the Group.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the Group is amended to reflect the changes that are required by the reform, the hedged items are allocated to subgroups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non contractually specified risk component if it is not separately identifiable at the designation date.

Disclosure

The amendments will require the Company to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

Transition

The Group plans to apply the amendments from 1 January 2021. Application will not impact amounts reported for 2020 or prior periods.

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose:

- that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
- the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

The adoption of these amendments is not expected to have a material impact on the Financial Statements of the Group as the Group has not had any lease concessions.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(c) Consolidation

(i) Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

(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.

(d) Functional currency and foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was

NOTES (continued)

2. Summary of significant accounting policies (continued)

(d) Functional currency and foreign currency translation (continued)

(ii) Transactions and balances (continued)

determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(e) Segment reporting

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

(f) 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.

(g) 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 and equipment	10% per annum

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

NOTES (continued)

2. Summary of significant accounting policies (continued)

(h) 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.

(i) 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 KSh 500,000).

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;
- amounts expected to be payable under a residual value guarantee; and

NOTES (continued)

2. Summary of significant accounting policies (continued)

(i) Accounting for leases (continued)

As a lessee (continued)

- 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.

(j) 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.

(k) 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.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(k) Financial instruments (continued)

(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.

(iii) Offsetting financial instruments

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

(iv) Impairment of financial assets

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

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

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

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

(v) 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.

(l) 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.

(m) 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).

NOTES (continued)

2. Summary of significant accounting policies (continued)

(n) 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.

(o) 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.

(p) 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.

(q) Employee benefits

Pension obligations

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

Other entitlements

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

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

Termination benefits

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

Bonus plans

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

(r) 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.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

(y) 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.

NOTES (continued)

2. Summary of significant accounting policies (continued)

(y) Finance income and finance costs (continued)

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.

(z) 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 adopted a number of new standards that are effective from 1 January 2020, but they do not have a material effect on the Company's Financial Statements.

The details of the new standards are set out in Note 2(a)

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

NOTES (continued)

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:

Group - 31 December 2020	USD KSh'000	GBP KSh'000	EUR KSh'000	AED KSh'000
Asset				
Receivables and prepayments	2,525,522	20,438	30,822	284,586
Cash and cash equivalents	453,855	3,858	11,993	-
	2,979,377	**24,296**	**42,815**	**284,586**
Liabilities				
Payables and accrued expenses	(508,088)	(52,208)	-	-
	(508,088)	**(52,208)**	**-**	**-**

Group - 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**	**-**

NOTES (continued)

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

Company - 31 December 2020	USD KSh'000	GBP KSh'000	EUR KSh'000	AED KSh'000
Asset				
Receivables and prepayments	2,479,407	20,438	30,822	284,586
Cash and cash equivalents	453,855	3,858	11,993	-
	2,933,262	**24,296**	**42,815**	**284,586**
Liabilities				
Payables and accrued expenses	(508,088)	(52,208)	-	-
	(508,088)	**(52,208)**	**-**	**-**

Company - 31 December 2019	USD KSh'000	GBP KSh'000	EUR KSh'000	AED KSh'000
Asset				
Receivables and prepayments	491,871	40,816	85,931	129,243
Cash and cash equivalents	11,424	11,947	10,687	-
	503,295	**52,763**	**96,618**	**129,243**
Liabilities				
Payables and accrued expenses	(1,168,428)	(2,561)	-	-
	(1,168,428)	**(2,561)**	**-**	**-**

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
Group & Company 2020				
Average rates	106.50	136.73	121.58	28.99
Closing rates	110.53	148.42	134.48	29.73
Group & Company 2019				
Average rates	102.00	130.20	114.19	27.76
Closing rates	101.35	134.26	113.77	27.59

NOTES (continued)

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

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

Group	2020 KSh'000	2019 KSh'000
Currency – USD		
10% movement effect (higher/lower)	247,129	70,805
Currency – GBP		
10% movement effect (higher/lower)	2,791	5,758
Currency – EUR		
10% movement effect (higher/lower)	4,281	561
Currency – AED		
10% movement effect (higher/lower)	28,459	12,924

Company	2020 KSh'000	2019 KSh'000
Currency – USD		
10% movement effect (higher/lower)	242,517	66,513
Currency – GBP		
10% movement effect (higher/lower)	2,791	5,020
Currency – EUR		
10% movement effect (higher/lower)	4,281	9,662
Currency – AED		
10% movement effect (higher/lower)	28,459	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.

Group	2020			2019		
Forward foreign currency contracts	Assets KSh'000	Liabilities KSh'000	Total KSh'000	Assets KSh'000	Liabilities KSh'000	Total KSh'000
Carrying amounts	5,043	(15,519)	(10,476)	42,799	(4,745)	38,054
Expected cashflows						
1-6 months	5,043	(6,944)	(1,901)	52,981	-	52,981
7-12 months	-	(8,575)	(8,575)	69,805	31,466	101,271
More than 1 year	-	-	-	-	-	-
Total	5,043	(15,519)	(10,476)	122,786	31,466	154,252

NOTES (continued)

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

Company	2020			2019		
Forward foreign currency contracts	Assets KSh'000	Liabilities KSh'000	Total KSh'000	Assets KSh'000	Liabilities KSh'000	Total KSh'000
Carrying amounts	5,043	(15,519)	(10,476)	42,799	(4,745)	38,054
Expected cashflows						
1-6 months	5,043	(6,944)	(1,901)	52,981	-	52,981
7-12 months	-	(8,575)	(8,575)	69,805	31,466	101,271
More than 1 year	-	-	-	-	-	-
Total	5,043	(15,519)	(10,476)	122,786	31,466	154,252

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 2020, an increase/decrease of 1% would have resulted in insignificant change (2019: Nil) 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 2020 and 31 December 2019 is made up as follows:

	Group		Company	
	2020 KSh'000	2019 KSh'000	2020 KSh'000	2019 KSh'000
Cash and cash equivalents	1,884,392	1,811,443	1,884,539	1,811,443
Amounts due from related parties	2,937,352	904,489	2,937,352	870,919
Trade and other receivables	1,335,565	1,668,578	501,577	591,115
Derivative financial instruments	5,043	42,799	5,043	42,799
	6,162,352	4,427,309	5,328,511	3,316,276

NOTES (continued)

5. Financial risk management (continued)

(b) Credit risk (continued)

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 2020

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 2020 and 2019.

(i) Trade receivables

As at December 31, 2020 - Group Aging bucket	Loss rate	Carrying amount KSh'000	Loss allowance KSh'000	Credit impaired
Current (not past due, 0–3 days)	-	833,794	834	No
4–30 days past due	2.01%	-	-	No
31–60 days past due	3.91%	-	-	No
61–90 days past due	5.82%	-	-	No
More than 90 days past due	7.72%	-	-	No
		833,794	834	

As at December 31, 2020 - Company Aging bucket	Loss rate	Carrying amount KSh'000	Loss allowance KSh'000	Credit impaired
Current (not past due, 0–3 days)	-	-	-	No
4–30 days past due	2.01%	-	-	No
31–60 days past due	3.91%	-	-	No
61–90 days past due	5.82%	-	-	No
More than 90 days past due	7.72%	-	-	No
		-	-	

As at December 31, 2019 - Group

NOTES (continued)

5. Financial risk management (continued)
(b) Credit risk (continued)
(i) Trade receivables (continued)

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)	

As at 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)	

Loss rates are based on actual credit loss experience over the past 7 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% (2019: 0.36%) which considers historical experience over the last seven years, current conditions, exchange rates and country risk. This was applied to the gross outstanding amount and resulted in in insignificant loss allowance for the year ended 31 December 2020 (31 December 2019: KSh 2,689,167).

(iii) Loans and advances to farmers
For Group and Company, the calculated ECL which represents the probability of default was 0.47% (2019: 0.57%) which considers historical experience over the last six years, current conditions and forecasted uninsured losses. This was applied to the gross outstanding amount and resulted in a loss allowance of KSh 1,504,544 for the year ended 31 December 2020 (31 December 2019: KSh 2,090,964).

(iv) Cash and cash equivalents
The Group and Company held cash and cash equivalents of KSh 1,884,391,638 and KSh 1,884,539,573 respectively (2019: both Group and Company - KSh 1,811,443,000). The cash and cash equivalents are held with banks and financial institution counterparties, which are rated between A1 to Ba1, based on Moody's ratings.

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

The impact of IFRS 9 as at 31 December 2020 and 2019 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 2020 and 2019 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.

NOTES (continued)

5. Financial risk management (continued)

(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.

(i) Group

At 31 December 2020	Less than 1 year KSh'000	Between 1 & 3 years KSh'000
Liabilities		
Borrowings	23,414	52,705
Trade and other payables	4,572,259	-
Amounts due to related parties	914,520	-
Derivative financial instruments	15,519	-
Total financial liabilities	**5,525,712**	**52,705**
Assets		
Cash and bank balances	1,884,392	-
Amounts due from related parties	2,937,352	-
Trade and other receivables	1,335,565	-
Derivative financial instruments	5,043	-
Total financial assets	**6,162,352**	**-**
At 31 December 2019		
Liabilities		
Borrowings exclude the discounted cashflows	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**	**-**

NOTES (continued)

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

At 31 December 2020	Less than 1 year KSh'000	Between 1 & 3 years KSh'000
Liabilities		
Borrowings	21,471	48,425
Trade and other payables	2,960,866	-
Amounts due to related parties	883,093	-
Derivative financial instruments	15,519	-
Total financial liabilities	**3,880,949**	**48,425**
Assets		
Cash and bank balances	1,884,539	-
Amounts due from related parties	2,937,352	-
Trade and other receivables	501,577	-
Derivative financial instruments	5,043	-
Total financial assets	**5,328,511**	**-**
At 31 December 2019		
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**	**-**

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	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Total borrowings	67,557	188,601	62,149	161,732
Less: cash and cash equivalents	(1,884,392)	(1,811,443)	(1,884,539)	(1,811,443)
Net debt	(1,816,835)	(1,622,842)	(1,822,390)	(1,649,711)
Total equity	11,856,065	9,715,211	11,856,065	9,715,211
Total	**10,039,230**	**8,092,369**	**10,033,675**	**8,065,500**
Gearing ratio	**(18%)**	**(20%)**	**(18%)**	**(20%)**

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	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Trade and other receivables (excluding pre-payments)	4,272,917	2,573,067	3,438,929	1,462,034
Cash and cash equivalents	1,884,392	1,811,443	1,884,539	1,811,443
Derivative financial instruments	5,043	42,799	5,043	42,799
	6,162,352	**4,427,309**	**5,328,511**	**3,316,276**

Financial liabilities:

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

Financial liabilities	Group		Company	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Trade and other payables (excluding statutory liabilities)	5,486,780	6,180,194	3,843,959	4,544,359
Borrowings	67,557	188,601	62,149	161,732
Derivative financial instruments	15,519	4,745	15,519	4,745
	5,569,856	**6,373,540**	**3,921,627**	**4,710,836**

NOTES (continued)

5. Financial risk management (continued)

(e) Fair value

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

Level 1

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

Level 2

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

Level 3

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

The following table shows an analysis of non-financial assets held at fair value as at 31 December 2020 and 31 December 2019:

	Group		Company	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Property, plant and equipment (Note 19)	10,481,820	10,097,866	8,973,723	9,209,902
Forward exchange contracts (Note 23)	5,043	42,799	5,043	42,799
Total assets	**10,486,863**	**10,140,665**	**8,978,766**	**9,252,701**

NOTES (continued)

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.

	2020 KSh'000	2019 KSh'000
Analysis of net revenue by geography:		
Local sales	11,607,683	13,177,096
Export sales	13,731,554	10,862,522
	25,339,237	**24,039,618**
Analysis of net revenue by product:		
Sale of cigarettes	21,933,478	21,957,493
Sale of cut rag	3,405,759	2,082,125
	25,339,237	**24,039,618**

7. Raw materials and manufacturing costs

	2020 KSh'000	2019 KSh'000
Analysis of net revenue by geography:		
Raw materials, consumables and other manufacturing costs*	13,878,426	14,154,055
Depreciation of property, plant and equipment	407,612	437,190
Impairment of property, plant and equipment	320,365	-
	14,606,403	**14,591,245**

**Raw materials, consumables and other manufacturing costs include employee expenses of KSh 1,084,661,000 (2019: KSh 1,189,424,000)*

8. Marketing and distribution costs

	2020 KSh'000	2019 KSh'000
Employment expenses	475,476	481,988
Depreciation	25,149	4,903
Freight and other expenses	1,237,680	1,422,068
	1,738,305	**1,908,959**

NOTES (continued)

9. Administration and other expenses

	2020 KSh'000	2019 KSh'000
Employment expenses	749,052	759,311
Recharges and other expenses	487,834	898,555
Depreciation	101,903	109,298
Reorganisation costs	198,362	385,896
	1,537,151	2,153,060

10. Finance costs

	Group		Company	
	2020 KSh'000	2019 KSh'000	2020 KSh'000	2019 KSh'000
Interest income	(3,572)	(436)	(3,572)	(436)
Interest expense	177,826	159,011	177,378	158,745
Interest on lease liabilities	14,206	29,308	12,084	26,470
Net foreign currency exchange (gains)/ losses	(15,270)	5,296	(15,271)	5,296
	173,190	193,179	170,619	190,075

11. Profit before tax

	2020 KSh'000	2019 KSh'000
The following items have been charged in arriving at the profit before income tax:		
Employee benefits expense (Note 12)	2,600,710	2,816,619
Auditor's remuneration	12,814	11,703
Depreciation (Note 19)	534,664	551,391
Gain/(loss) on disposal	4,841	(12,617)

12. Employee benefits expense

	2020 KSh'000	2019 KSh'000
Salaries and wages	**2,309,189**	**2,340,816**
Retirement benefits costs:		
■ Defined contribution scheme	88,589	86,276
■ National Social Security Fund	4,570	3,631
Reorganisation costs (Note 9)	198,362	385,896
	2,600,710	2,816,619

NOTES (continued)

13. Income tax

	2020 KSh'000	2019 KSh'000
Current income tax		
Current tax on profits for the year	1,892,345	2,535,073
Prior year under provision of current tax	6,307	-
Total current tax	**1,898,652**	**2,535,073**
Deferred income tax (Note 18)		
▪ Deferred income tax	(415)	(887,254)
▪ Prior year under provision of deferred tax	1	42
Total deferred income tax	**(414)**	**(887,212)**
Income tax expense	**1,898,238**	**1,647,861**
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	**7,415,730**	**5,533,510**
Tax calculated at domestic rate applicable to profit - 25% (2019:30%)	1,853,933	1,660,053
Tax effect of: Income not subject to tax	(34,456)	(49,999)
Expenses not deductible for tax purposes	72,454	37,765
Prior year over provision of deferred tax	1	42
Prior year under provision of current tax	6,307	-
Income tax expense	**1,898,238**	**1,647,861**

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

	2020 KSh'000			2019 KSh'000		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Transfer of excess depreciation	40,868	(12,260)	28,608	57,940	(17,382)	40,558
Transfer on disposals	-	-	-	35,130	(10,539)	24,591
	40,868	**(12,260)**	**28,608**	**93,070**	**(27,921)**	**65,149**

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.

	2020 KSh'000	2019 KSh'000
Profit attributable to equity holders of the Company (KSh '000)	5,517,492	3,885,649
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (KSh)	**55.17**	**38.86**

15. Dividends per share

During the year a final dividend in respect of the 2019 financial results of KSh 30.0 (2018: KSh 31.5) and an interim dividend of KSh 3.50 per share (2019: KSh 3.50) was declared and paid. The total dividend paid in the year is therefore KSh 33.50 per share (2018: KSh 35.0), amounting to a total of KSh 3,350,000,000 (2019: KSh 3,500,000,000).

At the annual general meeting to be held on 29 April 2021, a final dividend in respect of the year ended 31 December 2020 of KSh 41.50 per share amounting to a total of KSh 4,150,000,000 (2019: 3,000,000,000) is to be proposed. These Financial Statements do not reflect this dividend as a liability.

The payment of dividends is subject to withholding tax at the rate of 10% for all non-residents, 5% for Kenyan residents and 0% for resident Kenyan companies with shareholding of 12.5% or more in the Company.

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 Company had a Nil hedging reserve as at 31 December 2020. The hedging reserve of KSh 26,638,000 as at 31 December 2019 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 KSh 1,726,977,000 (2019: 1,755,585,000) 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

	2020 KSh'000	2019 KSh'000
The analysis of Group deferred tax assets and deferred liabilities is as follows		
Deferred tax assets	(432,397)	(587,213)
Deferred tax liabilities	1,528,229	1,698,214
Deferred tax liabilities (net)	**1,095,832**	**1,111,001**
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	1,111,001	1,989,509
Credit to statement of profit or loss and other comprehensive income	11,845	(859,333)
Prior year under provision of deferred tax	1	42
Debit/(credit) to equity	(27,015)	(19,217)
At end of year	**1,095,832**	**1,111,001**

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 2020	1.1.2020 KSh'000	Charged /(credited) to P&L KSh'000	Charged /(credited) to equity KSh'000	31.12.2020 KSh'000
Deferred income tax liabilities				
Property, plant and equipment:				
■ on historical cost basis	1,355,650	(53,367)	-	1,302,283
■ on revaluation surpluses	750,005	(12,260)	-	737,745
■ on Right of Use Assets	7,212	-		7,212
Unrealised exchange gains	23,555	33,807	-	57,362
Deferred tax in respect of fair value gain on hedge reserve	12,840	-	-	12,840
	2,149,262	**(31,820)**	**-**	**2,117,442**
Deferred income tax assets				
Provisions for liabilities and charges	(1,009,428)	43,665	-	(965,763)
Unrealised exchange losses	(13,241)	(35,509)	-	(48,750)
Lease liabilities	(14,168)	23,249	-	9,081
Deferred tax in respect of fair value loss on hedge reserve	(1,424)	-	(14,755)	(16,179)
Prior year under provision of deferred tax	-	1	-	1
	(1,038,261)	**31,406**	**(14,755)**	**(1,021,610)**
Net deferred income tax liability	**1,111,001**	**(414)**	**(14,755)**	**1,095,832**

NOTES (continued)

18. Deferred income tax (continued)

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	**(5,006)**	**7,743**	**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)
Lease liabilities	-	(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**	**(887,212)**	**8,704**	**1,111,001**

Deferred income tax of KSh 12,260,000 (2019: KSh 27,291,000) 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 of KSh 12,260,000 (2019: KSh 17,382,000) and deferred tax on accumulated depreciation on revaluation relating to property that was sold during the year of nil (2019: KSh 10,539,000).

NOTES (continued)

18. Deferred income tax (continued)

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

The analysis of Company deferred tax assets and deferred tax liabilities is as follows:	2020 KSh'000	2019 KSh'000
Deferred tax liabilities (net)	**1,528,229**	**1,698,214**
Property, plant and equipment:		
■ on historical cost basis	1,302,283	1,355,650
■ on revaluation surpluses	737,745	750,005
■ on Right of Use Assets	15,736	-
Unrealised exchange gains	56,382	21,382
Deferred tax in respect of fair value gain on hedge reserve	-	12,840
	2,112,146	**2,139,877**
Deferred income tax assets		
Provisions for liabilities and charges	(532,960)	(423,134)
Unrealised exchange losses	(47,618)	(10,998)
Right of use assets	-	(6,107)
Deferred tax in respect of fair value loss on hedge reserve	(3,339)	(1,424)
	(583,917)	**(441,663)**
Net deferred income tax liability	**1,528,229**	**1,698,214**

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 2020					
Opening net book amount	4,032,371	4,456,682	292,888	1,315,925	10,097,866
Additions	-	279,184	11,429	1,001,000	1,291,613
Disposals/impairment					
■ Cost	-	(4,193)	(11,786)	-	(15,979)
■ Accumulated depreciation	-	3,619	5,140	-	8,759
Impairment	-	(320,364)	-	-	(320,364)
Depreciation charge	(90,459)	(346,799)	(97,406)	-	(534,664)
Transfer to lease liability	(34,525)	-	(10,886)		(45,411)
Transfers	263,063	25,224	77,239	(365,526)	-
Closing net book amount	**4,170,450**	**4,093,353**	**266,618**	**1,951,399**	**10,481,820**
At 31 December 2020					
Cost or valuation	5,461,793	10,146,565	1,272,841	1,951,399	18,832,598
Accumulated depreciation	(1,291,343)	(6,053,212)	(1,006,223)	-	(8,350,778)
Net book amount	**4,170,450**	**4,093,352**	**266,618**	**1,951,399**	**10,481,820**
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**

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

As at 31 December 2020, property, plant and equipment includes right of use assets of KSh 103,228,000 (2019: Shs 165,414,000) 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 2020					
Opening net book amount	4,020,625	4,456,682	280,594	452,001	9,209,902
Additions	-	279,184	11,429	364,095	654,708
Disposals/impairment					
■ Cost	-	(4,193)	(11,786)	-	(15,979)
■ Accumulated depreciation	-	3,619	5,140	-	8,759
Impairment	-	(320,364)	-	-	(320,364)
Depreciation charge	(90,339)	(346,799)	(96,672)	-	(533,810)
Transfer to lease liability	(28,699)		(794)		(29,493)
Transfers	263,063	25,224	77,239	(365,526)	-
Closing net book amount	**4,164,650**	**4,093,353**	**265,150**	**450,570**	**8,973,723**
At 31 December 2020					
Cost or valuation	5,455,633	10,146,565	1,266,542	450,570	17,319,310
Accumulated depreciation	(1,290,983)	(6,053,212)	(1,001,392)	-	(8,345,587)
Net book amount	**4,164,650**	**4,093,352**	**265,150**	**450,570**	**8,973,723**
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**

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

As at 31 December 2020, property, plant and equipment includes right of use assets of KSh 95,962,000 (2019: Shs 141,375,000) related to leased properties (see Note 28 (i)).

NOTES (continued)

19. Property, plant and equipment - Group (continued)

In 2016, Knight Frank Valuers Limited, professionally valued the Group's and Company's land and buildings. The valuation was on an open market value basis. The valuer used the comparable method of valuation for valuation of land. This is defined as a set of procedures in which a valuer derives the value by comparing the property being valued to similar properties that have recently been sold applying appropriate units of comparison and making adjustments to the sale prices of the comparable sales. The technique is based on the principal of substitution which states that the value of a property tends to be set by the price that would be paid to acquire a substitute property of similar utility and desirability within a reasonable amount of time. Buildings were valued on the basis of Depreciated Replacement Cost (Private Sector) which is defined as the Current Gross Replacement Cost of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimisation.

The fair value measurement of revalued items of property plant and equipment has been categorized as a level 2 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:

	2020 KSh'000	2019 KSh'000
Cost	2,051,115	1,937,645
Accumulated depreciation	(482,488)	(461,471)
Net book amount	**1,568,627**	**1,476,174**

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		Company	
	2020 KSh'000	2019 KSh'000	2020 KSh'000	2019 KSh'000
Raw materials and consumables	3,002,383	4,821,497	2,976,823	4,820,848
Finished goods	701,585	574,962	642,566	494,178
	3,703,968	**5,396,459**	**3,619,389**	**5,315,026**

NOTES (continued)

22. Receivables and prepayments

	Group		Company	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Trade receivables	833,794	1,146,799	-	70,747
Other receivables	501,771	521,779	501,577	520,368
Prepayments	443,014	1,050,489	351,341	189,912
Due from related parties	2,937,352	904,489	2,937,352	870,919
	4,715,931	**3,623,556**	**3,790,270**	**1,651,946**

The carrying amounts of the above receivables and prepayments approximate 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	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Forward foreign currency contracts	5,043	15,519	42,799	4,745
Current	5,043	15,519	42,799	4,745
Non-current	-	-	-	-
	5,043	**15,519**	**42,799**	**4,745**

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	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Cash at bank	1,884,392	1,811,443	1,884,539	1,811,443

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

	Group		Company	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Cash at bank	1,884,540	1,811,443	1,884,539	1,811,443
Bank overdrafts (Note 26)	(148)	-	-	-
	1,884,392	**1,811,443**	**1,884,539**	**1,811,443**

NOTES (continued)

25. Payables and accrued expenses

	Group		Company	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Trade payables	2,324,220	2,974,786	2,035,577	1,871,745
Statutory payables	749,130	1,695,258	645,330	1,594,888
Due to related companies	914,520	698,979	883,093	606,282
Other payables and accrued expenses	2,248,039	2,506,429	925,289	2,066,332
	6,235,909	7,875,452	4,489,289	6,139,247

26. Borrowings

	Group		Company	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Non-current				
Lease liabilities	48,135	172,425	44,171	148,205
	48,135	172,425	44,171	148,205
Current				
Bank overdrafts	148	-	-	-
Lease liabilities	19,422	16,176	17,978	13,527
	19,570	16,176	17,978	13,527

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	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
Opening balance	188,601	1,222,299	161,732	1,222,299
Repayment of borrowings	-	(1,222,200)	-	(1,222,200)
Lease liability at 1 Jan	-	267,581	-	239,204
Lease liability reclassification	(45,411)	51,556	(29,493)	51,654
Lease liability disposals	(46,085)	(112,839)	(46,085)	(112,839)
Payment of lease liabilities	(43,754)	(47,104)	(36,089)	(43,081)
Interest expense	14,206	29,308	12,084	26,695
Closing balance	67,557	188,601	62,149	161,732

NOTES (continued)

26. Borrowings (continued)

The Group and Company have the following undrawn borrowing facilities:

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

	2020 KSh'000	2019 KSh'000
Overdraft , short term loan facilities, bonds and guarantees	8,614,084	8,228,992
	8,614,084	**8,228,992**

27. Current tax movement

	Group		Company	
	2020 KSh'000	2019 KSh'000	2020 KSh'000	2019 KSh'000
Opening income tax asset	(339,818)	(297,400)	377,026	(128,806)
Charge to statement of profit or loss and other comprehensive income	(1,898,652)	(2,535,073)	(344,328)	(447,166)
Income tax paid	2,497,361	2,492,655	449,603	952,998
Closing income tax asset/(liability)	**258,890**	**(339,818)**	**482,301**	**377,026**
Current asset	482,301	377,026	482,301	377,026
Current liability	(223,411)	(716,844)	-	-
Closing income tax asset/(liability)	**258,890**	**(339,818)**	**482,301**	**377,026**

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
2020				
Balance as at 1st January	50,627	-	114,787	165,414
Additions to right-of-use assets	-	-	-	-
Depreciation charge for the year	(774)	-	(16,001)	(16,775)
Derecognition of right-of-use assets	(34,525)	-	(10,886)	(45,411)
Balance as at 31st December	**15,328**	**-**	**87,900**	**103,228**

NOTES (continued)

28. Leases (continued)

(i) Right-of-use assets (continued)

Group	Land and Buildings KSh'000	Plant and Machinery KSh'000	Vehicles and Equipment KSh'000	Total KSh'000
2019				
Balance as at 1 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 31 December	**50,627**	**-**	**114,787**	**165,414**

Company	Land and Buildings KSh'000	Plant and Machinery KSh'000	Vehicles and Equipment KSh'000	Total KSh'000
2020				
Balance as at 1 January	38,881	-	102,494	141,375
Additions to right-of-use assets	-	-	-	-
Depreciation charge for the year	(653)	-	(15,267)	(15,920)
Derecognition of right-of-use assets	(28,699)	-	(794)	(29,493)
Balance as at 31 December	**9,529**	**-**	**86,433**	**95,962**

Company	Land and Buildings KSh'000	Plant and Machinery KSh'000	Vehicles and Equipment KSh'000	Total KSh'000
2019				
Balance as at 1 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 31 December	**38,881**	**-**	**102,494**	**141,375**

NOTES (continued)

28. Leases (continued)

(ii) Amounts recognised in profit or loss

	Group		Company	
	2020 KSh'000	2019 KSh'000	2020 KSh'000	2019 KSh'000
Lease under IFRS 16				
Interest on lease liability	14,206	29,308	12,084	26,695

(iii) Amounts recognised in cash flows

	Group		Company	
	2020 KSh'000	2019 KSh'000	2020 KSh'000	2019 KSh'000
Lease under IFRS 16				
Total cash outflows for leases	43,754	47,104	36,089	43,081

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

29. Provisions for liabilities and charges

	Group KSh'000	Company KSh'000
Year ended 31 December 2020		
At start of year	1,737,296	700,993
Additional provisions	1,037,793	285,480
Unused amounts reversed	(843,827)	(18,359)
Utilised during the year	(152,100)	(152,100)
At end of year	**1,779,162**	**816,014**
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**

Provisions comprise balances set up in the ordinary course of business and are related to general liabilities to various stakeholders. Provisions mainly comprise litigations and legal claims made against the Group and Company by various stakeholders. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of these litigations and claims. The Group and Company have recognised a provision for present obligations where the payments are probable and amounts can be estimated reliably.

NOTES (continued)

30. Cash generated from operations

(a) Reconciliation of profit before taxation cash generated from operations

Group	2020 KSh'000	2019 KSh'000
Profit before taxation	**7,415,730**	**5,533,510**
Adjustments for:		
Depreciation (Note 19)	534,664	551,391
Impairment (Note 19)	320,364	-
(Profit)/loss on disposal of property, plant and equipment	(4,841)	12,617
Interest income (Note 10)	(3,572)	(436)
Interest expense (Note 10)	177,826	159,011
Interest on lease liabilities (Note 10)	14,206	29,308
Disposal of lease liabilities (Note 26)	(46,085)	(112,839)
Fair value loss on ineffective derivatives	7,139	-
Changes in working capital:		
■ inventories	1,692,491	787,459
■ receivables and prepayments	(1,092,375)	(799,147)
■ payables and accrued expenses	(1,639,543)	2,434,529
■ provisions for liabilities and charges	41,866	1,691,642
Cash generated from operations	**7,417,870**	**10,287,045**

Company	2020 KSh'000	2019 KSh'000
Profit before taxation	**688,020**	**467,920**
Adjustments for:		
Depreciation (Note 19)	533,810	547,054
Impairment (Note 19)	320,364	-
(Profit)/loss on disposal of property, plant and equipment	(4,841)	12,617
Interest income (Note 10)	(3,572)	(436)
Interest expense (Note 10)	177,378	158,745
Interest on lease liabilities (Note 10)	12,084	26,470
Disposal of lease liabilities (Note 26)	(46,085)	(112,839)
Fair value loss on ineffective derivatives	7,139	-
Changes in working capital:		
■ inventories	1,695,637	689,641
■ receivables and prepayments	(2,138,324)	762,272
■ payables and accrued expenses	(1,649,958)	1,144,591
■ provisions for liabilities and charges	115,021	655,339
Cash (utilised)/generated from operations	**(293,327)**	**4,351,374**

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	
	2020	2019	2020	2019
	KSh'000	KSh'000	KSh'000	KSh'000
(i) Sale of goods and services				
Subsidiary	-	-	14,916,190	17,530,059
Other related parties	11,229,438	8,104,858	11,229,438	8,104,858
	11,229,438	**8,104,858**	**26,145,628**	**25,634,917**
(ii) Purchase of goods and services				
Parent company	443,510	336,840	443,510	336,840
Other related parties	1,715,225	1,420,110	1,715,225	1,420,110
	2,158,735	**1,756,950**	**2,158,735**	**1,756,950**
(iii) Outstanding balances arising from sale and purchase of goods/services				
Receivables from other related parties	**2,937,352**	**904,489**	**2,937,352**	**870,919**
Payables to the parent company	41,132	25,863	41,132	24,984
Payables to other related parties	873,388	673,116	841,961	581,298
	914,520	**698,979**	**883,093**	**606,282**

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.

NOTES (continued)

31. Related party transactions (continued)

	2020 KSh'000	2019 KSh'000
(v) Key management compensation		
Salaries and other short-term employment benefits	144,944	133,462
Other long-term benefits	95,706	111,728
	240,650	**245,190**

	2020 KSh'000	2019 KSh'000
(vi) Directors' remuneration		
Fees for services as a Director	23,551	17,056
Other emoluments (included in key management compensation above)	75,288	86,115
Total remuneration of Directors of the Company	**98,839**	**103,171**

32. Contingent liabilities

The Group and Company's contingencies mainly arise from litigations and claims against and by the Group and Company. Given the nature of these legal cases, the Directors are of the opinion that disclosing the details of each case can be expected to prejudice seriously the position of the Group and Company with other parties. The Company has however recognised a provision for present obligations where the payments are probable and amounts can be estimated reliably. These provisions are included within note 29 to the Financial Statements.

The Group has guarantees amounting to KSh 2,467,089,039 (2019: KSh 2,150,562,622), 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:

	Group		Company	
	2020 KSh'000	2019 KSh'000	2020 KSh'000	2019 KSh'000
Property, plant and equipment	245,773	346,693	245,773	346,693

PRINCIPAL SHAREHOLDERS AND SHARE DISTRIBUTION

Top ten shareholders as at 12 February 2021

Shareholder	No. of Shares	% Shareholding
Molensteegh Invest BV.	60,000,000	60.00%
Standard Chartered Nominees Non-Resd. a/c 9866	6,323,129	6.32%
Standard Chartered Nominees. A/C ke003262	5,234,485	5.23%
Stanbic Nominees Ltd A/C Nr1030824	2,923,239	2.92%
Stanbic Nominees Ltd A/C Nr1873738	2,107,300	2.11%
Standard Chartered Kenya Nominees ltd A/C ke23050	1,638,296	1.64%
Standard Chartered Nominees Non-Resd A/C ke11663	1,206,600	1.21%
Investment & Mortgages Nominees Ltd a/c 002983	1,180,000	1.18%
Kenya Commercial Bank Nominees Limited a/c 915a	965,223	0.97%
Standard Chartered Kenya Nominees Ltd A/C ke002373	750,000	0.75%
Others (5,009) shareholders	17,671,728	17.67%
TOTAL	100,000,000	100.00%

Summary of shareholders as at 12 February 2021

Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Foreign Companies	35	83,419,290	83.42%
Foreign Individuals	96	431,257	0.43%
Local Companies	433	10,132,922	10.13%
Local Individuals	4,455	6,016,531	6.02%
TOTAL	5,019	100,000,000	100.00%

Distribution of shareholders as at 12 February 2021

Shareholder	No. of Shareholders	No. of Shares	% Shareholding
Less than 500	2,789	592,051	0.59
501 - 5,000	1,840	2,881,348	2.88
5,001- 10,000	151	1,082,533	1.08
10,001 - 100,000	197	5,483,345	5.48
100,001 - 1,000,000	34	9,347,674	9.35
Above 1,000,000	8	80,613,049	80.62
TOTALS	5,019	100,000,000	100.00%

Directors' shareholding as at 12 February 2021

Director's Name	Shareholding
Carol Musyoka	200
Sidney Wafula	300

Rothmans

OF LONDON

ROTHMANS INAWAKILISHA BIDHAA ZA KISASA NA ZA KIMATAIFA

TUNASONGA NA NYAKATI ILI KUWAPA WATEJA WETU ZAIDI.

WARNING: SMOKING HARMS PEOPLE NEXT TO YOU
ILANI: UVUTAJI WA TUMBAKU UNAWADHURU WALIO KARIBU NAWE

PROXY FORM

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

I/We ---

Share A/c No ---

Of (Address) ---

Being a member(s) of British American Tobacco Kenya plc, hereby appoint:

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or failing him/her, the duly appointed Chairperson of the meeting, to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company, to be held on Wednesday, 12 May 2021 and at any adjournment thereof.

As witness my/our hand/s this ---------------------------------- day of -- 2021

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(Signature) (Signature)

Please clearly mark the box below to instruct your proxy how to vote

RESOLUTION	FOR	AGAINST	ABSTAIN
1) To receive, consider, and if approved, adopt the Company's audited Financial Statements for the year ended 31 December 2020, together with the reports of the Chairperson, Directors and Auditor thereon.			
2) To confirm the interim dividend of KSh 3.50 per ordinary share paid on 18 September 2020 and to approve a final dividend of KSh 41.50 per ordinary share to be paid net of withholding tax, on 12 May 2021, to shareholders on the Register at the close of business on 16 April 2021.			
3) Re-election of Directors: a) To re-elect Rita Kavashe who retires at this meeting in accordance with the provisions of Article 101 of the Company's Articles of Association, having been appointed by the Board after the last Annual General Meeting, and being eligible, offers herself for re-election.			
b) To re-elect Crispin Achola who retires at this meeting in accordance with the provisions of Article 101 of the Company's Articles of Association, having been appointed by the Board after the last Annual General Meeting, and being eligible, offers himself for re-election as a Director.			
c) To re-elect Peter Mwangi who retires at this meeting by rotation in accordance with the provisions of Article 102 of the Company's Articles of Association and being eligible, offers himself for re-election as a Director.			
d) To re-elect Dr. Martin Oduor-Otieno who retires at this meeting by rotation in accordance with the provisions of Article 102 of the Company's Articles of Association and being eligible, offers himself for re-election as a Director.			
e) To re-elect Andre Joubert who retires at this meeting by rotation in accordance with the provisions of Article 102 of the Company's Articles of Association and being eligible, offers himself for re-election as a Director.			
4) To re-elect the following Directors, being members of the Board Audit & Risk Committee, to continue to serve as members of the said Committee: Dr. Martin Oduor-Otieno, Samuel Onyango, Carol Musyoka and Marion Gathoga-Mwangi.			
5) To approve the remuneration of the Directors and the Directors' Remuneration Report for the year ended 31 December 2020.			
6) To appoint 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 2021.			

RESOLUTION	FOR	AGAINST	ABSTAIN
Special Business To consider and if thought fit to pass the following resolutions as Special Resolutions, as recommended by the Directors: a) That Article 101 of the Company's Articles of Association be amended by the inclusion of the underlined section so that Article 101 will read as follows: "The Board shall have power at any time, and from time to time, to appoint any person to be a Director, either to fill a casual vacancy, or as an addition to the existing Directors, but so that the total number of Directors shall not at any time exceed the number fixed by or in accordance with these Articles. Any Director so appointed, <u>with the exception of the Managing Director and/or Executive Director(s)</u>, shall hold office only until the next following Annual General Meeting and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting." b) That Article 102 of the Company's Articles of Association be amended by the inclusion of the underlined section so that Article 102 will read as follows: "At the Annual General Meeting of the Company in every year one-third (1/3) of the Directors for the time being or, if their number is not three (3) or a multiple of three (3), then the number nearest one-third (1/3), shall retire from office. A Director retiring at a meeting shall retain office until the dissolution of that meeting. <u>The provisions of these Articles regarding retirement by rotation shall not apply to the Managing Director and/or Executive Director(s) being at the time in the employment of the Company and who is appointed under the provisions of Article 146."</u>			

ELECTRONIC COMMUNICATIONS CONSENT FORM

Please complete in BLOCK CAPITALS

Full name of Proxy(s): --

Address: --

Mobile Number [ ]

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(Date) (Signature)

Please tick **ONE** of the boxes below and return to Image Registrars at P.O. Box 9287- 00100 Nairobi, 5th floor, ABSA Towers (formerly Barclays Plaza), Loita Street:

Approval of registration
I/WE approve to register to participate in the virtual Annual General Meeting to be held on 12 May, 2021. [ ]

Consent for use of the mobile number provided
I/WE would give my/our consent for the use of the mobile number provided for purposes of voting at the AGM [ ]

NOTES:

1. If a shareholder is unable to attend personally, this Proxy Form should be completed and returned to reach the Company's share registrar, Image Registrars Limited, 5th Floor, ABSA Towers (formerly Barclays Plaza), Loita Street, P.O. Box 9287, GPO 00100, Nairobi, or via email to info@image.co.ke to arrive not later than **9:00 a.m, on 10 May, 2021** i.e. 48 hours before the meeting or any adjournment thereof.
2. In the case of a shareholder being a corporate body, then this proxy form must be executed under its common seal or signed on its behalf by an officer of that company or an authorized attorney for that company.
3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. The appointment of the Chairman of the meeting as proxy has been included for convenience. To appoint as a proxy any other person, delete the words 'the Chairman of the Meeting or' and insert the full name of your proxy in the space provided. A proxy need not to be a shareholder of the Company.
4. Completion and submission of the form of proxy will not prevent you from attending the meeting and voting at the meeting in person, in which case any votes cast by your proxy will be excluded.
5. To be valid, the form of proxy should be completed, signed and delivered (together with a power of attorney or other authority (if any) under which it is assigned or a notarized certified copy of such power or authority) to Image Registrars, ABSA Towers (formerly Barclays Plaza), 5th Floor, Loita Street and address P.O. Box 9287-00100 Nairobi not later than 9:00 am on 10 May 2021 or, in the case of a poll taken subsequent to the date of the meeting, or any adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll which is taken more than 48 hours after the day of the meeting or adjourned meeting.
6. A vote "abstain" option has been included on the form of proxy. The legal effect of choosing this option on any resolution is that you will be treated as not having voted on the relevant resolution. The number of votes in respect of which votes are withheld will, however, be counted and recorded, but disregarded in calculating the number of votes for or against each resolution.

HEAD OFFICE
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