



British American Tobacco Kenya  
CORPORATE GOVERNANCE  
CHARTER

April 2018



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## Interpretation

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All questions of interpretation of the procedures specified in this corporate governance booklet should in the first instance be referred to the Company Secretary for clarification.

In this booklet:

**“Articles of Association”** means the Articles of Association of British American Tobacco Kenya plc as amended from time to time.

**“BAT Group”** refers to the British American Tobacco Group of companies including British American Tobacco Kenya plc, its subsidiaries and affiliates.

**“Board”** means the Board of Directors of the Company.

**“Committee”** means either the Audit Committee, Nominations Committee or Remuneration Committee respectively.

**“Company”** means British American Tobacco Kenya plc.

**“Functions”** means the following functions of the Company: Finance, Human Resources, Marketing, Operations, IT, Legal and External Affairs.

**“BATK Group”** means the Company and its subsidiaries.

**“Leadership Team”** means the Managing Director, the Finance Director, the Head of Operations, the Head of Marketing, the Head of Human Resources and the Head of Legal and External Affairs Manager.

# Introduction

## Complementary to the Law and Company's Articles of Association

This Board Charter sets out the key values, principles, mode of operation, roles and responsibilities of the Board of Directors of British American Tobacco Kenya plc (the "Company").

The provisions of this Board Charter are complementary to the requirements on the Board as contained in applicable legislation and regulations including the Companies Act 2015 and the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, the Articles of Association of the Company and the provisions governing the relationship between the main Board and Board Committees as set out in the terms of reference of each Board Committee as adopted by the Board.

The organization and structure of the Board is intended to ensure that decisions are made at the most appropriate Management level for the efficient conduct of business, while at the same time creating and maintaining a sound basis for the accountability of the Directors of the Company to its shareholders.

The Board aims to ensure that, when considered with the Company's existing systems of internal controls, its governance of the Company complies with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, which comprises the principal governance rules applicable to Kenyan companies listed on the Nairobi Securities Exchange.

The Board will review this Charter at least annually and, if appropriate, revise it from time to time.

## Charter on website

This Board Charter is available to all stakeholders and is posted on the Company's website: [www.batkenya.com](http://www.batkenya.com)

## Company Legal and Management Structure

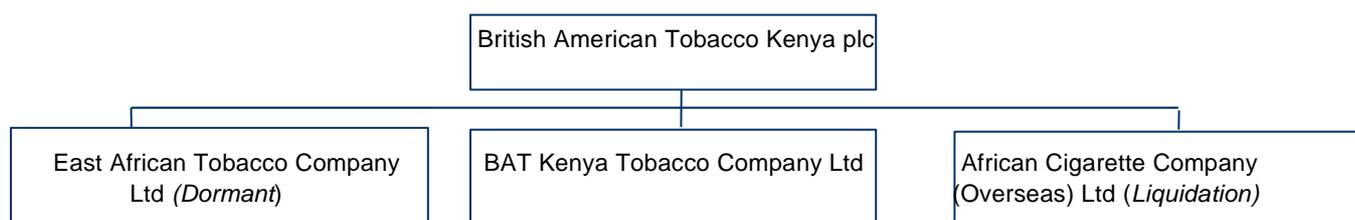
British American Tobacco Kenya plc (the "Company") is a Public Limited Company incorporated on 9 April 1952 and subsequently listed on the Nairobi Securities Exchange in 1969. The Company has three (3) subsidiaries namely:

BAT Kenya Tobacco Company Limited	- Active and Trading
African Cigarette Company (Overseas) Limited (In liquidation)	- Dormant
East African Tobacco Company Limited	- Dormant

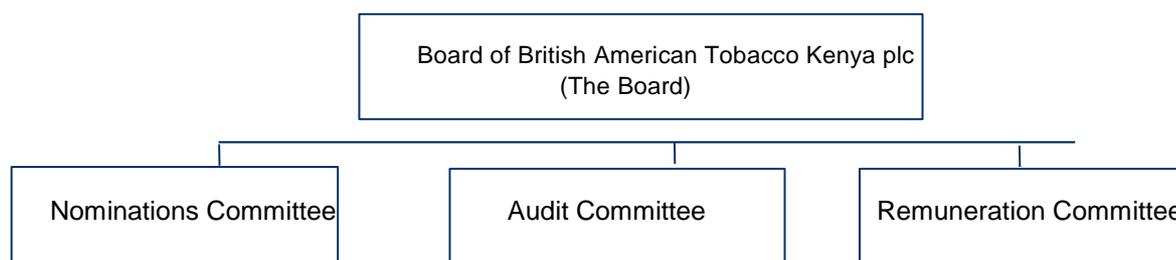
This booklet sets out the corporate governance for British American Tobacco Kenya plc and its subsidiaries (together referred to as the "BATK Group").

The Management structure reflects the Company's philosophy that the Board of any operating subsidiary is responsible for the day-to-day performance of their businesses. The following two charts show in diagrammatic form the legal and the management structures of the Company.

## Legal Structure (simplified)



## Management Structure



The board of the Company is responsible for the overall strategic direction and governance of the Company.

The Audit, Remuneration and Nominations Committees are the principal committees of the Board.

The division of responsibilities between the Board, its respective Committees and Management is reflected in their respective roles and responsibilities, as outlined in this document.

**The role of British American Tobacco Area Limited is outside the scope of this document.**

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# The Board

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The Board is collectively responsible to the Company's shareholders for the long-term success of the Company and for its overall strategic direction, its values and its governance. It provides the leadership necessary for the Company to meet its business objectives within the framework of its internal controls, while also discharging the Company's obligations to its shareholders.

## A. Role and Responsibilities of the Board

Besides its usual legal and statutory responsibilities, the Board is responsible for the following:

1. Approving the Company's business strategy and ensuring that the necessary financial and human resources are in place for the Company to meet its objectives.
2. Establishing an effective Management team and, in particular the appointment and, where necessary, removal of the Chairperson, the Finance Director and the Company Secretary.
3. Recommending the appointment and any renewal of the appointment of Non-Executive Directors and, on the recommendation of the Remunerations Committee, determining their remuneration and having the remuneration approved by shareholders.
4. Reviewing and agreeing Board succession plans and those of senior Management staff.
5. Considering the evaluation of the Board's performance over the preceding year.
6. Establishing appropriate systems of corporate governance in the Company.
7. Reviewing the effectiveness of the Company's risk Management and internal control systems.
8. Approving the Company's performance objectives and monitoring the performance of Management in achieving them.
9. Agreeing the Budget.
10. Approving the Company's Annual Report, its final Results Announcement, its Interim Management Statements, its half year results and related public announcements, and any significant changes to accounting policies.
11. Agreeing the agenda for the Company's Annual General Meeting.
12. Determining and approving the remuneration of the external auditors.
13. Declaring an interim dividend and recommending a final dividend.
14. Receiving and reviewing reports from committees of the Board.
15. Establishing, and monitoring compliance with, the Company's Standards of Business Conduct and other BAT Group Policies (as appropriate).
16. Determining the authorities to be delegated to Committees of the Board and Management.
17. Ensuring that an annual governance audit is carried out.

18. Organizing for a comprehensive independent legal and compliance audit to be undertaken every two years and the conducting of an annual internal legal and compliance audit.
19. Establishing and maintaining a transparent, cost effective and timely process for resolution of both internal and external disputes.
20. Proactively managing relationships with stakeholders.

### **Duties of Board members**

The Board has established clear roles and responsibilities in discharging its fiduciary and leadership functions. In exercising fiduciary duties, each Board member is expected to:

- a. Exercise a reasonable degree of care, skill and diligence;
- b. Act in good faith and in the best interests of the Company and not for any other purpose;
- c. Act with integrity at all times and must not place themselves in a situation where personal interests conflict with those of the Company;
- d. Exercise independent judgement always;
- e. Devote sufficient time to carry out their responsibilities on the Board and enhance their skills and competencies to give continued value to the Company;
- f. Promote and protect the image and reputation of the Company;
- g. Owe their duty to the Company; and
- h. Hold in confidence all information available to them by virtue of their position as a Board member.

### **Non-delegation of certain Functions by the Board**

The Board reserves specific powers to itself and delegates other responsibilities to the Management of the Company.

Among the key matters on which the Board alone makes decisions for the Company are the following:

- approving the Company's business strategy, risk policy, plans and objectives;
- approving the Budget;
- approval of major corporate activities and major capital expenditures;
- reviewing corporate performance and effectiveness of the strategies in place at least quarterly;
- identifying the corporate business opportunities and the principal risks in the Company's operating environment;
- reviewing the Company's risk management, internal controls systems and governance framework;
- approving the Company's Annual Report and reviewing its periodic financial reports;
- agreeing the agenda for the Annual General Meeting;
- declaring an interim dividend and recommending a final dividend;
- approving the Standards of Business Conduct and other appropriate Company and BAT Group policies;
- monitoring the effectiveness of the corporate governance practices in place and reviewing the same as appropriate;
- establishing and implementing a system that provides necessary information to the Company's shareholders; and
- agrees the staffing and succession plans for the Board and senior Management and considering the evaluation of the Board and Board Committees' performance over the preceding year.

The Board has delegated certain powers covering the day to day operations of the Company to the Managing Director and the Leadership Team as set out in this Charter.

The Managing Director must raise any matters of significance affecting the Company which require the Board's attention, including any matters which exceed the delegated authority of the Management.

## B. Composition of the Board

The composition of the Board shall be such that it provides the right balance of skills, competencies and experience, expertise, diversity and independence required to effectively discharge the leadership and oversight functions. The Board shall also be constituted to ensure value addition to the Company.

The Board shall have a minimum of two (2) and a maximum of twelve (12) members as prescribed by the Articles of Association. Majority of the Board shall comprise of Non-Executive Directors who are independent, meaning that they are free from any business or other relationships which could materially interfere with or appear to affect the exercise of their judgement and have not previously been involved in the Management of the Company.

The role of the Non-Executive Directors is to help develop strategy and, where appropriate, to provide constructive challenge to Management's proposals. They are responsible for scrutinizing the performance of Management in meeting agreed goals and objectives and for monitoring the reporting of performance.

The Chairperson and two Executive Directors (the Managing Director and the Finance Director) sit on the Board. The remaining members are Non-Executive Directors.

There is a clear separation between the roles of the Chairperson of the Board and the Managing Director of the Company as set out in this Board Charter.

### Appointment of Board Members

The Board is committed to refreshing its membership, as appropriate, and shall recommend Directors for appointment by the shareholders at the Annual General Meeting. In the interim and on the recommendation of the Nominations Committee, the Board has the power from time to time, to appoint any person to the position of Director either to fill a casual vacancy or as an addition to the existing Directors, subject to shareholder approval at the next Annual General Meeting. The Board has put in place a Policy on appointments to the Board which articulates the principles, criteria and procedures for any person's appointment as a Director of the Company.

One third (1/3<sup>rd</sup>) of the Directors will annually submit themselves for election or re-election by the shareholders at the Company's Annual General Meeting.

Each Board member shall be appointed in writing and must signify acceptance of his/her appointment in writing prior to issuance of relevant documentation on the agreed terms of the appointment. Non-Executive Directors do not have service contracts with the Company but instead have Letters of Appointment which are open to inspection at the Company's registered office upon Notice.

The Board will, in consultation with the Nominations Committee, prepare a profile of its size, composition and member's expertise (considering the nature of the Company's business), for stakeholder information.

### Appointment of Alternate Directors

In accordance with the company's Articles of Association, a Board member may appoint an alternate Director to be his/her alternate and act in his/her place at any meetings of the Board at which the Director is unable to attend. Such Alternate Director shall be an individual vetted by the Nomination Committee and approved by the Board and shall discharge the obligations placed upon the appointing Director. Alternate Directors shall not be appointed as members of the Audit Committee.

An Alternate Director shall receive Notice of the Company's General Meetings and shall during his/her appointment be an officer of the Company responsible for his/her own acts and defaults.

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## Term Limits for Board Members

Board members shall hold office for a two (2) year term and are eligible for reappointment. Independent Board members appointed for a cumulative term exceeding nine (9) years are re-designated as non-independent directors. There is no age limit for Directors imposed by the Board but Non-Executive Directors who have served for a total of more than nine (9) years are subject to a particularly rigorous review prior to recommendation for re-appointment.

The Nominations Committee will recommend the renewal of a Board member's tenure subject to consideration of their knowledge and skills, experience as relevant to the Board, tenure on the Board, diversity the member brings, attendance record and an acceptable performance evaluation as determined during the annual Board evaluation.

## Removal of Board Members

The Company may remove any Director from office if:

- (i) The period of the Director's appointment ends and is not extended for a further term on recommendation by the Nominations Committee to the Board; or
- (ii) If the Director retires in accordance with the Articles of Association and the Board upon recommendation by the Nominations Committee requests the Director not to offer him/herself up for re-election; or
- (iii) If the Director is not re-elected at an Annual General Meeting of the Company at which he/she has retired and offered him/herself for re-election in accordance with the Articles of Association; or
- (iv) If the Director is required to vacate office for any reason pursuant to Article 111 or any other provisions of the Articles of Association; or
- (v) If the Director is removed from office or otherwise required to vacate office under provisions of any applicable law.

Any Director who is removed from office for any reason continues to be subject to the duty to avoid conflicts of interest or the exploitation of any property, information or opportunity that he/she became aware of while a Director of the Company; and, not to accept benefits from third parties on things done or omitted to be done before ceasing to be a Director of the Company.

## Multiple Directorships

To ensure effective participation in Board matters, Non-Executive Directors of the Company shall not hold directorships in more than three (3) public listed companies at any one time, while Executive Directors of the Company shall not hold a directorship in more than two (2) public listed companies.

The Chairperson of the Board shall only Chair the board of two (2) public listed companies at any one time, to permit him/her devote sufficient time to steering the respective boards.

All Directors must promptly disclose outside directorships and inform the Chairperson of any changes to these directorships.

## C. Meetings of the Board

The Board meets at least four (4) times annually. Special meetings of the Board are convened to deal with urgent matters where necessary. The normal quorum for meetings of the Board is two (2) Directors.

The agenda for Main Board meetings is set by the Chairperson in consultation with the Managing Director and the Company Secretary. Notice of Board meetings confirming the venue, time and date, together with an agenda of items to be discussed and copies of all Board papers, shall be sent to the Board and to all other attendees as appropriate, at least five (5) working days before the meeting. Minutes of Board meetings are circulated to Members within five (5) working days following the meeting.

The Head of Legal and External Affairs to the Company ordinarily attends all meetings of the Board. To assist the Board in its deliberations, other members of Management are invited to its meetings from time to time as appropriate, and in particular when the Company's future strategy and Budget are under discussion.

The Chairperson makes him/herself available to meet with Non-Executive Directors, if required, prior to meetings of the Board without the Executive Directors present.

All Directors are aware of their responsibility to take decisions objectively which promote the success of the Company for the benefit of its shareholders. The Chairperson will always seek to obtain consensus at Board meetings but, in exceptional circumstances, decisions will be taken by majority. If any Director has concerns about the running of the Company or a proposed action which cannot be resolved, such concerns will be recorded in the Board minutes.

The Managing Director is responsible for implementation of the Board's decisions and may delegate such implementation to the Leadership Team. The Board is responsible for monitoring implementation of its resolutions.

The Board and its Committees are supplied with high quality, up-to-date information for review in good time prior to each meeting to enable them to discharge their responsibilities. There is open communication between senior Management and Board members.

### **Attendance of Board Meetings by Electronic Means**

The Board or a Committee of the Board may hold meetings by telepresence, telephone, either by conference telephone connection(s) or by a series of telephone conversations, or by any other communication equipment which allows all persons participating in the meeting to speak and hear each other.

For such meetings, the Company Secretary ensures that necessary arrangements are in place to facilitate effective communication during the meeting. Confirmation that all meeting attendees can hear each other and members attending the meeting is confirmed at the start of the meeting. Views of Board members expressed using such communications are treated as votes in favour or against a resolution and the resolution is valid and effectual as a resolution of the Board.

## **D. Board Committees**

Committees are established to assist the Board in performing its duties. There are three permanent committees i.e. the Audit Committee, Nominations Committee and the Remuneration Committee.

The Board may establish ad-hoc committees on a needs basis.

The Board shall appoint the chairperson of each Committee. In the absence of the Chair, Committee members shall choose one amongst their number to chair any meeting.

The Board is collectively responsible for any decision taken by any Committee. A Committee may only perform the tasks delegated to it by the Board and should not exceed the authority conferred on it or the Board. Decisions which by law should be made by the main Board are not delegated to a Committee.

### **Committee Terms of Reference**

The Board has put in place and periodically reviews terms of reference for each Board committee. The terms of reference articulate the roles and responsibilities of the respective Committee, its composition and mode of operation.

The Terms of reference of each Committee are set out below.

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## 1. Audit Committee

The Audit Committee's purpose is to assist the Board in carrying out its responsibilities with respect to the management of business risks and internal controls and the conduct of business in accordance with the applicable corporate governance and ethical business conduct standards and rules. The Committee's terms of reference are attached to this Board Charter as **Appendix 1**.

## 2. Nominations Committee

The Nominations Committee primarily makes recommendations to the Board on suitable candidates for appointment to the Board and its Committees ensuring that all have an appropriate balance of expertise and ability. It is also responsible for annually assessing the independence of Board members, reviewing succession plans for Board members and evaluating the effectiveness of the Board and of the Directors in the discharge of their responsibilities. The Committee's terms of reference are attached to this Board Charter as **Appendix 2**.

## 3. Remuneration Committee

The Remuneration Committee is responsible for setting executive remuneration covering salary and benefits, performance based variable rewards, retirement benefits and terms of service, and monitoring and advising the Board on major changes to the policy on employee benefit structures for the Company. The Committee's terms of reference are attached to this Board Charter as **Appendix 3**.

## Committee Meetings

Each Committee shall meet at such frequency as set out in its Terms of Reference. Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair.

Notice of each Committee meeting confirming the venue, time and date, together with an agenda of items to be discussed and copies of all Committee papers, shall be sent to all members of the Committee, and to all other attendees as appropriate, at least five (5) working days before the meeting.

The agenda for each Committee meeting shall be determined by the Chairperson taking into account the views of other Committee members as appropriate. The quorum for any Committee meeting shall be a minimum of two members or such other higher number as set out in the respective Committee Terms of Reference.

Minutes of the meeting of the Committee shall be circulated to Members within five (5) working days following the meeting. The Committee's Secretary shall keep a record of all minutes of Committee Meetings.

## Committee Reporting

Each committee informs the Board of the actions it has taken and any major or material developments which come to its knowledge. The Board periodically receives a report from each Committee describing the Committee's actions and findings on any matter and matters for noting or approval.

The Board determines the procedure and process within which Committees may take independent professional advice at the Company's expense.

Unless otherwise authorised by the Board, all the recommendations of Committees may be ratified by the Board to facilitate implementation by Management.

## Committee Evaluation

The Board will periodically review the adequacy, efficiency and effectiveness of the committee structure, including the number and nature of committees, their membership and committee terms of reference.

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# Roles of the Board Chair and the Managing Director

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## Chair of the Board and Managing Director

The Chairperson and Managing Director are responsible for the profitable operation of the Company. Their roles are separate, with each having distinct and clearly defined duties and responsibilities, as set out below. These may be modified from time to time by the Board.

### Role of the Chair of the Board

The Chair of the Board creates the conditions for overall Board and individual Director effectiveness. He/she is responsible for leadership of the Board, for ensuring its effectiveness on all aspects of its role and for facilitating the productive contribution of both Executive and Non-Executive Directors. He/she sets the agenda for Board meetings in consultation with the Managing Director and the Company Secretary. He/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 Chair of the Board 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 Company's business.

The Chair's specific duties and responsibilities are as follows:

1. To preside at meetings of shareholders and of the Board.
2. To monitor the performance of the Managing Director and other Directors and to act on performance evaluations undertaken by the Board by recognizing the strengths and weaknesses of the Board and, if appropriate, proposing new members or seeking resignations.
3. To lead the direction of the Company, with particular emphasis on:
  - (i) Corporate and business strategy;
  - (ii) Financial strategy;
  - (iii) Corporate culture and corporate Management structure;
  - (iv) Corporate governance and standards of business conduct; and
  - (v) The establishment and maintenance of controls and regulations necessary to protect the rights and interests of shareholders and creditors of the Company.
4. To ensure a clear business and financial strategy for the Company is formulated for recommendation to the Board.
5. To determine for the Board's consideration delegated authorities and limits for:
  - (i) Capital expenditure;
  - (ii) Acquisition and disposal of assets; and
  - (iii) Borrowing and other plans to finance the activities of operating subsidiaries
6. To chair the Nominations Committee, this considers candidates for appointment to the Board and the Committees.
7. To attend the Remuneration Committee as a Member and to participate in the Committee's consideration of policies with respect to the remuneration and retirement benefits and other benefit plans of Executive Directors and other members of the Leadership Team.

8. To ensure that all Directors are kept properly briefed and that the Board Committees receive the support and information they need in a timely manner to enable them to fulfil their functions efficiently and effectively.
9. To monitor and evaluate the performance of the Company and to initiate any corrective action in conjunction with and through the Managing Director.
10. In conjunction with the Managing Director to establish and maintain relationships with government institutions, shareholders and potential shareholders and major external bodies, and to ensure that their views, and in particular those of shareholders, are communicated to the Board as a whole.
11. To refer to the Board all matters of major importance to the Company's progress and well-being, including the matters listed above, for the purposes of securing advice, guidance, authorisation and/or decision.
12. To undertake such representational responsibilities as may be appropriate.

## Role of the Managing Director

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

He/She is accountable to the Board or to the Chairperson as appropriate, for the discharge of the following specific duties and responsibilities:

1. To preside at meetings of the Management's Leadership Team.
2. To be responsible and accountable to the Chairperson and the Board for the management and profitable operation of the Company.
3. To prepare plans and programmes for the attainment of approved objectives and to recommend such plans and programmes to the Board.
4. To create the conditions within the Company for the efficient operation by the responsible managers of all management functions and units.
5. To ensure that adequate organisation, plans procedures and controls are made for the proper execution of Functional Directors' duties and attainment of objectives.
6. To ensure that timely action is taken to rectify prospective failure to meet previously agreed operating objectives.
7. To monitor the performance of the Leadership Team and to render them advice, assistance and guidance.
8. To develop, and ensure compliance with, Company policies governing the way business will be conducted.
9. To provide leadership in and report progress upon the Company's commitment to high business standards generally (including standards of environmental care, safety at work and the role of operating subsidiaries in community affairs).
10. To ensure that proper procedures are put in place for career development within the Company.
11. To keep the Chairperson informed on all matters of importance.

12. To facilitate the discharge by the Chairperson of his duties and responsibilities.
13. In conjunction with the Chairperson to establish and maintain relationships with government institutions, shareholders and potential shareholders and major external bodies.

## Role of the Company Secretary

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The Board shall appoint a suitably qualified Company Secretary for such term and upon such conditions as it deems fit, to assist in undertaking its activities. The Company Secretary shall be a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) in good standing.

The Company Secretary or his or her nominee attends all meetings of the Board, the Audit Committee and the Nominations Committee and advice on procedural or regulatory matters. The Company Secretary or his or her nominee is responsible for:

1. Preparing agendas and minutes of meetings, arranging for them to be approved by the Chairperson of the relevant meeting and circulating them as appropriate;
2. 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;
3. Ensuring good information flows within the Board and its Committee and between the Non-Executive Directors and senior Management.
4. Advising the Board through the Chairperson on all corporate governance matters,
5. Assisting the Board with the evaluation exercise
6. Keeping custody of the Company's seal, maintaining a record of its use and accounting to the Board for its use;
7. Keeping and updating a register of conflicts of interest;
8. Coordinating the governance audit process, and,
9. Facilitating effective communication between the organization and the shareholders.

The Board shall undertake an annual evaluation of the performance of the Company Secretary and give feedback as appropriate. Removal of the Company Secretary shall be a matter for the Board.

# Practices of the Board

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## 1. Conflicts of Interest

The Board has formal procedures for managing compliance with the conflict of interest provisions of the Companies Act 2015 and the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015. The Company's Articles of Association permit the Board to authorize situational conflicts.

Directors are required to give advance notice of any potential or actual conflict issue to the Chairperson or Company Secretary, and these are considered either immediately or at the next Board meeting. At the start of any Board or Committee meetings, Directors are also required to declare any conflicts of interest with respect to matters listed on the respective meeting agenda. The conflicted Director is excluded from the quorum and vote on the matter on which the conflict has been declared.

## 2. Board Work-plan

The Board develops an annual work-plan to guide its activities in driving the Company's strategy. The work-plan shall include:

- (i) The Board and Board Committees meeting schedule;
- (ii) Formulation and review of the strategic plan;
- (iii) Assessment and monitoring of Management's implementation of strategies, policies and plans;
- (iv) Risk assessment and management which includes financial reports, the annual report and the Company's full year forecast;
- (v) Reporting of Board Committees;
- (vi) Policy making and review;
- (vii) Review of the corporate governance practices in place including, board evaluation, succession planning, declaration of interest, CMA Compliance report, compliance with the Company's Standards of Business Conduct, etc.
- (viii) Approval and review of Policies;
- (ix) Oversight over the Company's provident funds;
- (x) Stakeholder communication; and,
- (xi) Board training and development.

## 3. Risk Management and Internal Control

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

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

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

## 4. Training and Professional Development

All Directors receive induction on joining the Board, covering their duties and responsibilities as directors. Non-Executive Directors also receive a full programme of briefings on all areas of the Company's business from the Executive Directors and Senior Management staff. A factory tour and market visit would ordinarily be included in the induction programme. Non-Executive Directors may request such further information as they consider necessary.

All Directors also receive briefings designed to update their skills and knowledge on a regular basis (for example in relation to the business and on legal and regulatory requirements) and take part in market visits and visits to Company sites across the country to keep them updated on the changing business environment. In line with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, Board members are required to undertake at least twelve (12) hours of training and continuous skills development annually to enhance governance practices and other matters of interest to the Company. The training is facilitated by the Company or any other credible sources.

## 5. Board member access to Employees, Company Information and Professional Advice

Board members have full and free access to employees of the Company with such access being organised through the Managing Director. The Board members are expected to ensure that any such access is prudently undertaken and does not disrupt the Company's operations.

Board members also have unrestricted access, through the Chairperson, to all information that they may need for the conduct of their duties and business. The Chairperson and the Managing Director may invite members of Management to make presentations at Board meetings to provide insights into certain aspects of the Company's business or operations as appropriate.

Directors are entitled, in furtherance of their duties, to take independent professional advice at the Company's expense. All Directors have access to the advice and services of the Company Secretary.

## 6. Board Remuneration

The Board shall establish and maintain formal and transparent remuneration policies and procedures that attract and retain Board members. Such policies should be aligned to the Company's strategy.

The remuneration policy for Board members shall clearly stipulate the elements of such remuneration including directors' fee, attendance allowances and bonuses. Directors remuneration shall be retroactively approved by shareholders at the Annual General Meeting.

The Executive directors' remuneration shall be competitively structured in line with remuneration for other directors in the same industry, shall have an element linked to corporate performance and shall be aligned with the business strategy and long-term objectives of the Company.

The Board remuneration policies and procedures are disclosed in the Company's annual report.

## 7. Evaluation of Board Performance

The Board conducts a critical evaluation of its activities on an annual basis. The evaluation is facilitated by the Company Secretary on the understanding that at least once every three or four years, an external facilitator may be engaged. A questionnaire-based peer review of the performance of the Chairperson, the Executive Directors, the Non-Executive Directors, the Board and its Committees is conducted.

- The results of the review of the Board and its Committees are discussed by the Nominations Committee and presented to the Board.
- The results of the review of individual performance of each Director are discussed by the Nominations Committee and thereafter individually discussed by the Chairperson with Director.
- The results of the Chairperson, the Managing Director and the Company Secretary's performances are discussed by the Nominations Committee and feedback given to the them.

The Board will periodically review the adequacy, efficiency and effectiveness of the committee structure, including the number and nature of committees, their membership and committee terms of reference.

## 8. Board and Management Succession Planning

The Board shall approve, periodically review and maintain a clear succession plan for the members of the Board, Managing Director and senior Management of the Company. The Board shall maintain a skills and relevant competencies matrix which shall guide the appointment of Board members.

## 9. Dispute Resolution

The Board has put in place formal processes for the resolution of both internal and external disputes and ensures that the Company pursues alternative dispute mechanisms in the first instance prior to reference of any disputed matters for determination by the courts. The Company's processes and mechanisms for dispute resolution shall be reviewed periodically to ensure that they are efficient, cost effective and expeditious.

## 10. Shareholder Rights

The Board recognizes and respects the rights of the Company's shareholders and shall facilitate the effective exercise of the rights of shareholders as appropriate. In that respect, the Board has ensured that:

- a. Shareholders receive relevant information on the Company's performance through the distribution of annual reports and half year results;
- b. Shareholders are promptly advised on the dates, location and agenda of the Annual General Meeting and any other general meetings of the Company;
- c. Shareholders convenience is considered when selecting a venue and location for the Annual General Meeting;
- d. Shareholders have a secure method to transfer and register ownership of their shares;
- e. Shareholders are encouraged to participate during the Annual General Meeting and to exercise their votes, query the financial statements or any matter;
- f. Explanatory Notes on each resolution to be passed at the AGM is availed alongside the Notice and Agenda;
- g. A Shareholder Open-Day is held every two (2) years at one of the Company sites to provide shareholders with additional information on the Company's operations and key focus areas at that time;

- h. An effective communication policy to enable communication with shareholders and stakeholders is in place;
- i. Regular investor briefings are organized to explain the Company's performance;
- j. All shareholders are treated equitably;
- k. Modern communication techniques e.g. websites and emails are used to communicate with shareholders; and,
- l. It engages the media on dissemination of important company information.

## 11. Stakeholder Relations

The Board places considerable emphasis on the need for the business to operate sustainably, meet stakeholder expectations and the expectations of the wider community. The Board is committed to proactively managing the Company's relationship with stakeholders and has identified the Company's key stakeholders and put in place strategies and policies (guided by BAT Group policies, where appropriate) to manage relations with them. These strategies are reviewed from time to time to ensure that they remain effective.

## 12. Environmental, Social and Governance Policy

The Board is committed to ensuring that the Company operates responsibly, sustainably, ethically and as a good corporate citizen. In that regard, the Board has adopted the BAT Group's Standards of Business Conduct (SoBC) and Supplier Code of Conduct which clearly set out the Company's values and principles to good corporate governance practices, and commitment to prevent and address issues such as bribery, corruption and human rights as the Company operates on a day-to-day basis. The SoBC has a clear whistleblowing procedure which provides a platform for employees and third parties to raise concerns regarding any suspected wrong doings and how these will be addressed. The Board ensures that risks arising from any ethical issues are identified and managed in the risk management process.

In recognition of the need for the Company to operate sustainably and responsibly, the Board ensures that:

- a. The Company has a robust Environmental Health and Safety Policy, aimed at providing a safe and healthy working environment for its employees and any other person within the Company's sphere of operations.
- b. Conservation initiatives are in place that help farmers preserve natural forests through diverse afforestation programmes to replenish depleted resources in the country.
- c. The Company maintains an Energy Policy, aimed at achieving the highest practicable levels of energy conservation and reducing Carbon dioxide (CO<sup>2</sup>) emissions, for the conservation of the environment and sustainability of natural resources.
- d. The Company has a comprehensive and effective Corporate Social Investment (CSI) and Responsibility framework in place. The CSI framework is underpinned by five core beliefs as follows:
  - (i) That the Company should create long-term shareholder value;
  - (ii) The Company needs to engage constructively with our stakeholders;
  - (iii) The Company must create an inspiring working environment for its stakeholders;
  - (iv) The Company should add value to the communities in which it operates and that;
  - (v) Suppliers, and other business partners should have the opportunity to benefit from their relationship with the Company.

The effectiveness of these programmes is reviewed by the Board periodically.

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## 13. Compliance with Laws and Regulations

The Board ensures that the Company complies with the Constitution of Kenya, all applicable laws and regulations, national and international standards and the Company's internal policies.

The Board has established internal procedures and monitoring systems to promote compliance and has adopted the practice of conducting an independent legal audit once in every two (2) years by a professional in good standing with the Law Society of Kenya and undertaking an internal annual legal and compliance audit as prescribed by the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015. The Board receives findings from the audits and monitors remedial action on any non-compliance issues that may be identified for successful closure.

## 14. Governance Audit

The Board recognizes the requirement by the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 that an annual governance audit should be carried out to confirm that the Company operates on sound governance practices. The Governance Auditor should be accredited by the institute of Certified Public Secretaries of Kenya (ICPSK).

# The Leadership Team

## Role of the Leadership Team

The Leadership Team is responsible for the day to day management of the Company and its operating subsidiaries, overseeing the implementation of the policies and strategy set by the Board, for creating the framework for their successful day-to-day operations and for creating effective business controls within the delegated authorities approved by the Board. It is not a Committee of the Board.

Functions of the Leadership Team include:

1. Developing the Company's business strategy for consideration and approval by the Board.
2. Ensuring that the collective effort and resources of the Company and Functional strategies are balanced, effective, properly focused and aligned to support delivery of the Company's business strategy.
3. Monitoring the overall operating performance of the Company, to include:
  - (i) Receiving performance updates;
  - (ii) Receiving updates on the operations and performance of key Group subsidiaries; and
  - (iii) Receiving updates on key issues and developments in relation to the Functions.
4. Making recommendations on matters which are specifically reserved for approval by the Board.
5. Developing guidelines to the Functions on key issues affecting the Company's operational performance.
6. Overseeing the Company's portfolio of Programmes and Projects and ensuring their alignment with the Company's business strategy.
7. Overseeing the Standards Governance process and the Company's body of Standards.
8. Allocating Company resources and determining appropriate Management structures consistent with the Statement of Delegated Authorities.
9. Overseeing the management and development of talent within the Company's Functions.
10. Reviewing and agreeing Company budget targets and activities to achieve those targets.
11. Reviewing the budgets of the Functions.
12. Reviewing the consolidated Budget prior to approval by the Board.
13. Considering the items of business reserved for the Management by the Statement of Delegated Authorities.

## Composition of the Leadership Team

The Leadership Team comprises the Managing Director, the Finance Director, the Head of Operations, the Head of Marketing, the Head of Human Resources and the Head of Legal and External Affairs.

## Meetings of the Leadership Team

The Leadership Team meets monthly throughout the year. Special meetings are convened to deal with urgent matters where necessary. There is a general expectation that all members of the Leadership Team will normally attend all its meetings. Members of the Leadership Team are also invited to attend meetings of the Board from time to time, and in particular when the Company's future strategy and Budget is under discussion.

The agenda for the meetings will be determined by the Managing Director, taking into account the views of other members of the Leadership Team as appropriate. The agenda and supporting papers, unless otherwise agreed, shall be circulated to each member of the Leadership Team no fewer than two (2) working days prior to the date of the meeting. The Strategy, Planning & Insights Manager or his or her nominee will act as the Secretary of the Leadership Team and will prepare minutes for circulation to all members of the Leadership Team usually within two (2) working days of each meeting.

# Appendix 1

## Audit Committee Terms of Reference

### A Constitution

The Board of British American Tobacco Kenya plc. hereby resolves that the Terms of Reference of its Audit Committee are as set out below.

### B Purpose

The Audit Committee's (AC) purpose is to assist the Board of Directors in carrying out their responsibilities as they relate to the management of business risks and internal controls and the conduct of business in accordance with the applicable corporate governance and ethical business conduct standards and rules.

The Committee's primary focus is to be satisfied that the Company's business risk management and internal control focus is appropriate and effectively managed. This will enable them to provide evidence to the Regional Audit Committee (RAC) that business risks and control issues or weaknesses of significance are identified, and appropriate and timely action is being taken.

The AC will seek to focus on the Company's internal control responsibility, and will provide a forum which demonstrates through the medium of the RAC to the Board Members of British American Tobacco plc. that their collective internal control responsibility is being fulfilled.

The Committee will seek to satisfy itself that internal and external audits are effective in meeting the needs of the business and the Company.

### C Authority

The Audit Committee is authorised by the Board to review any activity within the Company. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the Committee. The Managing Director will be the relevant catalyst as his knowledge will ensure that the Committee has access to all relevant and pertinent information.

The Committee is authorised by the Board to obtain outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The Committee will meet at least two times annually with the location of each meeting being arranged such that all major locations or areas of the business are visited over a period of time.

### D Responsibilities and Objectives

By delegation from the Board of Directors the Audit Committee seeks to satisfy itself, by means of suitable steps and appropriate information, that proper and satisfactory internal control systems are in place within the Company to identify and contain business risks: furthermore, that its business is conducted in a proper, economically sound and ethical manner.

Specific areas of concentration are to ensure there is due process for:

- Identification and management of key business risks;
- Efficiency and effectiveness of operational controls;
- Safeguarding of assets;
- Reliability of financial and other management information;
- Compliance with relevant corporate governance practices, national laws and regulations;
- Compliance with the BAT Group Standards of Business Conduct.

### **Detailed objectives of the Committee are:**

1. To consider the Business Risk Management procedure used within the company, and be satisfied that the evaluation and management of such risks is appropriate. The Managing Director will aid the Committee in identifying key business risks and their management, ensuring line management's active participation in the process.
2. To ensure that systems of internal control are soundly conceived and effectively administered and to seek assurance that internal control systems are in place, operating efficiently and are regularly monitored.
3. To cause reviews to be made of the extent of compliance with established policies, plans, procedures, laws and regulations and appropriate corporate governance practices including compliance with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015. The Committee annually reviews the programmes for monitoring compliance with the Group's Standards of Business Conduct within the Company so that appropriate information can be provided to the Audit Committee of British American Tobacco plc.
4. To obtain assurance that proper plans for internal control have been developed prior to the commencement of major areas of change within the company.
5. To be satisfied that the strategies, plans, manning and organisation for internal auditing and the methodologies promulgated as best practice are communicated down through the company. Specifically:
  - 5.1 To review the integrated internal audit plans for the Company and to be satisfied as to their consistency, coverage and methodologies.
  - 5.2 To be satisfied that the internal audit function within the Company has the proper resources and appropriate standing to enable them to complete their mandates and approved audit plans.
  - 5.3 Review status reports from internal audit and recommend any broader reviews deemed appropriate as a consequence of the issues or concerns identified.
  - 5.4 Ensure internal audit has full, free and unrestricted access to all activities, records, property and personnel necessary to fulfil its agreed objectives.
  - 5.5 Request and review any special audit which it deems necessary.
6. To review the scope, fees and co-ordination of the external auditors and to be satisfied that the audit scopes at each of the subsidiaries are considered. To be satisfied on an annual basis that external auditors are providing an efficient and effective service in each subsidiary. The Committee should consider a consolidated opinion on the quality of external auditing at one of its meetings.

7. To review and evaluate factors related to the independence of the external auditors and assist them in preserving their independence in accordance with the BAT Group's Auditor Independence Policy.
8. To be advised of significant use of the external auditors in performing non-audit services within the company, considering both the types of services rendered and the fees such that their position as auditors is not deemed to be compromised.
9. To review the external auditors' findings arising from the interim and final audits on accounting issues, particularly any comments and responses in management letters in order to be satisfied that appropriate action is being taken.
10. To recommend to the Managing Director steps to improve the system of internal control derived from the findings of the internal and external auditors and from the consultants of the Audit Committee itself.
11. To satisfy itself that each business unit has satisfactory arrangements for monitoring control in keeping with their delegated authority.

Where the Audit Committee is not satisfied that appropriate action on a control issue is being taken it will advise the Managing Director and the Regional Audit Committee.

## E Relationships with Internal and External Auditors

The Internal Audit Manager has direct access to the Audit Committee on matters of control and audit. He reports significant audit findings to the Audit Committee regularly and without delay and provides the Audit Committee at each regular meeting with status reports. Any inappropriate restrictions on audit scope are to be reported to the Audit Committee.

Representatives from the external auditors may be invited to attend the regular Audit Committee meetings and be heard on any matter which affects them. They have direct access to the Audit Committee on matters of control, audit and accounting and may request special meetings if considered necessary. Annually the Committee meets with management to evaluate the external auditors' quality of service.

## Appendix 1: Policy on Auditor Independence

This Policy sets out the BAT Group's arrangements for ensuring that the independence and objectivity of its external auditors are maintained.

### 1. Introduction

- 1.1 The Board of British American Tobacco p.l.c. (the "Company") is committed to ensuring that the Company's financial statements, the consolidated financial statements of the British American Tobacco Group (the "Group") and the financial statements of all other Group companies have an effective and independent annual audit by its external auditors. The Board of the Company has adopted this policy on Auditor Independence and delegated to the Audit Committee responsibility for reviewing the effectiveness of the external audit and the independence and objectivity of the external auditors.
- 1.2 This policy has been drafted in accordance with current UK rules, regulations and guidance on the provision of non-audit services.

### 2. General Policy

- 2.1 The Company and all other BAT Group companies will only use the appointed external BAT Group auditor (the "External Auditor") to provide services in cases where those services do not impair the External Auditors' objectivity and independence.
- 2.2 In this Policy, the term "External Auditor" includes, where the context admits, the External Auditor's firms and associates.
- 2.3 The External Auditor must be independent both in face and appearance. The External Auditor is not independent if it, directly or indirectly, maintains a financial, employment or business relationship with the Company or any Group company, or provides services to the Company or any BAT Group company, which:
  - (a) Creates a mutual or conflicting interest between the Company or any Group company and the External Auditor;
  - (b) Places the External Auditor in a position of auditing its own work;
  - (c) Results in the External Auditor acting as a manager or employee of the Company or any Group company; or
  - (d) Places the External Auditor in the position of advocate for the Company or any Group company.

### 3. Permitted services

- 3.1 Consistent with the general policy outlines above, the External Auditor is permitted to provide the services specified below as audit, audit-related and other non-audit services. The Audit Committee reviews this policy, including the lists of audit-related, tax and other non-audit services annually.
- 3.2 The total annual fees for tax and other non-audit services are limited to 70% of the Company's average audit fees paid to the External Auditor over the preceding three (3) financial years.
- 3.3 The External Auditor is not permitted to provide the prohibited services.

## 4. Audit Services

- 4.1 Audit services comprise the work that constitutes the agreed scope of the statutory audit of the Company's financial statements, the Group consolidated financial statements and the financial statements of any Group company.
- 4.2 Subject to clause 12.3 below, the External Auditor can be engaged to perform the above audit services without the requirement of a separate tender process. Such services are approved by the Audit Committee on the basis of the annual engagement letter and the scope of audit services agreed by the Audit Committee with the External Auditor.

## 5. Audit-related services

- 5.1 Audit-related services comprise the work that is outside the required scope of the statutory audit, but is consistent with the role of the external statutory auditor. This category includes work that is reasonably related to the performance of an audit or review and is a logical extension of the audit or review scope, is of an assurance or compliance nature and is work that the auditors must or are best placed to undertake.
- 5.2 Audit-related services include:
- (a) Reporting required by law or regulation to be provided by the External Auditor;
  - (b) Reviews of interim financial information;
  - (c) Reporting on regulatory returns;
  - (d) Reporting to a regulator on client assets;
  - (e) Reporting on government grants;
  - (f) Reporting on internal financial controls when required by law or regulation;
  - (g) Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions;
  - (h) Those limited tax services required by law or regulation to be provided by the External Auditor, and therefore deemed to be Audit Related Services.
- 5.3 Subject to clause 12.3 below, the External Auditor can be engaged to perform these audit related services without the requirement of a separate tender process. Such services are pre-approved by the Audit Committee, subject to the reporting requirements set out in clauses 8.1 and 8.2 below.

## 6. Other non-audit services

- 6.1 Other non-audit services comprise work of an advisory nature that does not compromise the independence of the external auditor.
- 6.2 Other non-audit services include (subject to clause 7.1 below):
- (a) Public reporting on investment circulars;
  - (b) Private reporting to sponsors or similar parties in connection with investment circulars (including comfort letters and reporting on working capital statements);
  - (c) Other services pursuant to legislation not covered above;
  - (d) Information technology services;

- (e) Litigation support services;
- (f) Corporate finance services;
- (g) Transaction-related services not covered above; and
- (h) Pension fund audit.

- 6.3 For these non-audit services a tender process is in most cases required for work projects anticipated to generate fees in excess of 1% of the projected fee for audit services for the year. It is recognised that there may be circumstances where it will not be appropriate to tender such work, notwithstanding that the anticipated fee is in excess of the 1% threshold. In such cases, the decision not to tender must be pre-approved by the BAT Group Finance Director and the work plan referred to in section 9 below will include an explanation as to why no tender was required.
- 6.4 Non-audit services falling within this section are deemed to be pre-approved by the Audit Committee, subject to the reporting requirements set out in clauses 8.1 and 8.2 below.

## 7. Prohibited services

- 7.1 The External Auditor may not provide the following categories of services:
- (a) Book-keeping and preparation of accounting records and financial statements;
  - (b) The design and implementation of financial information systems or financial controls;
  - (c) Valuation services, appraisals, fairness opinions or contribution in kind reports;
  - (d) Outsourced internal audit services;
  - (e) Management functions and the performance of any other decision-making, supervisory or on-going monitoring functions;
  - (f) Human resources and recruitment services;
  - (g) Broker-dealer, investment advisor or investment banking services;
  - (h) Legal services;
  - (i) Actuarial services;
  - (j) Personal taxation services and advice to the Chairperson and Executive Directors of the Company and the Chairperson of the Audit Committee;
  - (k) Payroll services; and
  - (l) Tax services relating to the preparation of tax forms; payroll tax, customs duties; identification of public subsidiaries and tax incentives unless support from the audit firm in respect of such services is required by law; support regarding tax inspections by tax authorities unless support from the audit firm in respect of such services is required by law; calculation of direct and indirect tax and deferred tax; and the provision of tax advice

## 8. Reporting requirements for pre-approved services

- 8.1 A work plan will be submitted annually to the Audit Committee, typically at its meeting in December, identifying the total fees for all audit-related services, tax services and other non-audit services which it is anticipated will be undertaken by the External Auditor in the following year. The work plan will specifically itemise:
- (a) Other non-audit services in respect of which the anticipated fee is in excess of 1% of the projected fee for audit services for the year.
- 8.2 The work plan for each year will be updated and submitted to the Audit Committee at the mid-year and year end, typically at its meetings in July of that year and the following February.

## 9. Rotation of key audit partners

- 9.1 The Company requires its External Auditor to adhere to a rotation policy that is widely accepted and provides an appropriate balance between effectiveness and efficiency, risk management, independence and credibility.
- 9.2 Subject to any specific exceptions agreed by the Audit Committee in extenuating circumstances:
- (a) The Group audit engagement partner of the External Auditor will rotate after a maximum period of five (5) years.
  - (b) All other partners and directors of the External Auditor who are involved in the auditor of the Group consolidated financial statements and/or any Group company's financial statements will, subject to any local legal or regulatory requirements, rotate after a maximum period of seven (7) years.

## 10. Responsibility of the External Auditor

- 10.1 The External Auditor is required to maintain a quality control system that provides reasonable assurance that its independence is not impaired.
- 10.2 The External Auditor is required to report annually to the Audit Committee on all aspects concerning independence, including possible conflicts with this policy and if any, and is required annually to confirm its independence in writing.
- 10.3 The External Auditor is required to report annually to the Audit Committee on its system of audit quality controls in general and, in particular, on the audit quality control measures applicable with regard to the Company and the Group.

## 11. Responsibility of the Audit Committee

- 11.1 The Audit Committee will review the External Auditor's appointment annually, involving an assessment of the qualification, expertise and resources of the External Auditor, the nature and quality of the services provided and their value for money, and the effectiveness of the audit process. The Audit Committee's assessment will be informed by a customer satisfaction survey completed by members of the Group's senior management.
- 11.2 As part of its annual review, the Audit Committee will conduct a formal assessment of the External Auditor's independence and objectivity and, where appropriate, will address any changes to this Policy and such other steps as it may consider necessary.

## 12. Appointment of Auditor

- 12.1 The External Auditor's appointment will be for a period of one year, from one Annual General Meeting to the next.
- 12.2 The existing External Auditor may be re-appointed on an annual basis under clause 12.1 above up to a maximum term of ten (10) years. This may be extended to a maximum of twenty (20) years provided that a tender process is conducted at the end of this period and for a further two (2) years in exceptional circumstances as determined by the Board.

12.3 The Audit Committee is responsible for making recommendations to the Board, for the Board to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the External Auditors.

12.4 In the event that the existing External Auditor is not re-appointed, a tender process will be applied to select the new External Auditor.

### 13. Hiring arrangements

13.1 Subject to any specific exceptions agreed by the Audit Committee in extenuating circumstances, the Group will not seek to:

(a) Hire any partner, director or senior manager of the External Auditor who has within the preceding two (2) years been involved in the audit of the Company's financial statements or the Group consolidated financial statements;

(b) Hire any partner or director of the External Auditor who has within the preceding two (2) years been involved in the audit of any other Group company's financial statements.

13.2 Subject to any specific exceptions agreed by the Audit Committee in extenuating circumstances, the External Auditor is required not to:

(a) Hire any officer, director or senior manager of the Group for involvement in the audit of the Company or the Group within two (2) years after termination of their employment agreement with the Group;

(b) Hire any officer, director or senior manager of the Group who has been involved in the management of any other group company for involvement in the audit of that group company within two (2) years after termination of their employment agreement with the Group.

### 14. Communication

14.1 The Company will disclose in its Annual Report the result of the Audit Committee's assessment of the External Auditor's independence and objectivity for the year under review.

14.2 The Company will disclose in its Annual Report the total fees paid to the External Auditor during the reporting period in accordance with the applicable statutory reporting requirements.

## Appendix 2

### Nominations Committee Terms of Reference

#### A. Constitution

The Nomination Committee was formally constituted by Ordinary Resolution passed by the Board of British American Tobacco Kenya Ltd (BATK) on Friday 8<sup>th</sup> November 2002.

#### B. Purpose

The role of the Nomination Committee is to recommend suitable candidates for appointment to the BATK Board and its Committees ensuring that all have an appropriate balance of expertise and ability. In addition, it is responsible for annually reviewing the independence of members of the Board, reviewing the succession plans for members of the Board and evaluating the effectiveness of the Board and the effectiveness of the Directors in the discharge of their responsibilities.

#### C. Membership and Procedures

The Nominations Committee is appointed by the Board and comprises at least three members, a majority of whom shall be Independent Non-Executive Directors, and shall include the Chairperson.

The quorum is any two members of the Committee including the Chairperson or in his absence the designated Emergency Alternate.

The Chairperson will chair the Nominations Committee and in his absence the designated Emergency Alternate to chair the meeting. The Emergency Alternate will chair the Nominations Committee when it is considering a successor to the Chairperson.

The Managing Director will regularly attend meetings of the Nominations Committee as a permanent invitee. Other relevant senior management may attend by invitation.

No one other than the Nominations Committee Chairperson and members will be entitled as of right to vote at a meeting of the Nominations Committee.

The Company Secretary or his or her nominee will act as the Secretary of the Nominations Committee.

The Nominations Committee normally meets two times a year and at such other times as the Committee Chairperson or any member of the Committee may request. The agenda for the meetings will be determined by the Chairperson of the Nominations Committee, taking into account the views of other members of the Committee as appropriate. The agenda and supporting papers, unless otherwise agreed, shall be circulated to each member of the Committee and invitee(s) no fewer than four working days prior to the date of the meeting.

Unless varied by these terms of reference, meetings and proceedings of the Nominations Committee will be governed by the Company's Articles of Association.

#### D. Authority

The Nominations Committee is authorised by the Board to seek any information it requires from, and require the attendance at any of its meetings of, any Director or member of Management, and all employees are expected to cooperate with any request made by the Committee.

The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other independent professional advice and counsel including independent consultants and to secure the

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attendance of advisors with relevant experience and expertise if it considers this necessary.

## E. Responsibilities and Objectives

### 1. Board Composition

The Committee shall:

- (i) Regularly review the structure, size and composition of the Board and make recommendations to the Board to ensure that it has an appropriate balance of skills, expertise, knowledge and independence, in line with the Board Diversity Policy and with a view to ensuring the continued ability of the Company to compete effectively in the market place;
- (ii) On an annual basis review the required skills mix and expertise that the Executive and Non-Executive Directors bring to the Board and ensure that disclosure of the same is made in the Company's Annual Report; and
- (iii) Make such recommendations to the Board with regard to the composition of the Board as it may consider necessary.

### 2. Board Appointments

The Committee will:

- (i) Prepare a description of the role and capabilities required for a particular appointment and regularly review the profiles of the required skills and attributes for membership of the Board;
- (ii) Be responsible for identifying and nominating candidates, for the approval of the Board, to fill vacancies on the Board, ensuring that such candidates are persons of calibre with the necessary skills and expertise to exercise independent judgement on issues that are necessary to promote the Company's overall interests; and
- (iii) Ensure that all appointments are made on merit against objective criteria and with due regard for the benefits of diversity, including gender diversity.

### 3. Succession Planning

The Committee will satisfy itself that processes and plans are in place for orderly succession for appointments to Board, so as to maintain an appropriate balance of skills and experience and to ensure the progressive refreshing of the Board.

The Committee will endeavour to ensure that the term of office of members of the Board is organised in such a way as to end at different times to secure retention of institutional memory and to aid the process of inducting new Board members.

### 4. Evaluation of Board and Director Effectiveness

The Committee will:

- (i) Conduct a critical evaluation of the activities of the Board on an annual basis;
- (ii) Discuss the results of the review of the Board and its Committees and present such with recommendations to the Board;

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- (iii) Ensure the results of the review of individual performance by each Director (excluding the Chairperson) are discussed by the Chairperson with each Director individually; and
  - (iv) Ensure the results of the Chairperson, Managing Director and Company Secretary's performance are discussed by the Nominations Committee and feedback is given to them by the Committee members.

## 5. Commitment

The Committee will:

- (i) Assess and articulate the time needed to fulfil the role of Chairperson, and Non-Executive Director and ensure that Letters of Appointment detail the role and time commitments; and
- (ii) Ensure that Non-Executive Directors undertake that they will have sufficient time to fulfil their duties and that any significant new appointments outside the Company are disclosed to the Chairperson and the Board (as appropriate) prior to their acceptance.

## 6. Other matters

The Committee will:

- (i) Make recommendations to the Board:
  - As regards the re-appointment of any Non-Executive Director at the conclusion of their specified term of office after formally reviewing the Director's performance, conducting a particularly rigorous review in respect of service beyond six years;
  - Concerning the re-election by shareholders of any Director; and
  - Concerning the continuation in office of any Director at any time;
  - Concerning the independence of Non-Executive Directors as defined by the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015.
- (ii) Review the section of the Annual Report describing the work of the Committee and how it has discharged its responsibilities, its members and their attendance records and the number of meetings held.
- (iii) Make recommendations regarding the membership of the Boards Committees; and
- (iv) Generally, have regard to the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 in carrying out the duties specified above.
- (v) Periodically review its own performance and, at least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## Appendix 3

### Remuneration Committee Terms of Reference

#### A. Purpose

The terms of reference of the BAT Kenya Remuneration Committee within the context of the local market, can be summarised as follows:

- (i) Review and propose the pay & benefit policies for all Non-Executive directors;
- (ii) Review and approve the pay & benefit policies for all Executive Directors;
- (iii) Review and propose changes to pay and benefit policy for all employees in the company;
- (iv) Review the expenditure related to any annual remuneration reviews, inclusive of collective pay/benefit awards for unionised employees.

#### B. Responsibilities & Objectives

All these responsibilities should be executed with due reference to appropriate local market practices as sourced through reliable market surveys. Appropriate local market practice, in the latter context, refers to comparing the company with comparable local organisations.

The **key objectives** in executing the above responsibilities are as follows:

- (i) The Remuneration Committee is charged with reviewing all terms and conditions including all benefits in kind and is responsible for ensuring that reward practices are competitive and aligned to the BAT Reward Policy.
- (ii) Ensure that all aspects of the company's remuneration offering are sufficiently competitive to enable the company to attract and retain an appropriate talent pool and be regarded as an employer of choice within the local context.
- (iii) Recognise that the company's remuneration offering is a major cost, but also a significant management instrument which must be used strategically and positively with a clear view of the cost/benefit implications of any proposal.
- (iv) Ensure that the company's remuneration offering encourages and rewards excellent performance.
- (v) Ensure that company's remuneration practices are at all times fully in compliance with local taxation and legal requirements, whilst at the same time maximising legitimate commercial advantage.
- (vi) Ensure that proposed changes to the package are based on the market and affordability. The pay review should not be linked to the cost of living (except to the extent that inflation is reflected in market pay levels). The frequency of reviews should be governed by normal practice amongst comparator companies.
- (vii) After salary, retirement benefit schemes are frequently the largest single element of the total package to the Company in cost terms and to the individual in benefit terms. The Remuneration Committee is responsible for ensuring that retirement benefit arrangements comply with the Corporate Best Practice Guidelines.

## C. Membership

The **composition** of the Kenya Remuneration Committee is as follows:

- (i) Non-Executive Director (Kenya Remuneration Board) - Chairperson
- (ii) Non-Executive Director (Kenya Remuneration Board) - Independent Member
- (iii) Non-Executive Director (Kenya Remuneration Board) - Independent Member
- (iv) Managing Director - Member
- (v) Finance Director - Member
- (vi) Head of HR - Secretary

## D. Quorum

The quorum necessary for the transaction of business shall be three, of which two shall be Independent Non-Executive Directors. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## E. Attendance

Other relevant Senior Management may be invited to attend for all or any part of a meeting as and when appropriate, in the opinion of the Committee Chairperson and/or most its members.

The Head of Human Resources will act as the Secretary of the Committee.

## F. Meeting Frequency

The Remuneration Committee meeting should be held at least once annually to sign off the annual increases. However, the committee may meet at such other times as the Committee Chairperson or any member of the Committee request.

## G. Notice of Meeting

Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chairperson.

Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and copies of all Committee papers, shall be sent to all members of the Committee, and to all other attendees as appropriate, at least four working days before the meeting.

## H. Authority

The Committee is authorized by the Board to:

- (i) seek relevant information/insights as required from Management of the Company to perform its duties;
- (ii) delegate its powers in relation to matters to a sub-committee, determine its membership, terms of reference and the extent of its delegated powers.

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## I. Reporting Procedures

Reporting procedures will be as follows:

- (i) The Committee Chairperson shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (ii) The Secretary shall minute the proceedings and resolutions of the Committee meetings, including the names of those present and in attendance.
- (iii) The Secretary shall circulate draft minutes of meetings of the Committee to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board except where the Committee determines it to be inappropriate to do so for reasons of confidentiality.
- (iv) The Committee's activities shall be disclosed in the Annual report.

## J. Other

The Committee shall:

- (i) give due consideration to all applicable laws and regulations, as appropriate; and
- (ii) annually review its own performance, its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.



For more information on the Company's corporate governance,  
**You may contact:**

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