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MEDIA STATEMENT: BRITISH AMERICAN TOBACCO KENYA PLC (BAT KENYA) RELEASES FULL YEAR 2020 PERFORMANCE REPORT

Significant impact of COVID-19 on domestic volumes mitigated by new export opportunities

BAT Kenya has today announced its full year results for the year ended 31 December 2020; posting gross revenue of KSh 38.8 billion, profit after tax of KSh 5.5 billion and contributions to Government tax revenue of KSh 16 billion.

Commenting on the results, BAT Kenya’s Managing Director, Crispin Achola said:

“Last year saw our domestic performance take a significant hit, with volumes declining by 24%, as consumers responded to affordability challenges resulting from the impacts of COVID-19 by flocking to the illicit market. On the back of these challenges, illicit trade in tax-evaded cigarettes doubled during the year to 23% (source: 3rd Party Research), driven by consumers downtrading in their search for cheaper products. 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. As a result, and despite significant excise increases in 2020 (c.5%) and 2019 (c.20%), tax payments to the exchequer were down by 11% on the back of lower volumes.

“Despite the tough macro-economic environment and the domestic performance, underlying business fundamentals remained strong, thanks to new exports opportunities. Net revenue increased by 5% to KSh 25.3 billion, driven by higher export revenues and lower Excise Duty and Value Added Tax (VAT), reflecting the impact of the decline in domestic sales volumes and the reduction in VAT rate in April 2020. Pro-active cost saving initiatives undertaken to cushion business profitability from the impact of the COVID-19 bore fruit, registering an increase in our operating margin by 6 percentage points 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.

“As we ramp up efforts to further enhance business resilience in 2021, our key focus remains on ensuring employee health and safety as the COVID-19 pandemic persists. Additionally, we will continue to contribute to national dialogue on stability and predictability in the regulatory environment, which will support economic recovery. This includes engagement with Government agencies to root out flows of illicit product, both as a means of raising much needed Government revenues in the short term and ensuring the sustainability of industry’s contributions to Government revenues in the longer term.

“Importantly, we will be looking 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 potentially reduced risks compared with cigarettes.

Also commenting on the results, BAT Kenya Chair, Rita Kavashe said:

“As the economy struggles to get back on its feet following the devastating impacts of COVID-19, it is crucial that the Government does not sacrifice long term sustainability for short term gains. Now more than ever, the business community needs fiscal certainty – a clear and predictable tax regime that allows legitimate industry players to better manage the threat posed to Government revenues by illicit trade. This approach will help the economy build liquidity as it slowly gains momentum and returns to normality, helping reverse the loss of Government revenues.

The resilient performance of the business provides us with an opportunity to build further on our ambition to deliver A Better Tomorrow™ for our stakeholders. In furtherance of this ambition 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.

“Going forward, we reiterate our commitment to Kenya through continued investment in our business, while placing sustainability at the front and centre. This is underpinned by a refreshed Environmental, Social and Governance agenda (ESG), through which the business strives to provide consumers with a range of alternative and potentially less risky products, drive a positive social impact and continue to deliver robust corporate governance.”

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ABOUT BAT KENYA

British American Tobacco Kenya plc (BAT Kenya), was established in Kenya in 1907 and has been listed on the Nairobi Securities Exchange since 1969. It 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 manufacture and the exporting and selling of cigarettes, other tobacco products and tobacco-free oral nicotine products. BAT Kenya has a manufacturing plant in Nairobi and a Green Leaf Threshing plant in Thika. The Nairobi factory is a strategic manufacturing hub for the BAT Group, exporting more than 60% of its finished products to over 11 countries in Africa. As part of its tobacco growing operations BAT Kenya partners with approximately 4,000 contracted farmers in the counties of Bungoma, Busia, Migori, Homa Bay, Meru, Embu and Tharaka Nithi. BAT Kenya generates direct and indirect employment opportunities for approximately 1,800 Kenyans and partners with more than 80,000 Kenyans through tobacco and processing, cigarette manufacturing, tobacco product distribution, urban and rural retailing, wholesale trade, transport, logistics and domestic procurement. BAT Kenya has contributed to Kenya’s economic growth through its continued and systematic year-on-year investments. Over the past 5 years, the Company has invested over KSh 8 billion in tobacco farming and processing including at the Green Leaf Threshing Plant in Thika and the cigarette manufacturing factory in Nairobi. In the past 5 years, BAT Kenya contributed over KSh 90 billion to national revenue through various taxes (Excise Duty, Value Added Tax (VAT), Pay as You Earn (PAYE) and Corporation Tax). The Company drives various programmes in Sustainable Agriculture and Environmental conservation, including afforestation activities through which it has recorded over 54 million surviving trees planted since 1978. In 2019, BAT Kenya became a signatory to the UN Global Compact. 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. BAT Kenya has been certified as a Top Employer by the Global Top Employers Institute in 2018, 2019, 2020 and 2021. Read more at: www.batkenya.com