

BRITISH AMERICAN TOBACCO KENYA PLC
(the Company)

MINUTES OF THE 68TH ANNUAL GENERAL MEETING OF THE COMPANY HELD ELECTRONICALLY AT BAT KENYA OFFICES, LIKONI ROAD, NAIROBI ON WEDNESDAY, 24 JUNE 2020 AT 9:00A.M.

Present:

Mr. G. Maina	-	Chairman
Mrs. B. Spencer-Obatoyinbo	-	Managing Director
Mr. S. Wafula	-	Finance Director
Mr. P. Kipkemoi	-	Executive Director
Ms. C. Musyoka	-	Non-Executive Director
Mr. P. Mwangi	-	Non-Executive Director
Dr. M. Oduor-Otieno	-	Non-Executive Director
Dr. M. Irungu	-	Non-Executive Director
Mr. S. Onyango	-	Non-Executive Director
Ms. M. Gathoga-Mwangi	-	Non-Executive Director
Mr. A. Willem Joubert	-	Non-Executive Director
Ms. W. Ngea	-	Company Secretary

In Attendance:

Mr. E. Aholi	-	KPMG Kenya, External Auditor-Engagement Partner
Mr. L. Kibet	-	Image Registrars Limited, Company Share Registrars
Ms. V. Cherotich	-	Image Registrars Limited, Company Share Registrars
Ms. C. Musakali	-	Dorion Associates, Governance Auditor
Mr. P. Riungu	-	PricewaterhouseCoopers, Vote verifier
Mr. L. Akindele	-	PricewaterhouseCoopers, Vote verifier

Shareholders who registered to attend the AGM: 857 (62.23% of shareholders)

1. CHAIRMAN'S REMARKS TO THE SHAREHOLDERS

The Chairman welcomed Shareholders to the 68th Annual General Meeting and then proceeded to introduce members of the Board, key partners and the Leadership Team. He informed members that since the confirmation of the first COVID-19 case on 13th March 2020 and the Public Health Rules issued by Government, it was not possible to conduct a physical AGM meeting as provided for in the Articles of Association.

The Chairman highlighted to the shareholders various changes in the Board. Mr. Sidney Wafula would resign from the Board with effect from 25th June 2020 and would thereafter be appointed as an Alternate Director to Mr. Andre Joubert, on 26th June 2020. He thanked Mr. Wafula for his contributions to the Board. He further informed the members that Ms. Waeni Ngea would resign as Company Secretary on 26th June 2020 and would be succeeded by Ms. Kathryn Maundu from 27th June 2020.

2. KEY HIGHLIGHTS FROM MANAGING DIRECTOR'S PRESENTATION

Mrs. B. Spencer-Obatoyinbo, the Managing Director, took shareholders through the Company's performance and future expectations under the following headings: BAT evolved corporate strategy, 2019 operating environment, 2019 performance highlights and 2020 focus areas.

a) BAT Evolved Corporate Strategy

The MD informed shareholders that the BAT Group strategy had evolved to increasingly transition its business from cigarette products to alternative and innovative nicotine products. She also informed shareholders that the ethos of the Company had evolved to bold, fast, empowered, diverse and responsible. She explained that the ethos would be instrumental in driving the sustainability agenda which would have 3 areas of focus namely: Environmental Management, Social Impact and Governance process.

b) 2019 Operating environment

i) Domestic market

Mrs. B. Spencer-Obatoyinbo reported that the domestic environment continued to pose a challenge to the industry with the increase in business and consumer pressure due to the 20% discriminatory excise duty for tobacco industry which had an impact on performance and the Solatium contributory levy; legal/regulatory overreach through the proliferation of County regulations which made it hard to do business in Kenya; and illicit trade whereby the illicit volumes were increasing and particularly from Uganda (2019:11.3%). It was noted that the Government loses at least KSh. 2.5Bn a year on illicit trade.

ii) Exports market

Mrs. B. Spencer-Obatoyinbo reported that there had been significant improvement on infrastructure development in the last 12 months. That notwithstanding, there were significant issues regarding Non-Tariff barriers in place within COMESA and EAC.

c) 2019 Performance Highlights

The MD reported that the full year 2019 performance was positive. Gross revenue increased by 9.1% which was at the backdrop of the price increase driven by an increase in excise duty as well as the first revenue generated by the new category oral nicotine products.

She reported that profit reduced by 4.9% closing at Ksh. 3.9Bn; contribution to Government revenue reduced by 1.4% to KSh. 18Bn; Cash from operations increased by 45% which was used to invest in building a modern factory for the new category oral nicotine products; Operating margin reduced by 6.2% down from 23.8%; Dividend pay-out ratio maintained at 86% with an average pay-out of KSh. 33.50.

Notable Success

Mrs. B. Spencer-Obatoyinbo highlighted the following:

- i) BAT Kenya was building the first non-tobacco Modern Oral Nicotine factory in Africa which was a good landmark for Kenya.
- i) Portfolio transformation work continued to deliver good results and the migration of some of the brand portfolios to innovative products for Rothman and Dunhill.
- ii) The Company had a modern office wherein significant amount of money was utilised into making the office place a good place to work in leading to the Company being awarded the Top Employer Certification in 2020.

Mrs. B. Spencer-Obatoyinbo highlighted some of the recognitions given to the Company in 2019 among them celebration of 50 years at Nairobi Securities Exchange, Kenya Exporter of the Year (Lifetime Solid Rock Award).

Kenya Market performance

Mrs. B. Spencer-Obatoyinbo explained that the net revenue for the Kenya market increased by 22% and this was driven by an increase in excise duty; market share increased by 2.7%;

excise duty payment reduced by 2.6% and Global Drive Strategic Brand portfolio grew by 275%.

She further explained that the Kenya manufacturing hub continued to perform well with 9.2B sticks exported out of Kenya in 2019; share of factory output grew at 3% (2018:65%); the value of cigarette export grew by 1% (USD 85Mn).

Regarding Leaf, she reported that the export cut rag (CRT) value increased at 55%; export CRT volume increased at 41% (3,990 tons) while the annual volume of leaf grown remained flat at 8.9Mn kilogrammes and so was annual payment to farmers which remained flat at KSh. 15Bn despite the declining volumes in the market.

Mrs. B. Spencer-Obatoyinbo explained that the productivity savings for 2019 was KSh. 500Mn. She reported that the target would remain the same for 2020.

Turning to Lyft factory, Mrs. B. Spencer-Obatoyinbo reported that the Company would spend KSh. 2.5B to build the factory of which 60% was already committed to the project. She informed shareholders that the Company targeted to open the factory in 2020 and would locally manufacture Lyft.

Shareholders were informed that the balanced revenue streams stood at 55% for domestic revenue and 45% for export revenue at over USD 100Mn.

d) 2020 Focus Areas

The shareholders were informed that the key focus areas for 2020 included the following:

- Business continuity amidst COVID;
- New Nicotine category;
- Anti-illicit trade; and
- Regulatory environment.

Mrs. B. Spencer-Obatoyinbo reported that the focus areas for the Company during the COVID-19 pandemic were: keeping its people safe; business continuity; and recovery preparedness. It was reported that the Company had donated KSh. 10M to the Government to fight COVID-19 and had partnered with Kenya Pipeline Company to distribute sanitizers. The Company had also supported communities where Leaf was grown, by providing clean water to over 4,500 families.

She explained that the COVID-19 pandemic had led to significant pressure on disposable income, outlets closure and fewer operating hours leading to limited access to the Company's products.

3. NOTICE OF THE MEETING

The Notice of the meeting was read by the Secretary after confirmation of a quorum.

4. REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Report of the Directors and the Financial Statements for the year ended 31 December 2019 were received and considered by shareholders.

Independent Auditor's Report

Mr. E. Aholi of KPMG Kenya was invited to read the Auditors' Report to the shareholders. He confirmed that KPMG Kenya audited the financial statements of the Company and its subsidiaries. In KPMG's opinion, the financial statements gave a true and fair view of the consolidated and Company financial position as at 31 December 2019, and its consolidated financial performance and cash flows for the year in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Kenyan Companies Act, 2015.

With respect to other legal and regulatory requirements, Mr. E. Aholi confirmed that in KPMG's opinion the information given in the Report of the Directors was consistent with the financial statements and the auditable part of the Directors' Remuneration Report was properly prepared in accordance with the Kenyan Companies Act, 2015. In view of the above, an unqualified audit opinion was issued by KPMG.

Governance Auditor's Report

Ms. Musakali was invited to read the Governance Auditors' Report. She informed the meeting that the responsibility of the Governance Auditor was to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the organization, in accordance with the best governance practices as envisaged within the legal and regulatory framework.

In her opinion, the Company's Board had put in place a sound governance framework, in compliance with the legal and regulatory corporate governance framework and global governance requirements. In that regard an unqualified opinion was issued.

2019 Directors' Report and Financial Statements

The Chairman invited questions from the shareholders on the Financial Statements to which he, the Managing Director and the Finance Director responded to.

- a) **Mr. David Kahura Nduati and Mr. Samuel Ngugi Njuguna**, both shareholders, sought to know when the dividend would be paid.

The Finance Director responded that the interim dividend of KSh. 3.50 per share was paid on 29 September 2019 and the final dividend of KSh. 30.00 per share was paid on 19 April 2020. He encouraged shareholders to check their chosen method of payment to confirm if payment had been received. He also asked those who are paid by cheques to ensure that they have received them and that they are bankable. He asked shareholders to transition to other electronic money transfer means like Mpesa or EFT which were instant. Lastly, he asked shareholders to reach out to the Company Share Registrars for more information on dividend payment.

- b) **Mr. Alois Chami**, a shareholder sought to know the implications of COVID-19 to the Company and the measures taken to reduce its effects.

The Finance Director responded that the immediate focus for the business was to kick in the Pandemic Business Continuity Plan with 3 Key Focus Areas namely: keeping the employees and their families safe; enabling business continuity and facilitating readiness for post COVID-19 pandemic.

Mr. Alois Chami, inquired further on the following:

- If the Company profits went down in 2019, what would happen to the 2020 profits in light of the pandemic.
- What illicit trade meant.
- If the shareholder value would reduce.

The Managing Director explained that the Company continued to manufacture and export cigarettes and to sell the imported oral nicotine pouches across Kenya. She stated that the biggest challenge that the consumers faced was that of disposal income. She highlighted that there had been a reduction in cigarette consumption in H1 2020 and the Company's objective was to bring best value and best quality. The Company had a contingency plan that it reviewed to facilitate the business in H2 2020.

As regards the illicit trade, she explained that the Company would continue to work closely with government agencies to stop it and noted that the main illicit trade area was the Kenya-Uganda border.

On the question of shareholder value, she explained that the Board together with the Company's Leadership Team would continue to strive to increase the shareholder value. She pointed out that the Leadership Team intended to deliver momentum and growth after the COVID-19 pandemic receded.

- c) **Mr. Geoffrey Bethwel Maoga**, a shareholder enquired on the following:
- The precautions the Company had taken to ensure it continued to pay shareholder dividends.
 - If the BAT Group performance and its position as majority shareholder would affect the performance of BAT Kenya plc.

The Managing Director stated that the Company continued to use the strategy employed 3 years ago to deliver results for the business. She stated that the Company would continue to use the strategy even during the pandemic as it had worked.

She explained that BAT Group had been announcing the business performance for each region and invited the shareholders to visit its website. She assured the shareholders that the robust systems in place at BAT Group and BAT Kenya and the support of BAT Group played a critical role for the performance of the business.

The Chairman further assured the shareholders that the Board and Management were working closely to recover from the current period of uncertainty.

- d) **Mr. Irungu Kimani**, a shareholder enquired on the following:
- Why there was an increase in the raw materials and manufacturing costs;
 - The reasons for the increase in administrative expenses;
 - An explanation of the Earnings per share and Dividend payment ratio;
 - Why the hedging reserve amount was high (KSh. 26Bn); and
 - Why the constant re-appointment of the external auditor.

He proposed that the Managing Director should only be appointed by the Board and should not be subjected to re-election by shareholders.

The Finance Director advised that the introduction of Solatium Levy led to the provision of the expense in the books. He further reported that there was an increase in exports to South Sudan CRT leading to the increase.

On operating expenses, it was noted that this was due to the re-organization that happened in the Company in the year to make the business simpler, faster and stronger for sustainability going forward.

As regards dividend payment ratio, he advised that this was maintained at 86% similar to previous year despite the dip in profits. This allowed the Company to plough back some money into the factory set up.

On the Statement of consolidated financial he advised that the Company was adequately capitalised hence there was currently no need for additional capital from the shareholders.

He corrected that the hedging results was KSh. 26M and not KSh. 26Bn as queried by the shareholder. He further pointed out that the hedging reserves were meant to protect the Company from adverse impact of FOREX movements.

On the balance sheet review, he advised that on receivable and payment, the decision to invest in the factory led to the increase in receivable and pre-payment. Increase on payables and accrued expenses was also a good thing as it helped improve cash flows.

As regards the re-appointment of auditors, he reported that it was a requirement that the lead auditor retires after 5 years and as such the lead auditor would be retiring.

The Chairman added that having reviewed the performance of the Company and the investments it had undertaken a decision had been made not to have a bonus issue. As regards excluding the CEO from the election, he advised that this was a requirement of law that as a director she should be presented to the shareholders for re-election.

The Board Chairman closed the Q&A session and proceeded to seek shareholder proposals to approve and adopt the Financial Statements for the year ended 31st December 2019.

Mr. Eliud Kuria Kimani, proposed the Resolution:

“THAT the Report of the Directors and the Financial Statements for the year ended 31 December 2019, as audited and reported by the Company’s Auditors, now submitted to this meeting, be and are hereby approved and adopted.”

Mr. Benjamin Ondiba and Mr. Ondiba Ben Nyambati, jointly seconded the Resolution which was put to the meeting and opened for voting.

5. DECLARATION OF A FINAL DIVIDEND

Mr. Julius Kariuki Macharia, proposed the Resolution:

“THAT the interim dividend of KSh. 3.50 per ordinary share paid on 20th September 2019 be and is hereby confirmed and that a final dividend of KSh. 30.00 per ordinary share payable, net of Withholding Tax, on 29th April 2020 to Shareholders on the Register at the close of business on 20th March 2020 be and is hereby approved and payment ratified.”

Mr. Gilbert Oduor Omondi, seconded the Resolution which was put to the meeting for voting.

6. DIRECTORS SEEKING RE-ELECTION

a) Shareholders noted that in accordance with Article 103 of the Company's Articles of Association, Mr. Sidney Wafula was retiring by rotation at the AGM and did not offer himself for re-election.

b) **Mr. John Wairi Wandugo and Mr, Alois Wafula Chami**, proposed the Resolution:

"Beverley Spencer-Obatoyinbo and Carol Musyoka who retire by rotation in accordance with Article 103 of the Articles of Association and being eligible, offer themselves for re-election, be and are hereby re-elected as Directors of the Company."

Mr. Geoffrey Bethwel Maoga and Mr. Joseph J. Mugambi Mkireria, seconded the Resolution which was put to the meeting for voting.

c) **Ms. Ann Jacqueline Mugure Kigotho and Ms. Mary Mwikali Musyoki**, proposed the Resolution:

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

Stepping Stone Enterprises, represented by **Mr. Daniel Kimotho and Mr. Raphael Peter Otieno**, seconded the Resolution which was put to the meeting for voting.

The Chairman requested a Shareholder to propose the following Resolution:

"THAT pursuant to the provisions of Section 769 of the Companies Act 2015, 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 Committee."

Mr. John Kiumi Kabuchi, proposed the Resolution and **Mr. Geoffrey Bethwel Maoga**, seconded the Resolution which was put to the meeting for voting.

7. DIRECTORS REMUNERATION AND DIRECTORS REMUNERATION REPORT

The Chairman requested a Shareholder to propose the following Resolution:

"THAT the Director's remuneration and Directors' Remuneration Report be and are hereby approved."

Mr. Steven Irungu Kimani, proposed the Resolution and **Ms. Hannah Muthoni Mucuna**, seconded the Resolution which was put to the Meeting for voting.

The Chairman advised the Shareholders that the results of the voting would be published on the Company website.

8 RE-APPOINTMENT AND REMUNERATION OF AUDITORS

Ms. Hannah Wanjiku Kimindiri, proposed the Resolution:

"THAT in accordance with Section 721(2) of the Companies Act 2015, the appointment of Messrs. KPMG Kenya as External Auditors of the Company in advance of the AGM, be and is

hereby ratified and that the Directors be and are hereby authorized to fix their remuneration.”

Ms. Jane Njoki Mwangi, seconded the Resolution which was put to the meeting for voting.

10. SPECIAL RESOLUTION TO AMEND THE COMPANY’S ARTICLES OF ASSOCIATION

Having concluded the ordinary business, the Chairman directed the shareholders to the Special business of the AGM which was the amendment of the Company’s Articles of Association in its entirety. The amendment would permit the Company to modernize its Articles of Association.

Mr. Alois Wafula Chami, proposed the Resolution:

“THAT the existing Articles of Association of the Company be deleted in their entirety and replaced with the new amended Articles of Association attached as Annexure 1 to this resolution and circulated to shareholders.”

Mr. Jones Nzau, seconded the Resolution which was put to the meeting for voting.

11. END OF PROCEEDINGS

There being no other matters of which notice had been received, the Chairman declared the business of the 68th Annual General Meeting as concluded and closed the Meeting.

Confirmed: _____

Date: _____

Chairman