FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors of British American Tobacco Kenya plc announce the results for the year ended 31 December 2017 as shown below:

RESILIENCE IN THE FACE OF ADVERSITY

Gross revenue (Kshs)	Contribution to Government taxes (Kshs)	Operating margin	Profit before tax (Kshs)	Dividend per share (Kshs)
34.5bn	18.0bn	30.8%	4.9bn	26.00
-6%	-1.2bn	-2.2 pp	-18%	per share

The results below have been extracted from the audited consolidated financial statements of British American Tobacco Kenya plc for the year ended 31 December 2017. The financial statements were audited by KPMG Kenya who expressed an unqualified audit opinion.

Condensed Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017

	2017 Kshs'm	2016 Kshs'm
Gross revenue	**34,468**	**36,676**
Excise Duty and Value Added Tax	(15,794)	(16,826)
Net revenue	**18,674**	**19,850**
Cost of operations	(12,921)	(13,306)
Profit from operations	**5,753**	**6,544**
Reorganisation costs	(392)	(338)
Finance costs	(494)	(295)
Profit before tax	**4,867**	**5,911**
Income tax expense	(1,531)	(1,677)
Profit after tax	**3,336**	**4,234**
Net fair value gains on currency hedges	7	-
Gain on revaluation of property	-	616
Total comprehensive income	**3,343**	**4,850**
Dividend	2,600	4,300
Basic and diluted earnings per share (Kshs)	**33.36**	**42.34**

Condensed Statement of Financial Position as at 31 December 2017

	2017 Kshs'm	2016 Kshs'm
Capital and reserves		
Share capital	1,000	1,000
Revaluation surplus	1,861	1,902
Retained earnings	4,979	5,895
Shareholders' funds	**7,840**	**8,797**
Non-current liabilities	3,391	3,357
	11,231	**12,154**
Assets		
Non-current assets	**9,140**	**9,532**
Working capital		
Current assets	8,665	8,968
Current liabilities	(6,574)	(6,346)
Net working capital	**2,091**	**2,622**
	11,231	**12,154**

Condensed Cash Flow Statement for the year ended 31 December 2017

	2017 Kshs'm	2016 Kshs'm
Cash generated from operations	6,419	7,987
Net interest paid	(490)	(315)
Tax paid	(1,216)	(2,510)
Net cash from operating activities	**4,713**	**5,162**
Net cash used in investing activities	(379)	(287)
Net cash used in financing activities	(4,300)	(4,950)
Movement in cash & cash equivalents	**34**	**(75)**
At the start of the year	(1,687)	(1,612)
At the end of the year	**(1,653)**	**(1,687)**

Condensed Statement of Changes in Equity for the year ended 31 December 2017

	Share Capital Kshs' m	Revaluation surplus Kshs' m	Retained earnings Kshs' m	Total Kshs' m
At 1 January 2016	**1,000**	**1,416**	**6,437**	**8,853**
Comprehensive Income	-	486	4,408	4,894
Dividends	-	-	(4,950)	(4,950)
At 31 December 2016	**1,000**	**1,902**	**5,895**	**8,797**
At 1 January 2017	**1,000**	**1,902**	**5,895**	**8,797**
Comprehensive Income	-	**(41)**	**3,384**	**3,343**
Dividends	-	-	**(4,300)**	**(4,300)**
At 31 December 2017	**1,000**	**1,861**	**4,979**	**7,840**

Business performance

Profit

The company navigated an unexpectedly difficult trading environment in Kenya and across our export markets to deliver a solid set of results in challenging circumstances. Gross revenue decreased by 6% to Kshs. 34.5 billion driven by lower domestic volumes and weaker product mix due to the continued impact of excise-led price increases in 2015 and the extended uncertainty during the election period.

The decrease in the domestic market was partially offset by recovery in export volumes and revenues following additional pricing and distribution expansion initiatives implemented during the year, and marginal price increases in contract manufacture due to inflation.

The cost of operations reduced by 3% to Kshs 12.9 billion due to reduced volumes, stringent cost management and productivity initiatives. However, this was not enough to offset the impact of the lower domestic volumes on revenue, and an unexpected 87% increase in the cost of tax stamps announced in April 2017 as part of the Excise Act, 2017. As a result, the operating margin reduced by 2.2pp to 30.8%.

The company has continued to embed innovative ways of working using technology, primarily in the factory. As a follow up to these efficiency gains, the company undertook a reorganisation in the second half of 2017 which cost Kshs 392 million. Finance costs increased to Kshs 494 million principally due to higher borrowing in the first half of 2017 to finance working capital and minimise the risk of potential supply chain disruptions.

The reduced revenues led to lower profit before and after tax.

Cash

Cash generated from operations dropped to Kshs 6.4 billion driven by lower profitability during the year and lower gains from working capital management.

Contribution to Government taxes

Taxes in the form of Excise Duty, VAT, Pay As You Earn (PAYE) and Corporation Tax reduced by Kshs 1.2 billion to Kshs 18.0 billion in 2017 as a consequence of the adverse impact of the excise-led price increase mentioned above. BAT Kenya, nevertheless remains a leading tax contributor in Kenya.

The tobacco industry is currently incurring per unit costs on excise tax stamps, which are 87% higher than those being incurred by manufacturers of similar excisable products. For us, this translates to an unjustified and unsustainable Kshs 350 million increase in the annual cost of compliance. While we appreciate the critical role tax stamps play in authenticating duty paid products, tax stamps should not come at a significant cost to the manufacturer or become a revenue generating measure, as the current cost appears to be. This was recognised in the accompanying policy statement that clearly stated that the cost of excise stamps would be proportionate to the value of the products. We continue to raise our concerns, to the relevant arms of Government, about the adverse and disproportionate impact of this measure.

Dividend

The Board of Directors has proposed a final dividend in respect of the year ended 31 December 2017 of Kshs 22.50 per ordinary share to be recommended for approval by the shareholders at the Annual General Meeting to be held on 11 May 2018. The final dividend when added to the interim dividend already paid, gives a total dividend of Kshs 26.00 per share. The dividend, which is subject to withholding tax, will be paid on 11 May 2018 to the shareholders on the register at the close of business on 16 March 2018.

Nairobi
15 February 2018

By order of the Board
RT Ngobi (Ms.)
Company Secretary