BAT
IMARA DAIMA

BAT KENYA LIMITED
ANNUAL REPORT & ACCOUNTS 1995

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FINANCIAL CALENDAR

Annual General Meeting	held April 1996
Reports & Dividends:	
Results for the year to 31 December 1996	announced February 1997
Report and Accounts to 31 December 1996	issued March 1997
Proposed final for the year to 31 December 1995	payable April 1996
Proposed final for year to 31 December 1996	payable May 1997

SUBSIDIARY COMPANIES IN THE BAT KENYA LIMITED GROUP

All non-trading

	% equity shares held
Kenya Tobacco Company Limited	100
African Cigarette Company (Overseas) Limited	100
East African Tobacco Company (Kenya) Limited	100

STATE EXPRESS
OF LONDON

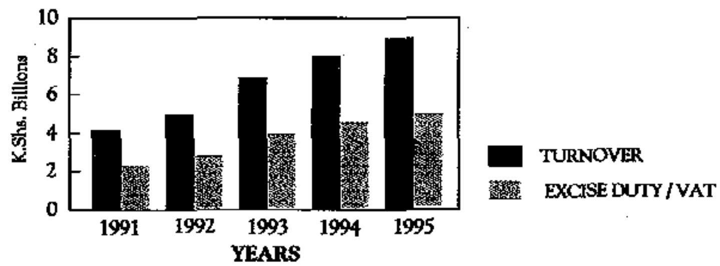
BAT

HIGHLIGHTS 1995

FINANCIAL

- Turnover grew by 5.6 % to K.Shs. 8.8 billion.
- Profit before interest and tax up by 6.4 % to K.Shs. 914 million.
- Earnings per share increased by 1.7 % to K.Shs. 6.6 per share.
- Profit before tax up from K.Shs. 819 million to K.Shs. 824 million.
- Dividends up by 25 % from K.Shs. 4 to K.Shs. 5 per share.
- Profit after tax up 1.7 % to K.Shs. 495 million.

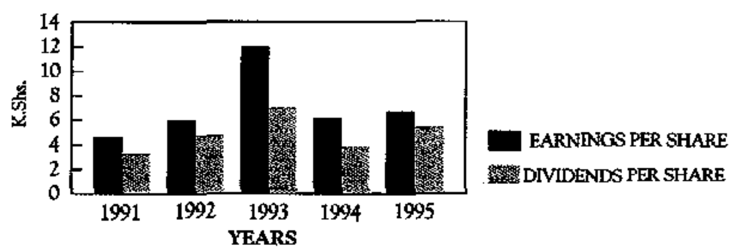
TURNOVER



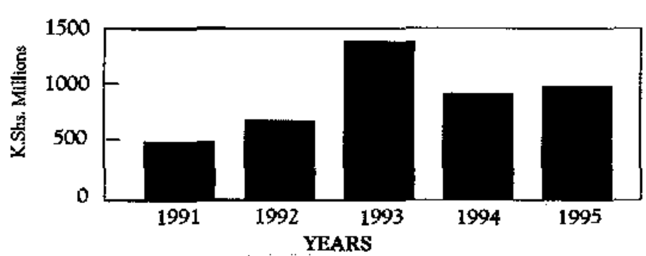
OPERATIONS

- Domestic sales grew by 9 % consequently improving our market share.
- 555 re-launched in two brands, State Express Filter Kings and 555 International, strengthening its lead position in the premium segment.
- Sportsman house grew by three brands namely Premium, Menthol and Lights and maintained its market leadership.
- Embassy family recorded some marginal growth.
- Trade marketing initiatives implemented and product distribution contracted out leading to record sales volumes.
- Maximisation of production capacity achieved through the introduction of a third shift. This resulted in an 8 % increase in cigarette production.
- Increased leaf exports as a result of a bumper leaf crop during the year.

EARNINGS/DIVIDENDS PER SHARE



PROFIT BEFORE INTEREST & TAX



Sportsman

BOARD OF DIRECTORS

*Mr. E. Mwaniki
Chairman

I. Hussain
Managing Director

Other Directors

M. S. Hayes

*N. Davis

M.O. Owiti

*D. N. Berry

M. J. Stevens

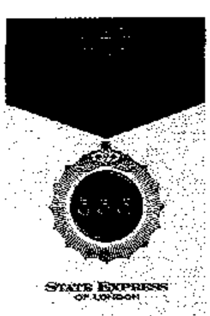
M.M. Wanyoike

B.A. Buyu

Mr. E. Mwaniki Chairman — **I. Hussain** Managing Director — **N. Davis** Non-Executive Director — **D. N. Berry** Non-Executive Dir

** Non-executive Directors*

2007/0718



M. O. Owiti — Production Director
M. S. Hayes — Finance Director
B. A. Buyu — Brand Marketing Director
M. M. Wanyoike — Human Resources Director
M. J. Stevens — Leaf Director

Audit Committee
E. Mwaniki
I. Hussain
M. S. Hayes
M. O. Owiti
M. J. Stevens
A. M. Chowdhury

Secretary and Registered Office
J.N. Kiragu
Likoni Road
P.O. Box 30000, Nairobi

Transfer Agents
Standard Chartered Kenya Nominees Limited
P.O. Box 30003
Stanbank House
Moi Avenue, Nairobi

Auditors
Price Waterhouse
P.O. Box 41968, Nairobi

Advocates
Kaplan & Stratton
Queensway House
P.O. Box 40111, Nairobi

Bankers
Kenya Commercial Bank Limited
Moi Avenue
P.O. Box 30081, Nairobi

Standard Chartered Bank
Kenya Limited
Industrial Area
P.O. Box 18081, Nairobi

Barclays Bank Kenya Limited
Enterprise Road
P.O. Box 18060, Nairobi

Citibank N.A.
Wabera Street
P.O. Box 30711, Nairobi

CHAIRMAN'S REVIEW

Last November, Dr. B. M. Gecaga retired from the Chairmanship of your Company. Allow me at the outset to pay tribute to one of this country's great sons for his dedication and exemplary service not only to BAT Kenya, spanning over 35 years, but also to this country.

The year 1995 was in many respects a turning point in the economic fortunes of this country. The Government accelerated the liberalisation of the economy in such areas as the removal of import restrictions, the gradual elimination of exchange control, and the stabilisation of the Kenya Shilling against major currencies.

For our company, the trading environment was however adversely affected during 1995 by the dumping of cheap imported cigarettes onto the Kenyan market. This, coupled with the very high incidence of cigarette excise in Kenya, which is one of the highest in Africa, impacted negatively on profitability, despite strong growth in the combined sales volumes of the domestic and export markets of 8.8%.

Overall results

Profit before taxation of K.Shs.824 million was marginally above 1994, which reflects the adverse trading conditions during the year and the strength of the Kenya Shilling in the earlier part of the year on our exports.

The contribution to Government Revenue in the form of excise duties, import duties, corporate and value added taxes (as indicated on page 18 in the five year summary) increased by 5.2% to K.Shs.5.5 billion from K.Shs.5.2 billion in 1994.

BAT Kenya Limited's contribution to Kenya's foreign exchange earnings arising from the export of cigarettes and leaf tobacco was US$ 16.7 million.

Conscious of the improving economic climate we initiated several measures to put us on the recovery path. Firstly, we revamped the quality of our products and also cut costs substantially in areas where this could be done without the risk of lowering operational effectiveness. In consequence, certain non-core functions were contracted out, thus releasing managerial time and efforts to key business issues. Secondly, new innovations in the distribution of our products were introduced. These measures taken together will yield improved results in 1996.

Domestic and Exports Cigarette Markets

Domestic sales grew by 9% over 1994 despite increased competition. This was achieved through initiatives such as Direct Sales Distribution, which helped to reduce stock-out situations. As a result, direct store delivery increased substantially in 1995. The positive performance also arose from the promotion and enhancement of investment in our key brands, 555 State Express, Embassy and Sportsman, as well as the support given to the lower priced brands.

555 State Express and Sportsman were re-launched in the second half of 1995 and state-of-the-art outdoor advertising introduced. The Embassy brand focus resulted in a 6% volume growth over 1994 despite increased pressure from competing brands. Overall, filter brands grew at a faster rate than plain brands.

In-store merchandising was enhanced by the introduction of pack facing concepts and the provision of attractive dispensers to retailers. The Company also improved on petrol forecourt penetration and educated retailers on Direct Product Profitability.

Cigarette exports in 1995 were above last year's by 8.3%. Despite the higher volume, however, turnover was 13.4% less than 1994 because of the poor exchange rate in the earlier part of the year.

Tobacco Growing and Afforestation

The Company's 14,000 contracted farmers produced a bumper crop of 11,130 tons, compared to 5,183 tons in 1994, an increase of 115% over the previous year. In monetary terms, farmers earned K.Shs. 651 million, representing an increase of 150% over the 1994 earnings of K.Shs. 260 million.

The tremendous success of the 1995 crop season is attributed to the return of orderliness in tobacco growing areas as a result of the introduction of a law governing the production

A healthy tobacco crop featuring afforestation in the background.

of the crop, *The Tobacco Growing and Marketing Rules, 1994*. Other influencing factors were the prevailing good weather and the introduction of an incentive package to the farmers.

BAT Kenya's successful afforestation programme continued to receive maximum support. In 1995, 4.8 million trees were planted by the Company and its registered farmers.

Leaf Exports
In 1995, the Company exported considerable quantities of tobacco and processed Zairean and Ugandan leaf at a fee. In total, the leaf export business earned the country foreign exchange amounting to US$ 2.3 million.

Tobacco Processing and Manufacturing
In response to sales demand, overall cigarette production increased by 8% from the previous year. Production machinery utilisation was maximised by changing from two to three work shifts in March 1995. The Company also optimised its primary processing and modernised methods of mentholating cigarettes in secondary manufacturing.

Safety awareness amongst employees and the general public was enhanced by the transmission of a company produced documentary, *Safety Starts with Me*, through the Kenya Broadcasting Corporation.

Human Resources
Evaluation and re-grading of management and secretarial jobs was carried out during the year in order to harmonise our grading structure with the BAT Group's grading policy. As a result, a more versatile and effective grading structure is now in place to meet the future needs of staff motivation and manpower development. The new grading structure will enable us to have a flatter organisation, and at the same time, facilitate easier international transfers/secondments of our managers for international exposure and personal development.

Corporate Affairs
The 1995 highlight was the official opening of the ultra-modern Imara Daima Housing Estate in Nairobi by His Excellency President Daniel arap Moi. The 839 unit estate, one of the largest single housing development schemes in Kenya, also has the distinction of being the only one of its kind ever to be undertaken by a private company for the benefit of its employees and the general public. All the units

H. E. President Daniel arap Moi chats with BAT Kenya Managing Director Mr. I. Hussain, who conducted the President around Imara Daima Estate.

the estate were sold on a tenant purchase scheme basis.

The promotion of Jua Kali through the sponsorship of the North Eastern Province exhibition held in Garissa was another successful programme undertaken by the Company. The Vice President Professor George Saitoti was the chief guest at the well patronised exhibition. The Company's sponsorship of this well known sector made worldwide news this year when BAT Kenya received an international award for a documentary on Jua Kali entered in the 10th International Festival of Television Programmes of Folk Art at the Raduga Film Festival in Moscow.

Dividends
Last September an interim dividend of K.Shs. 0/50 per share was paid. A second interim dividend of K.Shs. 1/- per share was paid in January 1996. Your Board is recommending a final dividend of K.Shs. 3/50 per share for approval at the forthcoming Annual General Meeting. If approved, this will bring the total dividend distribution to K.Shs. 5/- per share, which is a 25% improvement over 1994.

I will comment on the prospects of 1996 in my speech at the Annual General Meeting to be held in April this year.

Finally, I would like to express my sincere thanks to all the directors and staff, firstly, for the very warm reception I received on appointment to the Board and secondly, for their dedication and tireless effort in managing the Company so efficiently.

Evanson Mwaniki

RIPOTI YA MWENYEKITI

Mnamo Novemba mwaka jana, Daktari B. M. Gecaga alistaafu kama mwenyekiti wa Kampuni yenu. Mtaniruhusu, kabla sijaendelea na ripoti, kukariri na kumtolea mmoja wa watu mashuhuri katika historia ya Kenya, shukrani nyingi siyo tu kwa kujitolea kuitumikia bila kifani BAT Kenya kwa muda uliozidi miaka thelathini na tano, na pia nchi hii.

Mwaka wa 1995 ulikuwa, kwa njia nyingi, mwaka wa mageuzi mazuri ya uchumi nchini. Serikali iliharakisha kuachilia huru uchumi katika maeneo mengine kama vile kuondolewa pole pole kwa masharti ya uingizaji bidhaa nchini, kuondolea mbali vizuizi katika ubadilishanaji wa fedha za kigeni, na kudumisha uthabiti wa thamani ya shilingi dhidi ya fedha nyingine duniani.

Hali ya biashara kuhusu Kampuni yetu mwaka wa 1995 iliathirika kutokana na mambilikizo ya sigara rahisi humu nchini. Jambo hili liliambatana na ushuru wa juu zaidi nchini Kenya, ambao ni wa juu zaidi katika Afrika, na kudhoofisha faida ya Kampuni ijapokuwa kulikuweko imarisho la mauzo humu nchini na vile vile katika nchi za nje kwa kiwango cha asilimia 8.8.

Matokeo kwa jumla

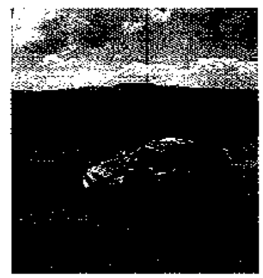
Faida kabla ya kutoa fungu la kodi ya shilingi milioni 824 ilizidi kidogo kile kiwango cha mwaka 1994, ambacho chaonyesha hali mbaya ya biashara mwakani na pia kuongezeka kwa thamani ya shilingi ya Kenya mapema mwakani kwa upande wa mauzo ya nje. Mchango wa ushuru wa forodhani, ushuru wa bidhaa zinazoingizwa nchini, kodi ya makampuni na VAT (kama ilivyoonyeshwa kwenye ukurasa 18 wa muhtasari wa matokeo ya miaka mitano) uliongezeka kwa asilimia 5.2 hadi shilingi bilioni 5.5 kutoka shilingi bilioni 5.2 mnamo mwaka 1994.

Mchango wa BAT Kenya Limited kuhusu fedha za kigeni zikitokana na sigara na tumbaku zilizouzwa nchi za nje ulikuwa Dola za Marekani milioni 16.7.

Tukiweka maanani kule kustawishwa kwa hali ya uchumi tulianzisha hatua kadha za kutuwezesha imarisho la harakati zetu. Kwanza, tulidumisha hali ya juu ya bidhaa zetu na pia kupunguza gharama zisizo muhimu katika shughuli zinazoendeshwa bila athari yo yote kwetu. Kutokana na jambo hili shughuli kadha zisizo muhimu sana zilipewa watu wa kandarasi ili kupunguza shinikizo ili kazi muhimu zitekelezwe. Kadhalika mfumo mpya wa ugawaji wa bidhaa ulianzishwa. Hatua hizi mpya zilizoanzishwa, bila shaka, zilileta manufaa mazuri mnamo mwaka 1996.

Mauzo ya sigara humu nchini na pia nchi za nje

Mauzo ya sigara nchini yaliongezeka kwa asilimia 9 ikilinganishwa na mwaka 1994, ingawaje mashindano yaliongezeka. Sera ya mauzo ya moja kwa moja katika mabohari yalisaidia kupunguza ukosaji wa bidhaa katika bohari mnamo mwaka 1995. Matokeo mazuri pia yalitokana na matangazo muhimu ya sigara chapa 555, State Express, Embassy na Sportsman na pia kuimarisha sigara za bei nafuu.



Ace rally driver Patrick Njiru races across magnificent Kenyan plains in the 555 adorned Subaru Impreza.

555 State Express na Sportsman zilianzishwa tena katika msimu wa pili wa mwaka wa 1995 na hali ya juu ya matangazo kuhusu chapa Embassy ikaanza mara moja. Sigara chapa Embassy ilileta asilimia 6 ya mauzo kushinda mwaka 1994, ingawaje kulikuwepo mashindano mengi dhidi ya sigara bora. Kwa jumla sigara zenye vichujio ziliendelea kasi zaidi kuliko sigara za kawaida.

Mauzo ya sigara yaliongezeka kwa kuanzishwa kwa kutia sigara kwa paketi mpya zilizozinduliwa, na kuvutia wateja wa reja reja. Kampuni pia ilifanya maendeleo kuhusu sehemu za vituo vya petroli na kuwaeleza wafanya biashara wa reja reja faida ya kununua bidhaa ya moja kwa moja kutoka kwa Kampuni.

Mauzo ya sigara katika nchi za nje mwaka 1995 yaliongezeka mwaka jana kwa asilimia 8.3. Ingawaje kulikuweko mauzo ya juu, mauzo yalikuwa asilimia 13.4 chini ya mwaka 1994 kwa ajili ya udhaifu wa ubadilishaji wa fedha za kigeni mwanzoni mwa mwaka.

Ukuzaji wa tumbaku na misitu

Wakulima 14,000 walio na kandarasi na Kampuni walikuza tani 11,130 za mazao, ikilinganishwa na tani 5,183 mnamo mwaka 1994 ambalo ni ongezeko la asilimia 115 kuzidi mwaka jana. Kwa upande wa fedha, wakulima walichuma shilingi milioni 651, ikiwakilisha ongezeko la asilimia 150 mwaka wa 1994 na kujipatia mapato ya shilingi milioni 260.

Mafanikio makubwa ya mavuno ya mwaka wa 1995 yalitokana na kurejeshwa kwa nidhamu katika maeneo yanayouza tumbaku kwa mujibu wa sheria

inayoambatana na ukuzaji wa mavuno, iitwayo *Sheria ya Ukuzaji na Mauzo ya Tumbaku ya Mwaka 1994*. Jambo jingine lilikuwa ile hali bora ya hewa na kuanzishwa kwa manufaa bora kwa wakulima.

Mafanikio yaliyofaulu ya mradi wa kueneza misitu unaodhaminiwa na BAT uliendelea kuungwa mkono na miche milioni 4.8 ilipandwa na Kampuni na wakulima waliosajiliwa.

Mauzo ya tumbaku nchi za nje

Mwaka 1995, Kampuni iliuza idadi kubwa ya tumbaku katika nchi za nje na pia kuchambua, kwa malipo, tumbaku zinazotoka nchi za Zaire na Uganda. Kwa jumla, biashara ya mauzo ya tumbaku nchi za nje yalileta faida ya fedha za kigeni nchini kufikia Dola za Marekani milioni 2.3.

Uchambuzi wa tumbaku na utengenezaji

Kwa ajili ya matakwa ya bidhaa za sigara zetu, zao hilo liliongezeka kwa asilimia 8, kutoka mwaka uliopita. Huduma za mashine zinazotengeneza sigara zilitumiwa vyema zaidi kutokana na kuongezeka kwa zamu za wiki mbili hadi wiki tatu mnamo Machi 1995. Kampuni pia iliimarisha uchambuzi wa tumbaku na utengenezaji wa njia za kisasa wa sigara baridi na pia kuweka sigara katika paketi za kuwavutia wateja. Usalama miongoni wa wafanyakazi na umma ulitiwa mkazo na filamu ya usalama iitwayo *"Usalama unaanza nami"* na filamu hiyo ikatangazwa katika shirika la utangazaji (KBC).

Idara ya wafanyakazi

Mwongozo wa ukaguzi na kupandishwa vyeo mameneja na pia masekretari ulifanywa na kusawazishwa kwa vyeo kuliambatana na mwongozo wa kundi la BAT. Sera bora ya marekebisho haya yaliendelea sambamba na mahitaji ya siku za usoni za maendeleo ya kikazi. Mwongozo huu mpya utatuwezesha kuwa na mpango bora wa kazi na vile vile kuwezesha Kampuni kuwapeleka wafanyakazi huko ng'ambo ili wajifundishe teknolojia za kisasa.

Kenya's Minister for Foreign Affairs and International Co-operation Hon. Kalonzo Musyoka receives the Russian Award on Jua Kali exhibitions on behalf of BAT Kenya from the Russian Ambassador to Kenya H.E. Boris Maiorski.

Sura ya Kampuni

Mwaka wa 1995 ulikuwa muhimu kwa kufunguliwa rasmi mtaa wa kisasa wa Imara Daima Housing Estate katika Nairobi na Mtukufu Rais Daniel arap Moi. Mtaa huu ulio na majengo 839, ni mojawapo ya majengo makubwa nchini Kenya na pia ni moja ya aina ya kipekee kujengwa na Kampuni kwa wafanyakazi wake na umma kwa jumla. Majumba hayo yote yaliuzwa kwa mpango wa kulipia pole pole.

Kampuni ya BAT imeimarisha sekta ya Jua Kali kwa kudhamini maonyesho katika Mkoa wa Kaskazini Mashariki yaliyofanywa mjini Garissa. Mradi huo ukafana sana.

Makamu wa Rais, Professor George Saitoti alikuwa Mgeni wa Heshima katika maonyesho hayo yaliyohudhuriwa na washiriki wengi. Udhamini huo wa BAT ulisifiwa sana ulimwenguni kupitia Tuzo ya Mataifa kwa maonyesho hayo ya Jua Kali yaliyoingizwa katika mashindano ya Kitaifa ya Kumi ya Televisheni ya Folk Art katika Raduga Film Festival huko Moscow.

Migawo

Mgawo wa muda ulipendekezwa mnamo mwezi Septemba mwaka jana kwa kiwango K.Shs. -/50 kwa kila hisa. Mgawo wa pili wa muda ulikuwa K.Shs. 1/- kwa kila hisa na ulilipwa mnamo Januari mwaka 1996. Wakurugenzi wenu sasa wamependekeza mgawo wa mwisho wa K.Shs. 3/50 kwa kila hisa ikikubaliwa katika Mkutano Mkuu wa Mwaka. Jambo hili likikubaliwa litaleta mgawo wa jumla wa shilingi K.Shs. 5/- kwa kila hisa, ambao ni asilimia 25, na hii yaonyesha maendeleo ikilinganishwa na mwaka wa 1994.

Nitazungumzia kuhusu matumainio ya mwaka wa 1996 katika Mkutano Mkuu wa Mwaka utakaofanyika Aprili mwaka huu.

Mwisho, ningependa kwanza, kutoa shukrani zangu kwa wakurugenzi na wafanyakazi wetu kwa kuniunga mkono nilipochaguliwa katika Halmashauri, na pili kwa juhudi zao kubwa wanapotekeleza usimamizi wa Kampuni kwa njia bora kabisa.

Evanson Mwaniki

REPORT OF DIRECTORS

The Directors have pleasure in submitting their Report and the Audited Accounts for the year ended 31 December 1995.

	K.Shs. '000	K.Shs. '000
Profit and Appropriations		
Profit after Taxation available for appropriation		494,977
Appropriated as follows:		
Dividends:		
First Interim of K.Shs. 0.50 per share	37,500	
Second Interim of K.Shs. 1.00 per share	75,000	
Proposed Final of K.Shs. 3.50 per share	262,500	375,000
Retained Profit		119,977

Board of Directors

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

Mr. E. Mwaniki was appointed on 21.4.95.

Mr. D. N. Berry was appointed on 10.7.95.

Mr. J. R. Patrick retired from the Board on 14.11.95 and was replaced by Mr. M. S. Hayes.

Mr. P. J. Payne resigned on 1.12.95 and was replaced by Mr. M. J. Stevens.

In accordance with Article 89 of the Articles of Association Messrs M. O. Owiti, I. Hussain and M. M. Wanyoike retire from the Board by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 95 of the Articles of Association Messrs E. Mwaniki, M. S. Hayes and M. J. Stevens retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

Auditors

Messrs Price Waterhouse will continue in office in accordance with section 159(2) of the Companies Act.

15 March 1996
Likoni Road
P. O. Box 30000, Nairobi

By Order of the Board
J. N. Kiragu
Secretary

RIPOTI YA WAKURUGENZI

Wakurugenzi wanafurahia kutoa Ripoti yao na Hesabu za fedha zilizokaguliwa kwa mwaka uliomalizika Desemba 31 1995.

	K.Shs. '000	K.Shs. '000
Faida iliyopatikana na ilivyogawanywa		
Faida iliyopatikana katika mwaka huo baada ya kodi ilikuwa		494,977
Iligawanywa ifuatavyo:		
Migawo ya faida wenyehisa:		
Mgawo wa kwanza wa K.Shs. 0.50 kwa kila hisa	37,500	
Mgawo wa pili wa K.Shs.1.00 kwa kila hisa	75,000	
Mgawo wa mwisho unaopendekezwa wa K.Shs.3.50	262,500	375,000
Faida iliyowekwa Akiba		119,977

Halmashauri ya Wakurugenzi

Tangu Mkutano Mkuu wa Mwaka jana mabadiliko yafuatayo yalitokea katika Halmashauri ya wakurugenzi.

Bw. E. Mwaniki aliteuliwa tarehe 21.4.95.

Bw. D. N. Berry aliteuliwa tarehe 10.7.95.

Bw. J. R. Patrick alistaafu tarehe 14.11.95 kutoka kwa Halmashauri na mahali pake pakachukuliwa na Bw. M. S. Hayes.

Bw. P. J. Payne alijiuzulu tarehe 1.12.95 na mahali pake pakachukuliwa na Bw. M. J. Stevens.

Kwa mujibu wa kifungu cha 89 cha Katiba ya Kampuni Mabw. M. O. Owiti, I. Hussain na M. M. Wanyoike watastaafu kwa zamu na, kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kwa mujibu wa kifungu cha 95 cha Katiba ya Kampuni Mabw. E. Mwaniki, M. S. Hayes na M. J. Stevens watastaafu kutoka kwa Halmashauri katika Mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Wakaguzi wa Hesabu

Price Waterhouse wataendelea na ukaguzi wa vitabu kwa mujibu wa kifungu cha 159(2) cha Sheria za Makampuni.

Marchi 15, 1996
Likoni Road
P. O. Box 30000, Nairobi

Kwa Amri ya Halmashauri
J. N. Kiragu
Katibu

AUDITORS' REPORT

Auditors' Report to the members of BAT Kenya Limited

1. We have audited the financial statements set out on pages 10 to 17 which have been prepared on the basis of the accounting policies set out on page 13. We obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and to provide a reasonable basis for our opinion. The financial statements are in agreement with the books of account.

2. The directors are responsible for the preparation of accounts which give a true and fair view of the company's state of affairs and its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

3. We conducted our audit in accordance with Kenyan Auditing Standards. Those standards require that we plan and perform our audit to obtain reasonable assurance that the accounts are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

4. In our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the company's financial affairs as at 31 December 1995 and of its profit and cash flows for the year then ended in accordance with Kenya Accounting Standards and comply with the Companies Act.

PRICE WATERHOUSE
Certified Public Accountants
Nairobi **15th March 1996**

PROFIT & LOSS ACCOUNT

Including the Statement of Retained Profit

FOR THE YEAR ENDED 31 DECEMBER

	Note	1995 K.Shs. '000	1994 K.Shs. '000
Turnover		8,808,568	8,340,159
Excise Duty/V.A.T		5,080,114	4,813,230
Net turnover		3,728,454	3,526,929
Profit before taxation	1	824,325	819,142
Taxation	2	329,348	332,518
Profit after taxation		494,977	486,624
Dividends		375,000	300,000
1st interim of K.Shs. 0.50 per share		37,500	37,500
2nd interim of K.Shs. 1.00 per share		75,000	75,000
Proposed final of K.Shs. 3.50 per share		262,500	187,500
Retained profit for the year	11	**119,977**	**186,624**

STATEMENT OF RETAINED PROFIT

		1995 K.Shs. '000	1994 K.Shs. '000
At 1 January		591,241	743,154
Issue of bonus shares		-	(375,000)
Transfer from capital reserves		-	36,463
Retained profit for the year		119,977	186,624
At 31 December		711,218	591,241
Earnings per share (K.Shs.)	3	**6.60**	**6.49**

BALANCE SHEET

AS AT 31 DECEMBER

	Note	1995 K.Shs. '000	1994 K.Shs. '000
Fixed Assets	5	2,585,662	2,796,197
Current Assets			
Stocks	6	1,795,954	1,284,946
Debtors	7	1,065,274	1,055,050
Cash at bank and in hand		175,732	129,937
		3,036,960	2,469,933
Current Liabilities			
Creditors		1,070,909	1,067,491
Inter - company accounts	8	11,748	71,298
Bank borrowings		740,011	517,684
Taxation		26,731	34,143
Dividends - *(Gross)*		338,335	260,603
		2,187,734	1,951,219
Net Current Assets		849,226	518,714
Net Assets		3,434,888	3,314,911
Financed by :			
Share capital	9	750,000	750,000
Capital reserve	10	1,973,670	1,973,670
Retained profit	11	711,218	591,241
Funds Employed		**3,434,888**	**3,314,911**

The accounts on pages 10 to 17 were approved by the Board of Directors on 15 March 1996 and were signed on its behalf by:

I. Hussain Director

M. S. Hayes Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	1995 K.Shs. '000	1994 K.Shs. '000
Cash flows from operating activities		
Profit before taxation	824,325	819,142
Adjustments for:		
Depreciation	265,723	224,365
Gain on disposal of fixed assets	(26,391)	(27,303)
Interest income	(522)	(8,948)
Interest expense	90,248	49,015
Operating profit before working capital changes	1,153,383	1,056,271
Trade and other debtors	(10,224)	(262,326)
Stocks	(511,008)	16,741
Trade creditors and inter-company accounts	(56,132)	117,191
Cash generated from operations	576,019	927,877
Income taxes paid	(336,760)	(584,751)
Net cash from operating activities	239,259	343,126
Return on investments and servicing of finance		
Interest received	522	8,948
Interest paid	(90,248)	(49,015)
Dividends paid	(297,268)	(543,842)
Net cash from investments and servicing of finance	(386,994)	(583,909)
Cash flows from investing activities		
Purchase of fixed assets	(81,409)	(223,656)
Proceeds from sale of fixed assets	52,612	28,670
Net cash from investing activities	(28,797)	(194,986)
Net decrease in cash and cash equivalents	(176,532)	(435,769)
Cash and cash equivalents at beginning of year	(387,747)	48,022
Cash and cash equivalents at end of year	**(564,279)**	**(387,747)**

(a) **Basis of Preparation of the Accounts**

The accounts are prepared in accordance with the historical cost convention, which permits the inclusion of certain assets at valuation.

(b) **Turnover**

Turnover represents sales to external customers and includes excise duty and value added tax.

(c) **Depreciation**

Depreciation is not provided on freehold land or long leasehold land with unexpired terms of more than 40 years.

Depreciation on the remaining fixed assets is calculated to write off the cost or valuation to their estimated residual values over their expected useful lives by equal annual instalments at the following rates:-

Short leasehold land (Less than 40 years)	Over the unexpired period of the lease
Freehold buildings	2½ %
Leasehold buildings	2½-10% or over the period of the lease if less than 40 years
Plant, machinery vehicles and equipment	7% to 30% depending on the type of asset.

(d) **Stocks**

Stocks are stated at the lower of weighted average cost and estimated net realisable value. For tobacco products, cost includes materials, labour and factory overheads.

(e) **Current Taxation**

Current taxation is provided for on the basis of the results for the year as shown in the accounts, adjusted in accordance with tax legislation.

(f) **Deferred Taxation**

Deferred taxation is provided for using the liability method on differences which may arise from timing between the treatment of certain items for accounting and taxation purposes, except where the differences are not expected to reverse in the foreseeable future.

(g) **Foreign Currencies**

All assets and liabilities expressed in foreign currencies are converted into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year in foreign currencies are converted at the rates ruling at the date of transaction. The resulting differences from conversion are dealt with in the profit and loss account in the year in which they arise.

(h) **Unfunded Retirement Benefit Scheme**

Provision is made for the potential liability arising from an unfunded retirement benefit scheme. The adequacy of such provision is confirmed periodically by independent actuarial valuations.

NOTES TO THE PROFIT AND LOSS ACCOUNT

1. Profit before taxation

Profit before taxation is arrived at after taking into account the following.

	1995 K.Shs. '000	1994 K.Shs. '000
Depreciation	265,723	224,365
Directors' remuneration:		
Fees	296	190
Other emoluments	64,585	46,561
Auditors' remuneration	2,700	2,600
Interest on bank borrowings	90,248	49,015
Interest income	522	8,948

2. Taxation

	1995 K.Shs. '000	1994 K.Shs. '000
Current taxation at 35.0% (1994, 35.0%) on the taxable profit for the year	329,348	310,350
Drought levy at nil (1994, 2.5%) on the taxable profit for the year.	-	22,168
	329,348	332,518

Tax assessments have been agreed with the income tax department up to and including the year ended 31 December 1988. From 1992, tax returns have been submitted on a self assessment basis.

3. Earnings per share

Earnings per share for 1995 and 1994 are based on profits after taxation of K.Shs. 494,977,507 and K.Shs. 486,624,371 respectively, calculated on issued capital of 75,000,000 ordinary shares of K.Shs.10 each.

4. Technical and advisory fees

BAT Kenya Limited has access to the technical expertise of the parent company BAT Co. Limited in areas such as marketing, management training and development, production, leaf processing and consultancy services. The total technical and advisory fee paid to BAT Co. Limited in 1995 was K.Shs. 54,689,442 (1994, K.Shs 48,711,558).

5. Fixed assets

	Freehold land and buildings K.Shs. '000	Leasehold land and buildings K.Shs. '000	Plant, vehicles, machinery and equipment K.Shs. '000	Total K.Shs. '000
(a) Cost or valuation:				
At 1 January 1995	12,000	1,413,517	3,750,680	5,176,197
Additions	-	2,742	78,667	81,409
Disposals	-	(14,504)	(52,065)	(66,569)
At 31 December 1995	12,000	1,401,755	3,777,282	5,191,037
Depreciation:				
At 1 January 1995	-	23,351	2,356,649	2,380,000
Charge for the year	250	38,636	226,837	265,723
On disposals	-	-	(40,348)	(40,348)
At 31 December 1995	250	61,987	2,543,138	2,605,375
Net book amounts:				
At 31 December 1995	11,750	1,339,768	1,234,144	2,585,662
Historical cost	445	301,191	775,326	1,076,962
Revaluation element	11,305	1,038,577	458,818	1,508,700
Net book amounts:				
At 31 December 1994	12,000	1,390,166	1,394,031	2,796,197
Historical cost	455	321,396	851,034	1,172,885
Revaluation element	11,545	1,068,770	542,997	1,623,312

(b) With the exception of motor vehicles and equipment, the fixed assets are stated at a valuation carried out at 31 December 1994.

The assets were revalued on the following bases:

(i) open market value, as determined by professional valuers, for residential properties in major urban areas and all land,

(ii) net current replacement cost on existing use basis, as determined by professional valuers, for all other properties,

(iii) depreciated replacement cost, determined by the use of relevant cost indices, for plant and machinery.

NOTES TO THE BALANCE SHEET Continued

6. Stocks

	1995 K.Shs. '000	1994 K.Shs. '000
Raw materials	1,528,522	988,882
Finished goods and work in progress	110,381	149,527
Consumable stores	157,051	146,537
	1,795,954	1,284,946

7. Debtors

Included in debtors is a sum of K.Shs. 278.6 million (1994, K.Shs. 542.6 million) advanced to a related company, Imara Daima Housing Development Company Limited, to finance the development of residential housing for BAT Kenya Limited staff and the general public. The full amount is due for repayment in 1996.

8. Inter- company accounts

	1995 K.Shs. '000	1994 K.Shs. '000
Amounts due to:		
Holding company	7,427	46,641
Fellow subsidiaries	4,321	24,657
	11,748	71,298

The amounts due to the holding company and fellow subsidiaries represent outstanding obligations in respect of purchases of raw materials acquired on terms similar to those from unrelated parties.

9. Share capital

	1995 K.Shs. '000	1994 K.Shs. '000
Authorised, issued and fully paid		
75,000,000 Ordinary Shares of K.Shs. 10 each	750,000	750,000

10. Capital reserves

	1995 K.Shs. '000	1994 K.Shs. '000
At 1 January	1,973,670	1,291,140
Surplus arising on revaluation	-	750,662
Transfer to profit and loss account	-	(36,463)
Reversal of revaluation reserve on disposal of assets	-	(31,669)
At 31 December	1,973,670	1,973,670

Included in capital reserves is a share premium of K.Shs. 23,000.

11. Retained profit

	1995	1994
	K.Shs. '000	K.Shs. '000
At 1 January	591,241	743,154
Issue of bonus shares	-	(375,000)
Transfer from capital reserves	-	36,463
Retained profit for the year	119,977	186,624
At 31 December	711,218	591,241

12. Deferred taxation

In accordance with note (f) in the Accounting Policies, no provision for deferred taxation is required. The amount of the potential deferred tax liability not provided for in the accounts is as follows:

	K.Shs. '000
At 1 January 1995	172,051
Arising in the year	17,093
At 31 December 1995	189,144

13. Capital commitments

	1995	1994
	K.Shs. '000	K.Shs. '000
Amounts authorised by the Directors but not provided for in these accounts are:	402,113	63,743
of which contracts have been placed for:	64,857	57,892

FIVE YEAR SUMMARY

Figures in K.Shs. '000

	1995	1994	1993	1992	1991
Operating results					
Turnover	8,808,568	8,340,159	7,225,756	5,052,628	4,195,282
Excise Duty/V.A.T	5,080,114	4,813,230	4,132,803	3,076,854	2,608,346
Net turnover	3,728,454	3,526,929	3,092,953	1,975,774	1,586,936
Profit before interest and taxation	914,051	859,209	1,374,091	710,674	505,702
Net interest (expense)/income	(89,726)	(40,067)	17,914	44,029	30,812
Profit before taxation	824,325	819,142	1,392,005	754,703	536,514
Taxation	329,348	332,518	494,929	308,000	192,899
Profit after taxation	494,977	486,624	897,076	446,703	343,615
Contribution to Government Revenue	5,502,249	5,242,079	4,770,456	3,427,276	2,903,178
Shares					
Shares in issue ('000)	75,000	75,000	37,500	37,500	37,500
Number of shareholders	5,012	4,606	4,350	4,373	4,408
Dividends - K.Shs. '000	375,000	300,000	543,750	354,375	294,375
Dividends per share (K.Shs.)-Note (i)	5.00	4.00	7.25	4.73	3.93
Dividend cover - times	1.32	1.62	1.65	1.26	1.17
Earnings per share (K.Shs.)-Note (i)	6.60	6.49	11.96	5.95	4.58
Net assets per share (K.Shs.)-Note (i)	45.80	44.20	32.12	27.34	17.01
Ratios					
Profit before net interest and tax to turnover	24.5%	24.4%	44.4%	36.0%	31.9%
Dividend payout ratio (%)	76%	62%	61%	79%	86%
Foreign Exchange					
Earned on exports					
U.S. $ '000	16,671	14,549	13,993	12,603	7,495
K.Shs. '000	797,309	735,013	701,985	393,291	196,483
Spent on raw material imports					
U.S. $ '000	12,706	10,897	8,897	4,337	7,185
K.Shs. '000	616,179	612,150	612,662	138,560	200,619

Note:

(i) Dividends, earnings and net assets per share are calculated on 75,000,000 shares for all years.

FORM OF PROXY

To: ....

The Secretary

BAT Kenya Limited

P.O. Box 30000

Nairobi

I/We ....

....

of P.O. Box

member/members of BAT Kenya Limited appoint

....

....

or failing him, the Chairman of the Meeting as my/our proxy, to vote for me/ us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, 25 April 1996 in the Ball Room, The Serena Hotel, Kenyatta Avenue/ Nyerere Road, Nairobi or at any adjournment thereof.

As witness my/our hand/s this ....

day of 1996

....

(Signature)

NOTES:

1. If a member is unable to attend this meeting personally this Form of Proxy should be completed and returned to reach the Company's Registered Office not later than 3.00 p.m. on Wednesday 24 April 1996.
2. A person appointed to act as a proxy need not be a member of the Company.
3. If the appointer is a corporation, this Form of Proxy must be under its common Seal or under the hand of the officer or attorney duly authorised in that behalf.

FOLD 2
KISHA KUNJA HAPA

AFFIX
STAMP

FOLD 1
KUNJA HAPA KWANZA

COMPANY SECRETARY
BAT KENYA LIMITED
P.O. BOX 30000
NAIROBI

FOLD 3
HALAFU KUNJA HAPA

INSERT FLAP INSIDE
SASA INGIZA, SEHEMU HII YA KARATASI YA MKUNJO NDANI ILI IONEKANE KAMA BAHASHA