BAT KENYA LIMITED

ANNUAL REPORT AND ACCOUNTS 1997

Contents

FINANCIAL CALENDAR

Annual General Meeting	held April 1998
Reports and Dividends:	
Results for the year to 31 December 1998	announced February 1999
Report and Accounts to 31 December 1998	issued March 1999
Proposed final for the year to 31 December 1997	payable April 1998
Proposed final for the year to 31 December 1998	payable April 1999

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

Highlights 1997

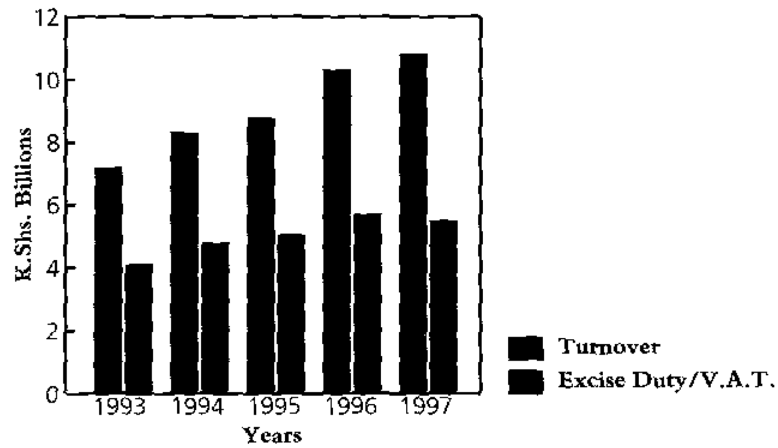
FINANCIAL

- Turnover grew by 4.6% to K.Shs. 10.8 billion.
- Profit before tax down by 6.7% to K.Shs. 938 million.
- *Profit before interest and tax* down by 3.7% to K.Shs. 1.16 billion.
- Earnings per share increased to K.Shs. 8.45 per share compared to K.Shs. 8.42 per share in 1996.
- Dividends maintained at K.Shs. 6 per share.
- Profit after tax up by 0.5% to K.Shs. 634 million.

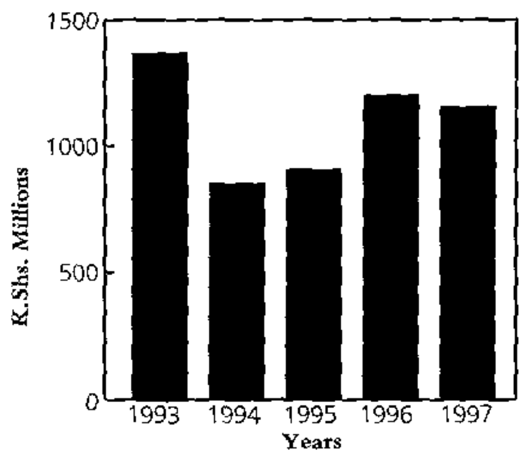
OPERATIONS

- Cigarette export volumes grew *strongly* by 35%.
- Cigarette productivity increased by 6% in the year.
- Record leaf exports turnover of US$ 15.4 million.
- *Investment in cigarette making*, packing and other machinery of over K.Shs. 300 million.

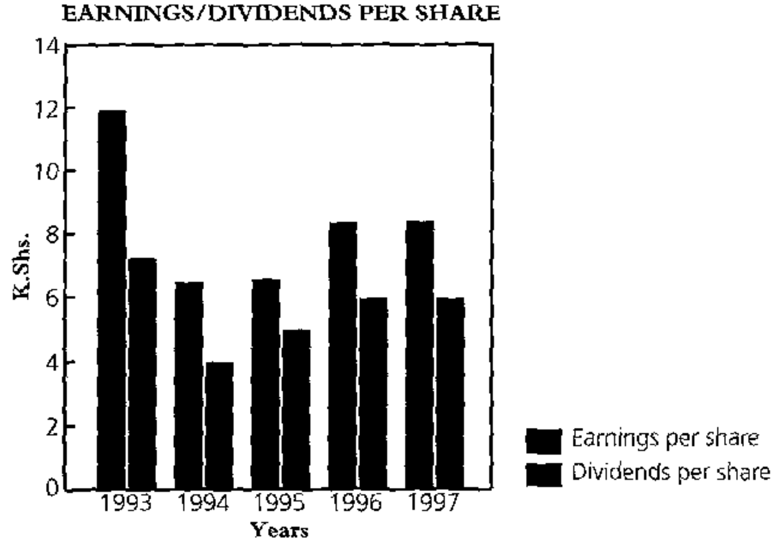
TURNOVER



PROFIT BEFORE INTEREST & TAX



EARNINGS/DIVIDENDS PER SHARE



Mr. E. Mwaniki*
Chairman

Mr. J.D. Pike
Managing Director

Other Directors
Mr. I. Hussain*
Mr. M.S. Hayes
Mr. M.O. Owiti
Mr. D.N. Berry*
Mr. M.M. Wanyoike
Mrs. B.A. Buyu
Mr. J.B. Wanjui*

**Non-executive Directors*

Audit Committee
E. Mwaniki
J.D. Pike
I. Hussain
M.S. Hayes
M.O. Owiti
J.W. Mwangi
D.K. Mwambire
F. Koku

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

Commercial Bank of Africa Limited
Wabera/Standard Street
P.O. Box 30437, Nairobi

Board of **Directors**

E. Mwaniki
Chairman

J. D. Pike
Managing Director

B. A. Buyu
Brand Marketing Director

M. S. Hayes
Finance Director

M. O. Owiti
Production Director

M. M. Wanyoike
Human Resources Director

J.B. Wanjui
Non-Executive Director

I. Hussain
Non-Executive Director

D. N. Berry
Non-Executive Director

Chairman's Review

During the year under review, Kenya was faced with natural catastrophes such as drought in the earlier part of the year followed by excessive rains and floods that accelerated the deterioration of the physical infrastructure - roads in particular. These phenomena together with political factors such as "riots" and "ethnic clashes" ahead of the general elections seriously depressed the level of activity in key sectors of the economy - Agriculture, Tourism, Manufacturing and General Trade - thereby reversing the rate of economic growth.

As the Enhanced Structural Adjustment Facility (ESAF) negotiations with the International Monetary Fund (IMF) lapsed, the Kenya Shilling depreciated against the major currencies from July. Lending rates remained high (around 30%) while the average annual rate of inflation rose to around 11%.

In addition to the impact of these factors, our Company continued to face unfair competition from unprincipled traders who evade taxes and from cigarette imports from Tanzania into Kenya at PTA duty rates while our exports to Tanzania were frustrated by the much higher protective import duties prevailing in that country.

Overall results

Gross turnover increased by 4.6% reflecting higher exports of tobacco and cigarettes. Continuing high interest rates impacted negatively on profitability and Profit before taxation decreased by 6.7% compared with 1996, despite a number of initiatives to control costs.

The Company continues to be a major contributor to Government revenue, and the amount paid in terms of Excise Duty, VAT and Company Tax amounted to almost K.Shs. 6 billion. Additionally, BAT Kenya Limited contributed a total of US$ 29.2 million to Kenya's foreign exchange earnings from cigarettes and leaf tobacco exports.

Domestic and Export Cigarette Markets

1997 was a very difficult year as a result of the effects of drought on the economy, floods that affected distribution activities, riots that caused the closure of retail outlets, a sharp decline in tourism trade, ethnic clashes and general insecurity in the country.

All these factors contributed negatively to BAT Kenya's overall volume growth and domestic sales volumes in 1997. In contrast, export volumes grew strongly by 35% compared to 1996 as the Company entered into contract manufacture.

During the year, our premium brands 555, Embassy and Sportsman stood their ground against both old and new competing brands. This reflects a favourable consumer response to the high investment we have made behind our brands.

Despite the entry of 3 international competitors in 1997, their combined market share has been held at below 1%.

Our innovative and extensive kiosk project has not only created employment for Kenyans but has also given our brands superior visibility and availability.

With the re-launch of Embassy at the end of 1996, the launch of Benson and Hedges in September 1997 and the ever improving and popular Sportsman, we have lined up a strong portfolio of brands that can live up to any market challenge in the future.

Tobacco Growing, Afforestation and Leaf Exports

Tobacco production in 1997 was seriously affected by the severe drought in Eastern Kenya. The Company's afforestation programme also suffered with low tree survival percentages being recorded.

During the year under review, the Company's 17,500 contracted farmers produced 10,600 tons compared to 16,000 tons in 1996. In monetary terms, farmers earned K.Shs. 672 million.

Leaf exports continued to play an important role in our operations and relationships with our customers further strengthened over the period. The Company sold a record total of 7,001 tons worth US$ 15.4 million (K.Shs. 906 million).

Tobacco Processing and Manufacture

Tobacco processing quality improved at the Thika Leaf Processing Plant through continued investment in new machinery. Storage capacity was enhanced through construction of extra stores. We also increased our excise stock room storage capacity at the Nairobi factory in order to improve our services to distributors.

In total, the Company invested well over K.Shs. 300 million in new cigarette making, packing and other machinery during the year.

The new machinery and improved utilisation of human resources helped increase cigarette productivity by 6% compared to the previous year. The quality of our products also improved significantly. We achieved class "C" rating in *Manufacturing Resource Planning (MRP II)* based on the renowned *Oliver Wight* checklist.

Along with the enhanced quality and productivity levels, we continued to maintain a very good record in the Environment, Health and Safety area.

Human Resources

In the face of an evolving corporate culture and changing business environment, the Company conducted an Employee Opinion Survey. Employees emphasized our commitment to customer and quality focus and highlighted areas for greater employee focus through improved internal communications and working relationships. To this end, monthly team-briefing sessions were conducted Company-wide and the first-ever Human Resources forum was held to enhance cross-level communications. Quality Improvement Teams were also established to drive progress in various employee-related issues.

In addition to the Company's normal staff development programme whose objective is to ensure that all managers in key functions are first-class, a cross-functional training initiative was introduced during the year. This has given employees a wider appreciation of the total business, and has thus enabled them to be more fully prepared to work as a team in meeting the business challenges of the future.

Consumer and Regulatory Affairs

The role of the Consumer and Regulatory Affairs Department (CORA) in our business, is to deal with the Company's position on environmental and smoking issues, marketing and consumer freedoms, excise, political and government relations and corporate communication.

As a responsible corporate citizen, we continued to make donations to various deserving community initiatives. The Company also actively participated in several Agricultural Society of Kenya (ASK) organized shows around the country.

In August and September 1997, we conducted a corporate identity and image survey to determine the public's perception of our Company. The survey elicited a very strong and positive image of BAT Kenya amongst all key audiences covered in the study. In line with practice in British American Tobacco companies world-wide, we shall be proposing for shareholders' approval at the forthcoming Annual General Meeting a change of the corporate identity and name to British American Tobacco Kenya Limited.

Dividends

Last November, an interim dividend of K.Shs. 2.00 per share was paid. Your Board is recommending a final dividend of K.Shs. 4.00 per share for approval at the forthcoming Annual General Meeting. If approved, this will bring the total dividend distribution to K.Shs. 6.00 per share.

I will comment on the prospects of 1998 in my speech at the Annual General meeting to be held in April this year.

In conclusion, I would like to express the Board's appreciation to all our shareholders, staff, farmers, distributors, customers and other business associates for their continued support which has made our task of managing the Company much easier.

Evanson Mwaniki

Mwaka tunaozungumzia, Kenya ilikumbwa na madhara ya mazingara kama vile ukame mapema mwakani na kufuatiwa na mvua kubwa na mafuriko yaliyosababisha uharibifu wa mawasiliano hasa barabara. Shida hii pamoja na hali ya kisiasa na vita vya kikabila kabla ya uchaguzi mkuu ziliathiri mno uchumi hasa ukulima, utalii, utengenezaji bidhaa na biashara kwa jumla, hali hii iliathiri maendeleo ya uchumi.

Wakati mazungumzo na IMF yalipokwenda mrama, shilingi ya Kenya ikapungua thamani yake dhidi ya Dollar ya Marekani mwezi Julai na pia kule kuzuka kwa vita vya kikabila kule Pwani, hali hiyo ikaleta shida nyingi katika mazingira ya kibiashara. Vile vile, kwa sekta ya fedha, riba inayotozwa fedha zinazokopwa iliendelea kua juu (kama asilimia 30) na kusababisha mfumuko wa bei kufikia kiwango cha asilimia 11. Pamoja na matatizo hayo, Kampuni yetu iliendelea kukumbwa na ushindani usio halali huku wafanya biashara wakiagiza sigara kutoka nchi ya Tanzania na kuepuka malipo ya ushuru wa forodhani wakati mauzo ya sigara zetu huko Tanzania yaliathiriwa na viwango vya juu vya kodi chini ya mpango wa biashara nafuu ya PTA.

Matokeo kwa Jumla

Kipato cha jumla kiliongezeka kwa asilimia 4.6 na kuonyesha kiasi kikubwa cha tumbaku na sigara kilichouzwa nchi za nje. Kule kuendelea kwa kuongezeka kwa viwango vya juu vya faida kuliathiri faida na ile faida iliyopatikana kabla ya kuondoa fungu la kodi ilipungua kwa asilimia 6.7 ikilinganishwa na mwaka 1996, ingawaje jitihada nyingi zilifanywa kudhibiti gharama.

Kampuni inaendelea kuwa chazo kubwa cha mchango wa fedha za serikali, na fedha zilizolipwa kutokana na kodi za forodhani, VAT na kodi za makampuni zilikuwa takriban shilingi bilioni 6. Isitoshe, BAT Kenya Limited ilijipatia milioni 29.2 za Dollar za Marekani kwa mapato ya fedha za kigeni kutokana na mauzo ya sigara na tumbaku huko ngambo.

Mauzo ya Sigara humu Nchini na pia Nchi za Nje

Mwaka 1997 ulikumbwa na shida nyingi za ukame na matatizo ya kiuchumi, mafuriko yaliyotatiza harakati za usambazaji, ghasia za kisiasa zilizosababisha kufungwa kwa masoko ya rejareja, kuchakaa kwa biashara za utalii, vita vya kikabila na kuchakaa kwa hali za usalama kwa jumla nchini.

Mambo hayo yote yaliathiri kwa jumla usitawi wa mauzo ya humu nchini ya BAT Kenya mwaka 1997. Kwa upande mwingine, mauzo ya nje iliongezeka sana kwa asilimia 35 ikilinganishwa na mwaka 1996 huku kampuni ikiingia kwa mkataba wa kutengeneza bidhaa kwa niaba ya wengine.

Mwakani, chapa zetu za hali ya juu, yaani 555, Embassy na Sportsman zilipambana vikali na zile chapa za zamani na za kisasa. Hii inadhihirisha kuitikiwa na wateja kwa chapa zetu ambazo zimetiliwa raslimali kubwa.

Ingawa washindani watatu wa kitaifa walijibwaga uwanjani mwaka 1997, jaribio lao masokoni humu likasakama chini ya asilimia moja.

Mradi wetu murua wa vioski haukufaulu tu kuwapatia wakenya riziki, bali likasambazwa vyema na kuonyesha kwa hali ya juu bidhaa zetu wazi.

Tulipoanzisha upya Embassy mwishoni mwa mwaka 1996 na kuanzisha tena chapa Benson & Hedges hapo Septemba 1997 na pia kuimarisha Sportsman, tumehakikisha ya kwamba tumetoa chapa maalum zitakazovutia wateja wetu siku za usoni.

Ukuzaji na Uuzaji wa Tumbaku Nje na Misitu

Ukuzaji wa tumbaku mwaka 1997 uliathiriwa sana na hali mbaya ya ukame huko mashariki Kenya. Mradi wa kampuni wa upanzi wa miti pia ukakumbwa na hali hiyo na kuifanya idadi ndogo tu ya miche kustawika.

Katika mwaka huu tunaochambua, wakulima 17,500 wanaodhaminiwa na kampuni walipata tani 10,600 ikilinganishwa na tani 16,000 mwaka 1996. Kifedha, wakulima hawa walijipatia shilingi milioni 672.

Uuzaji wa tumbaku nchi za nje uliendelea kuwa kitu muhimu katika harakati zetu na uhusiano mwema kati yetu na wateja na kuwa thabiti zaidi katika muda huo. Kampuni ilivunja rekodi kwa kuuza jumla ya tani

7,001 zenye thamani ya milioni 15.4 za Dollar za Marekani (ikiwa ni Shilingi milioni 906).

Uchambuzi wa Tumbaku na Utengenezaji

Ubora wa tumbaku iliyochambuzwa uliimarika kwenye kiwanda cha kuchambua tumbaku huko Thika kwa kununuliwa mashine mpya. Mabohari yalipanuliwa kwa kujenga mabohari zaidi. Tuliongeza pia mabohari yetu kwenye kiwanda cha Nairobi ili kuimarisha huduma zetu kwa wasambazaji wetu.

Kwa jumla kampuni ilitumia zaidi ya shilingi milioni 300 kununua mashine mpya za kutengeneza sigara na kuzitia katika paketi na mashine nyinginezo mwakani.

Mashine hizo mpya pamoja na utumizi bora wa wafanyakazi zilisaidia kuongeza uzalishaji wa sigara kwa asilimia 6 ikilinganishwa na kiwango cha mwaka uliopita. Ubora wa bidhaa zetu ukaimarika zaidi pia. Tulipokea shahada "C" kwa sifa za kupanga na kutengeneza bidhaa zetu, yaani *Manufacturing Resource Planning (MRP II)* inayosifiwa na orodha ya *Oliver Wight*.

Pamoja na kule kuimarisha ubora wa bidhaa na wingi wake, tumeendelea kuweka rekodi nzuri sana kwa mazingira, afya bora na usalama kazini.

Idara ya Wafanyakazi

Tukikabiliwa na utamaduni unaobadilika na pia mazingira ya biashara, kampuni ilifanya uchunguzi dhidi ya maoni ya wafanyakazi. Wafanyakazi walitia mkazo juhudi zetu za kuhudumia wateja na ubora wa bidhaa na wakataka mambo yanayotakikana yatiliwe nguvu zaidi kwa mintarafu ya wafanyakazi kwa kuwepo na uasiliano bora zaidi. Kwa ajili ya hayo mikutano ya kila mwezi ilifanywa na kampuni na kwa mara ya kwanza mkutano maalum ukafanywa ili kuimarisha uhusiano na uasiliano kazini. Vikundi vya kuimarisha ubora vilibuniwa ili kuleta maendeleo katika kila sekta ya wafanyakazi.

Licha ya mradi wa kawaida wa kuimarisha ujuzi wa wafanyakazi ambao kusudi lake ni kuhakikisha kwamba mameneja wote wanaoshughulika na sekta muhimu zaidi ni wa hali ya juu, mafunzo yalianzishwa mwakani. Mradi huu umewafanya wafanyakazi waelewe zaidi biashara kamili, na hivyo imewawezesha kuwa tayari kufanya kazi kama kundi ili kupambana na matatizo ya kikazi siku za usoni.

Sura ya Kampuni

Nia yetu kuhusu uhusiano wa wateja, yaani (CORA), kwa upande wa biashara yetu ni kushughulikia mazingira, uvutaji sigara, uhuru wa uuzaji na wateja, ushuru unaotozwa sigara, uhusiano wa kisiasa na wa kiserekali na uhusiano wa kikampuni.

Tukiwa raia wema, tuliendelea kutoa michango kwa jitihada mbali mbali za kijamii. Kampuni pia ilishiriki sana katika maonyesho mbali mbali ya kilimo (ASK) yaliyoandaliwa kote nchini.

Mwezi Agosti na mwezi Septemba 1997 tulifanya uchunguzi dhidi ya sifa ya kampuni ili watu waijue vyema kampuni yetu. Uchunguzi huu ulithibitisha sifa kubwa kwa BAT Kenya kuliko makampuni mengine yaliyotajwa katika uchunguzi huu. Sawa na mtindo wa makampuni ya British American Tobacco kote ulimwenguni,tutapeleka pendekezo kwa Wenyehisa kwenye Mkutano Mkuu wa Mwaka kwamba sura ya kampuni na jina jipya liwe "British American Tobacco Kenya Limited".

Migawo

Mgawo wa muda wa shilingi 2/= kwa kila hisa ulilipwa Novemba mwaka uliopita. Halmashauri yenu inapendekeza mgawo wa mwisho wa shilingi 4/= kwa kila hisa upewe kibali kwenye Mkutano ujao Mkuu wa Mwaka. Pendekezo hili likikubaliwa, litafanya jumla ya migawo iliyogawanywa kuwa shilingi 6/= kwa kila hisa.

Nitazungumza matumainio ya mwaka 1998 katika hotuba yangu kwenye Mkutano Mkuu wa Mwaka ambao utafanywa Aprili mwaka huu.

Mwisho, ningependa kutoa shukrani zangu kwa wenyehisa, wafanyakazi wetu wote, wakulima, wasambazaji, wateja na wote tulioshirikiana nao kibiashara kwa kuendelea kutuunga mkono jambo ambalo limefanya kazi yetu ya kuiongoza kampuni hii kuwa rahisi zaidi.

Evanson Mwaniki

Report of **Directors**

The Directors have pleasure in submitting their Report and the Audited Accounts for the year ended 31 December 1997.

	K.Shs. '000	K.Shs. '000
Profit and Appropriations		
Profit after taxation available for appropriation		634,049
Appropriated as follows:		
Dividends:		
Interim dividend of K.Shs. 2.00 per share	150,000	
Proposed Final dividend of K.Shs. 4.00 per share	300,000	450,000
Retained Profit		184,049

Board of Directors

No changes have taken place in the Board of Directors since the last Annual General Meeting.

In accordance with Article 89 of the Articles of Association Messrs. M.O. Owiti, J.D. Pike and M.M. Wanyoike retire from the Board by rotation 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.

9 March, 1998 | *By order of the Board*
Likoni Road | J.N. Kiragu
P.O. Box 30000, Nairobi | *Secretary*

Ripoti ya **Wakurugenzi**

Wakurugenzi wanafurahia kutoa Ripoti yao na Hesabu za fedha zilizokaguliwa kwa mwaka uliomalizika Desemba 31 1997.

	K.Shs. '000	K.Shs. '000
Faida iliyopatikana na ilivyogawanywa		
Faida iliyopatikana katika mwaka huo baada ya kodi ilikuwa		634,049
Iligawanywa ifuatavyo:		
Migawo ya faida kwa wenyehisa:		
Mgawo wa muda wa K.Shs. 2.00 kwa kila hisa	150,000	
Mgawo wa mwisho unaopendekezwa wa K.Shs. 4.00	300,000	450,000
Faida iliyowekwa Akiba		184,049

Halmashauri ya Wakurugenzi

Hakuna mabadiliko yaliyotokea katika Halmashauri ya wakurugenzi.

Kwa mujibu wa Kifungu cha 89 cha Katiba ya Kampuni Mabw. M.O. Owiti, J.D. Pike na M.M. Wanyoike watastaafu kwa zamu 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.

Machi 9, 1998 | *Kwa Amri ya Halmashauri*
Likoni Road | J.N. Kiragu
P.O. Box 30000, Nairobi | *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 1997 and of its profit and cash flows for the year then ended and comply with Kenyan Accounting Standards and the Companies Act.

Price Waterhouse
Certified Public Accountants
Nairobi **9 March 1998**

Profit and Loss Account
Including the Statement of Retained Profit

For the year ended 31 December

	Note	1997 K.Shs. '000	1996 K.Shs. '000
Turnover		10,842,600	10,364,064
Excise Duty/V.A.T.		5,532,094	5,742,478
Net turnover		5,310,506	4,621,586
Profit before taxation	1	937,995	1,005,345
Taxation	2	303,946	374,164
Profit after taxation		634,049	631,181
Dividends		**450,000**	**450,000**
Interim of K.Shs. 2.00 per share		150,000	150,000
Proposed final of K.Shs. 4.00 per share		300,000	300,000
Retained profit for the year		**184,049**	**181,181**
Statement of retained profit			
At 1 January		892,399	711,218
Retained profit for the year		184,049	181,181
At 31 December		1,076,448	892,399
Earnings per share (K.Shs.)	3	**8.45**	**8.42**

Balance Sheet

As at 31 December

	Note	1997 K.Shs. '000	1996 K.Shs. '000
Fixed Assets	5	2,797,827	2,573,762
Current Assets			
Stocks	6	1,941,674	2,154,495
Debtors	7	1,185,175	1,513,865
Taxation		43,959	-
Cash at bank and in hand		158,695	89,287
		3,329,503	3,757,647
Current Liabilities			
Creditors		1,360,180	1,131,788
Inter-company accounts	8	41,804	73,086
Borrowings	9	627,758	1,140,580
Taxation		-	69,582
Dividends - *(Gross)*		306,165	300,304
		2,335,907	2,715,340
Net Current Assets		993,596	1,042,307
Net Assets		3,791,423	3,616,069
Financed by:			
Share capital	10	750,000	750,000
Capital reserves	11	1,964,975	1,973,670
Retained profit		1,076,448	892,399
Funds Employed		3,791,423	3,616,069

The accounts on pages 10 to 17 were approved by the Board of Directors on 9 March 1998 and were signed on its behalf by:

J.D. Pike Director

M.S. Hayes Director

Cash Flow Statement

For the year ended 31 December

	Note	1997 K.Shs. '000	1996 K.Shs. '000
Cash flows from operating activities			
Profit before taxation		937,995	1,005,345
Adjustments for:			
Depreciation		205,261	241,349
Gain on disposal of fixed assets		(22,058)	(38,610)
Interest income		(690)	(408)
Interest expense		225,090	202,738
Operating profit before working capital changes		1,345,598	1,410,414
Decrease/(increase) in debtors		328,690	(448,592)
Decrease/(increase) in stocks		212,821	(358,540)
Increase in creditors and inter-company accounts		197,110	122,217
Cash generated from operations		2,084,219	725,499
Income taxes paid		(417,487)	(331,313)
Net cash inflow from operating activities		1,666,732	394,186
Return on investments and servicing of finance			
Interest received		690	408
Interest paid		(225,090)	(202,738)
Dividends paid		(444,139)	(488,031)
Net cash outflow from investments and servicing of finance		(668,539)	(690,361)
Cash flows from investing activities			
Purchase of fixed assets		(452,365)	(251,888)
Proceeds from sale of fixed assets		36,402	61,049
Net cash outflow from investing activities		(415,963)	(190,839)
Net increase/(decrease) in cash and cash equivalents		582,230	(487,014)
Cash and cash equivalents at beginning of year		(1,051,293)	(564,279)
Cash and cash equivalents at end of year	13	**(469,063)**	**(1,051,293)**

Accounting Policies

(a) Basis of preparation of the accounts

The accounts are prepared in accordance with the historical cost convention, as modified by the revaluation of certain assets.

(b) Turnover

Turnover represents sales to external customers and includes excise duty and value added tax. Sales are recognised on despatch of goods, except for export leaf sales under contract which are recognised in the crop year.

(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	$2^1/_2$%
Leasehold buildings	$2^1/_2$%-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 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.

1. Profit before taxation

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

	1997 K.Shs. '000	1996 K.Shs. '000
Depreciation	205,261	241,349
Directors' remuneration:		
Fees	154	154
Other emoluments	73,107	65,852
Auditors' remuneration	3,100	3,000
Interest on borrowings	225,090	202,738
Interest income	690	408

2. Taxation

Current taxation at 35.0% (1996, 35.0%) on the taxable profit for the year.	303,946	374,164

Tax assessments have been agreed with the income tax department up to and including the year ended 31 December 1991. From 1992, tax returns have been submitted on a self assessment basis.

3. Earnings per share

Earnings per share for 1997 and 1996 are based on profits after taxation of K.Shs. 634,048,590 and K.Shs. 631,180,774 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 British-American Tobacco (Holdings) Limited in areas such as marketing, management training and development, production, leaf processing and consultancy services. The total technical and advisory fee paid to British-American Tobacco (Holdings) Limited in 1997 was K.Shs. 86,692,849. (1996, K.Shs. 67,102,560).

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:**				
	As at 1 January 1997	12,000	1,415,033	3,917,165	5,344,198
	Additions	-	31,305	421,060	452,365
	Disposals	-	(8,888)	(43,703)	(52,591)
	At 31 December 1997	12,000	1,437,450	4,294,522	5,743,972
	Depreciation:				
	At 1 January 1997	*500*	*100,771*	*2,669,165*	*2,770,436*
	Charge for the year	*250*	*38,044*	*166,967*	*205,261*
	On disposals	-	*(83)*	*(29,469)*	*(29,552)*
	At 31 December 1997	*750*	*138,732*	*2,806,663*	*2,946,145*
	Net book amounts:				
	At 31 December 1997	11,250	1,298,718	1,487,859	2,797,827
	Historical cost	425	327,508	1,161,789	1,489,722
	Revaluation element	10,825	971,210	326,070	1,308,105
	Net book amounts:				
	At 31 December 1996	11,500	1,314,262	1,248,000	2,573,762
	Historical cost	435	305,878	867,381	1,173,694
	Revaluation element	11,065	1,008,384	380,619	1,400,068

(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 valued 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.

6. **Stocks**

	1997 K.Shs. '000	1996 K.Shs. '000
Raw materials	1,477,303	1,794,049
Finished goods and work in progress	187,044	205,538
Consumable stores	277,327	154,908
	1,941,674	2,154,495

7. **Debtors**

Included in debtors is a sum of K.Shs. 3.5 million (1996, K.Shs. 25.1 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.

8. **Inter-company accounts**

	1997 K.Shs. '000	1996 K.Shs. '000
Amounts due to/(from):		
Holding company	48,758	86,722
Fellow subsidiaries	(6,954)	(13,636)
	41,804	73,086

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

9. **Borrowings**

	1997 K.Shs. '000	1996 K.Shs. '000
Commercial paper	184,727	380,101
Bank borrowings	443,031	760,479
	627,758	1,140,580

Commercial paper is short term finance issued at a discount. The discount is recognised over the period of the issue. The amount shown above is the discounted value and accrued interest at 31 December 1997. The face value of the Commercial paper at 31 December 1997 was K.Shs. 186.0 million (1996, K.Shs. 384.0 million).

10. **Share capital**

	1997 K.Shs. '000	1996 K.Shs. '000
Authorised, issued and fully paid		
75,000,000 Ordinary Shares of K.Shs. 10 each	750,000	750,000

11. Capital reserves

	1997 K.Shs. '000	1996 K.Shs. '000
At 1 January	1,973,670	1,973,670
Reversal of revaluation reserves on disposal of assets	(8,695)	-
	1,964,975	1,973,670

Included in capital reserves is a share premium of K.Shs. 23,000. The rest of the reserves balance represents surpluses arising on revaluation of assets.

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 1997	205,489
Arising in the year	7,031
At 31 December 1997	212,520

13. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	1997 K.Shs. '000	1996 K.Shs. '000
Cash at bank and in hand	158,695	89,287
Commercial paper	(184,727)	(380,101)
Bank borrowings	(443,031)	(760,479)
	(469,063)	(1,051,293)

14. Capital commitments

Amounts authorised by the Directors but not provided for in these accounts are:	19,788	175,437
of which contracts have been placed for:	18,000	158,025

15. *Holding company*

BAT Kenya Limited's ultimate holding company is British-American Tobacco (Holdings) Limited which is incorporated in the United Kingdom.

Five Year Summary

Figures in K.Shs. '000

	1997	1996	1995	1994	1993
Operating results					
Turnover	10,842,600	10,364,064	8,808,568	8,340,159	7,225,756
Excise Duty/V.A.T.	5,532,094	5,742,478	5,080,114	4,813,230	4,132,803
Net turnover	5,310,506	4,621,586	3,728,454	3,526,929	3,092,953
Profit before interest and taxation	1,162,395	1,207,675	914,051	859,209	1,374,091
Net interest (expense)/income	(224,400)	(202,330)	(89,726)	(40,067)	17,914
Profit before taxation	937,995	1,005,345	824,325	819,142	1,392,005
Taxation	303,946	374,164	329,348	332,518	494,929
Profit after taxation	634,049	631,181	494,977	486,624	897,076
Contribution to Government Revenue	5,892,960	6,180,021	5,502,249	5,242,079	4,770,456
Shares					
Shares in issue ('000)	75,000	75,000	75,000	75,000	37,500
Number of shareholders	5,823	5,025	5,012	4,606	4,350
Dividends - K.Shs. '000	450,000	450,000	375,000	300,000	543,750
Dividends per share (K.Shs.) - Note (i)	6.00	6.00	5.00	4.00	7.25
Dividend cover - times	1.41	1.40	1.32	1.62	1.65
Earnings per share (K.Shs.) - Note (i)	8.45	8.42	6.60	6.49	11.96
Net assets per share (K.Shs.) - Note (i)	50.55	48.21	45.80	44.20	32.12
Ratios					
Profit before net interest and tax to net turnover	21.9%	26.1%	24.5%	24.4.%	44.4%
Dividend payout ratio (%)	71%	71%	76%	62%	61%
Foreign Exchange					
Earned on exports					
U.S.$ '000	29,244	22,703	16,671	14,549	13,993
K.Shs. '000	1,713,110	1,252,808	797,309	735,013	701,985
Spent on raw material imports					
U.S.$ '000	16,773	11,240	12,706	10,897	8,897
K.Shs. '000	993,481	650,829	616,179	612,150	612,662

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, 16 April 1998 at the Hotel Inter-Continental, Nairobi or at any adjournment thereof.

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

day of 1998

....
(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, 15 April 1998.

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 on its 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