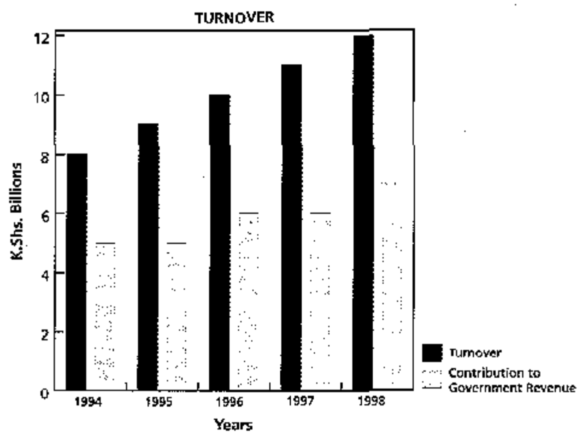
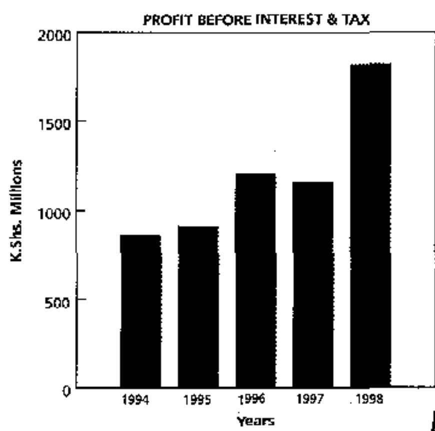
Highlights 1998

- Turnover grew by 8.2% to K.Shs. 11.7 billion.



- Contributions to Government Revenue increased significantly by K.Shs. 0.8 billion to a record K.Shs. 6.6 billion.

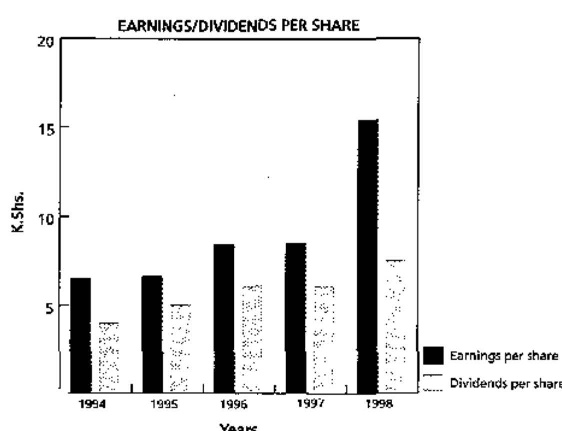
- Profit before interest and tax up to K.Shs. 1.82 billion.



- Earnings per share increased to K.Shs. 15.43 per share compared to K.Shs. 8.45 per share in 1997.

- Dividends increased by 25% to K.Shs. 7.50 per share.

- Increased investment behind drive brands resulting in strong growth in Sportsman and Embassy.



- Significant capital investment programme.

Mr. E. Mwaniki*
Chairman

Mr. J.D. Pike
Managing Director

Other Directors
Mr. E. Watt*
Mr. T.D. McConnell
Mr. M.O. Owiti
Mr. M.M. Wanyoike
Mr. J.B. Wanjui*
Mr. S. Jurgens*
Mr. J. Rowland-Rees* (alternate to Mr. E. Watt)

**Non-executive Directors*

Audit Committee
Mr. E. Mwaniki
Mr. E. Watt
Mr. J.D. Pike
Mr. T.D. McConnell
Mr. M.O. Owiti
Mr. F. Koku
Mr. M. Stevens
Mr. R. Hall

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

Transfer Agents
Barclays Advisory & Registrar Services Limited
Barclays Plaza, Loita Street
P.O. Box 30120, Nairobi

Auditors
PricewaterhouseCoopers
P.O. Box 43963, Nairobi

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

Bankers
Barclays Bank of Kenya Limited

Standard Chartered Bank Kenya Limited

Citibank N.A.

Commercial Bank of Africa Limited

Kenya Commercial Bank Limited

ABN-Amro Bank

Stanbic Bank Kenya Limited

Board of **Directors**

E. Mwaniki
Chairman

J. D. Pike
Managing Director

M. O. Owiti
Production Director

T.D. McConnell
Finance Director

M. M. Wanyoike
Human Resources Director

S. Jurgens
Non-Executive Director

J.B. Wanjui
Non-Executive Director

E. Watt
Non-Executive Director

Chairman's Review

The year under review was a difficult one as Kenya continued to face a number of factors that led to a slow down in economic growth. These included, the degradation of the transport infrastructure, declining living standards, high cost of borrowing in the earlier part of the year, low investment and the crisis in the financial sector.

Our Company continues to face unprincipled competition from tax evaders which impacts negatively on business growth in our industry and the economy as a whole.

On the other hand, the continuing integration of the economies of the East Africa Region is encouraging for business growth. In addition, the anticipated implementation of the zero tariff regime from July 1999 on goods produced within the region will benefit regional trade.

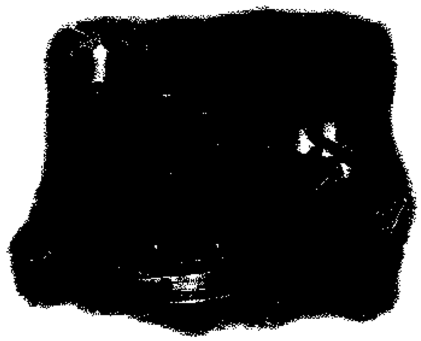
I will comment on the prospects of 1999 for our Company in my speech at the Annual General Meeting to be held in April this year.

Overall results

Turnover increased by 8.2% largely due to an improvement in sales mix. Profit before taxation increased to K.Shs. 1.8 billion reflecting the significant improvement in sales mix and the excellent performance from Sportsman, which is now smoked by two in every five Kenyan smokers. Whilst domestic sales volumes declined slightly in the period, there was a positive impact on profits following the successful implementation of initiatives taken to reduce general overheads and working capital through improved supply chain management, leading to significantly lower borrowings and interest costs which fell by 62%, as well as an aggressive cost control campaign.

The contribution to Government revenue in the form of Excise Duty, VAT and Company Tax increased significantly by K.Shs. 0.8 billion to a record K.Shs. 6.6 billion.

During the period, British American Tobacco Kenya Limited continued to be a major contributor to Kenya's foreign exchange earnings arising from cigarettes and leaf tobacco exports despite economic problems in some of our traditional export markets.



Domestic and Export Cigarette Markets

Overall, the domestic cigarette market declined slightly compared to the previous year as a result of slow economic growth brought about by the slow recovery in the tourism industry, the liquidity crisis in the financial sector, heightened insecurity and shock events such as the bomb blast, which all impacted negatively on business confidence.

Despite the general economic downturn, our drive brands, Benson & Hedges, Embassy and Sportsman showed significant domestic improvement over the previous year in spite of the increased competitive challenge. This was as a result of consistent, high quality focused promotions and advertising campaigns supported by the football and pool sponsorship for Sportsman and Embassy respectively.

In the past year, competition increased with the entry of another local manufacturing company, Cut Tobacco Limited. International competitors together continue to hold less than 1% domestic market share.

We have expanded our innovative Sportsman kiosk project and extended it to include trolleys and other custom made display units. This has retained our superior visibility and availability in all trade channels.

Additionally, we have entered into numerous business partnership agreements, with our distributors, companies in other complementary categories, strategic trade channels and individual outlets which we believe will bring mutual benefits both to our partners and consumers.

With our focussed brand portfolio - Benson & Hedges, Embassy, coupled with the superior value Sportsman - we continue to withstand market challenges. The expansion in the Eastern Africa Region and the proposed international merger with Rothmans International, promise to provide us with an even stronger platform in the future.

Tobacco Growing, Afforestation and Leaf Exports

Even though the leaf crop in 1998 was affected by adverse climatic conditions, quality continued to improve. Our contracted 18,600 small scale farmers produced 11,500 tons and earned K.Shs. 717 million.

Leaf exports continued to play an important role in our operations and the Company is aggressively pursuing opportunities in new export markets.

Our afforestation programme continued to be widely regarded and our Company became the second one in the British American Tobacco world to become self-sufficient in wood fuel.

Tobacco Processing and Manufacture

In line with the increasing demand for improved quality, the process line at the Thika Leaf Processing Plant was modified to include new technology processes and systems. The plant continued to process tobacco for domestic requirements and surplus for export.

There was significant improvement in finished product quality resulting from investment in new state-of-the-art machinery and enhancement of technical skills of the employees through training.

During the year, we achieved class "B" rating in *Manufacturing Resource Planning* (MRP II) based on the world renowned Oliver Wight checklist. This is a significant milestone for the Company in our goal to become a truly world class company by the year 2000.

An excellent safety record was maintained with no Lost Workday cases (accidents) at work in the Company during the year. As a result, for the second year running, the Company won the *British American Tobacco Award for Environment, Health and Safety Management* for meritorious performance.

Corporate and Regulatory Affairs

During the year, the Company successfully launched the new British American Tobacco Kenya corporate identity. The development and launch of the new identity was part of the intention of the British American Tobacco Group, to provide all end markets with a platform to communicate British American Tobacco's key strengths as well as help the group develop a strong world class company.

The Company participated in a number of Agricultural Society of Kenya (ASK) organised shows where quality displays were mounted and the corporate image enhanced.

In association with the Government of Kenya, the Company hosted a successful National Jua Kali Exhibition in Nairobi in October 1998 - which brought together 400 artisans from all of Kenya's eight provinces.

As a responsible corporate citizen, the Company continued to make donations to various deserving community projects and cases across the country. These included two million shillings presented through President Daniel T. arap Moi to the National Disaster Fund to assist victims of the August 7 1998 bomb blast in Nairobi.

Human Resources

Corporate culture change has gained momentum and is fast becoming ingrained in the way we conduct business. At the second annual Human Resource Forum held in 1998, it was noted that we are becoming a more open and interactive organisation. Many erstwhile barriers to communication and interaction have been abolished through bold steps that have changed long established traditions, which hitherto stratified the Company. For example, all employees, irrespective of seniority, are having the same meals in the same canteen; Company holiday cottages, once the privilege of senior management only, are now open to all employees; and everyone addresses the other by first name. A Company social club for all employees irrespective of seniority or gender was started to provide a meeting place and recreation after work.

As we move into 1999, plans have been made to embark on vigorous training of employees on Change under the programmes *Winning in Our World* (WOW) and MRPII with the objective of becoming a truly world class company by the year 2000. In addition, appropriate skills training will be provided to ensure that our employees are equipped to meet future challenges. We are determined to achieve this objective as underlined by our rallying call, *We Can, We Will.*

Dividends

Last November, an interim dividend of K.Shs. 2.50 per share was paid. Your board is recommending a final dividend of K.Shs. 5 per share for approval in the forthcoming Annual General Meeting which if approved, will bring the total dividend distribution out of the 1998 profit to K.Shs. 7.50 per share compared to K.Shs. 6 per share in 1997, an increase of 25%.

In conclusion, I would like to record the Board's appreciation to all our staff, shareholders, farmers, distributors and other business associates for their continued dedication and support in the management of the Company.

Evanson Mwaniki

Mwaka tunaozungumzia, Kenya iliendelea kukumbwa na matatizo mengi yaliyofanya hali ya uchumi kudhoofika. Shida hizi ni pamoja na uharibifu wa barabara, kuzoroteka kwa riba za fedha zilizokopeshwa mapema mwakani, machumo haba, na matatizo katika sekta ya fedha.

Kampuni yetu inaendelea kupoteza kodi kutokana na mashindano mabaya ya kibiashara. Tabia hiyo ilileta athari mbaya kwa biashara yetu na hata katika uchumi mzima.

Kwa upande mwingine ule muungano wa kiuchumi wa kanda la Afrika Mashariki umefanya biashara kuimarika. Zaidi ya hayo ule mfumo wa kutotoa ushuru wa forodhani utakapoanza Julai 1999 dhidi ya bidhaa zinazotengenezwa katika kanda hili, utafaidi kanda hili.

Kwa mintaarafu ya matokeo yetu ya mwaka 1999, nitagusia jambo hili katika hotuba yangu kwenye Mkutano Mkuu wa Mwaka utakaofanywa mwezi Aprili mwaka huu.

Matokeo kwa jumla

Kipato kiliongezeka kwa asilimia 8.2 hasa kwa kule kuimarika kwa mauzo tofauti. Faida kabla ya kutoa fungu la kodi iliongezeka hadi shilingi bilioni 1.8 ikionyesha imariko kubwa la mauzo tofauti na kuonyesha ufanisi mkubwa dhidi ya sigara ya Sportsman, ambayo wakati huu inavutwa na watu wawili kati ya wavutaji watano nchini. Ingawa mauzo ya humu nchini yalipungua kidogo katika kipindi hicho, faida iliongezeka sana kutokana na kufaulu kwa juhudi zilizofanywa ili kupunguza gharama za kuendesha ambazo uzingatia usimamizi bora. Juhudi hizi pia zilisaidia kupunguza mikopo na gharama za riba ambazo zilipungua mno kwa asilimia 62 pamoja na ule mfumo wa kupunguza gharama.

Mchango wa mapato ya serikali kwa mambo mbali mbali kama vile ushuru, VAT na kodi ya Makampuni uliongezeka kwa shilingi bilioni 0.8 na kufikia rekodi ya shilingi bilioni 6.6.

Wakati huo, British American Tobacco Kenya Limited iliendelea kuleta mchango mkubwa kwa mapato ya fedha za kigeni zinazotokana na sigara na tumbako zilizouzwa ng'ambo, ingawa kulikuwepo shida za kiuchumi kwenye masoko yetu ya kawaida huko ng'ambo.

Mauzo ya sigara humu nchini na pia nchi za nje

Kwa jumla mauzo ya sigara humu nchini yalipungua ikilinganishwa na mwaka uliopita kwa ajili ya hali hafifu ya uchumi iliyosababishwa na biashara haba ya utalii, matatizo ya sekta ya fedha, hali mbaya ya usalama na mambo ya kugoofisha watu kama lile tokeo la bomu; na hayo yote yakawafanya wafanyabiashara kutokuwa na imani.

Ingawa hali ya uchumi kwa jumla ilidhoofika, chapa za bidhaa zinazoongoza, kama vile Benson & Hedges, Embassy na Sportsman zilinunuliwa zaidi kwenye masoko ya humu nchini ikilinganishwa na mwaka uliopita. Mafanikio haya yaliwezeshwa na juhudi za matangazo na mawasiliano pamoja na udhamini wa michezo kupitia Sportsman na Embassy.

Mwaka uliopita, mashindano ya biashara yaliongezeka humu nchini wakati kampuni nyingine inayoitwa Cut Tobacco Limited ilipoingia uwanjani. Kampuni hiyo pamoja na washindani wengine wa ng'ambo waliendelea kuwa na asilimia iliyopungua moja ya fungu la masoko ya humu nchini.

Tumepanua mradi wetu mzuri wa vioski vya Sportsman na kuingiza matroli na maonyesho mengine tuliyobuni sisi wenyewe. Mradi huu umewavutia watu wengi na kuwezesha bidhaa zetu kupatikana mahali popote pa biashara.

Vile vile, tumefanya mikataba mingi ya kibiashara na wasambazaji wa bidhaa zetu, kampuni nyingine zinazofanya biashara sawa na zetu, vituo bora kabisa kwa biashara, vituo vingine vya watu binafsi na wateja wetu ambavyo twasadiki vitaleta manufaa kwa wanaohusika.

Tukitilia maanani zile chapa zetu murua, yaani Benson & Hedges na Embassy – zikitiwa nguvu na chapa ya Sportsman yenye thamani – hizi chapa zilileta mashindano makali dhidi ya washindani wetu huko sokoni. Upanuzi wa kanda la Afrika Mashariki na azimio letu la kuungana na Rothmans International, zitaongezea matumaini yetu ya kuwa na nguvu zaidi siku za usoni.

Ukuzaji, uuzaji wa tumbaku nje pamoja na uenezaji wa misitu

Hata ingawa zao la tumbaku la mwaka 1998 liliathiriwa na hali mbaya ya anga, zao letu liliendelea kuwa la hali ya juu. Wakulima wetu wadogo wadogo wapatao18,600 wenye kandarasi walikuza tani 11,500 na kulipwa shilingi milioni 717.

Harakati za kuuza tumbaku nchi za nje ziliendelea kuleta manufaa makubwa katika biashara yetu. Kampuni inajitahidi vikali kutafuta nafasi zaidi za kupata masoko mapya ng'ambo.

Mradi wetu wa upanzi wa miti uliendelea kuthaminiwa zaidi na Kampuni yetu ikawa ya pili katika himaya ya British American Tobacco kuweza kujitegemea kwa mahitaji yake ya kuni .

Uchambuzi wa tumbaku na utengenezaji

Kulingana na matakwa yaliyoongezeka ya tumbaku ya hali ya juu, ule mtambo wa kuchambua tumbaku huko Thika, ulirekebishwa kulingana na mifumo na teknolojia mpya. Mtambo huu uliendelea kuchambua tumbaku ya ziada na kwa mahitaji ya masoko ya ng'ambo.

Hali ya ubora wa zao la tumbaku uliimarika zaidi kutokana na fedha zilizotumiwa kununua mashine za kisasa pamoja na kuwapa wafanyakazi ujuzi kwa njia ya mafunzo.

Mwakani, tulipata shahada ya "B" kwa ujuzi wa mbinu za utengenezaji kupitia mradi unaoitwa Manufacturing Resource Planning (MRP II) unaofuata msingi wa shahada yenye sifa ulimwenguni uitwao "Oliver Wight". Huu ni ushindi mkubwa kwa Kampuni yetu ambayo inatumaini kupanda ngazi ya dunia kufikia mwaka 2000.

Kampuni ilidumisha hali ya juu kabisa ya usalama kazini bila kuwepo kisa cho chote cha ajali mwakani. Kutokana na jambo hili kampuni ilishinda mara mbili mfululizo, Shahada ya *British American Tobacco Award for Environment, Health and Safety Management* dhidi ya kazi bora.

Sura ya kampuni

Mwakani, Kampuni ilifaulu kuanzisha jina jipya la British American Tobacco Kenya. Hatua hii mpya ya kubuni na kuanzishwa kwa jina hili ilikuwa sehemu ya azimio la Kundi la British American Tobacco kupatia masoko yote jukwaa ambapo Kampuni itaweza kuwasiliana na kueneza nguvu za British American Tobacco pamoja na kusaidia Kundi hili liweze kujenga Kampuni yenye sifa ulimwenguni.

Kampuni yetu ilishiriki kwenye maonyesho mbali mbali ya Agricultural Society of Kenya (ASK) yakionyesha bidhaa bora na pia kuinua sifa zake.

Ikishirikiana na Serikali, British American Tobacco Kenya iliandaa maonyesho yaliyofana sana ya Jua Kali jijini Nairobi mwezi Oktoba 1998. Maonyesho hayo yalihudhuriwa na mafundi 400 kutoka mikoa yote nchini.

Kama raia mwema, Kampuni iliendelea kutoa michango kwa miradi mbali mbali ya jamii na vikao vingine nchini. Hii ilikuwa ni pamoja na shilingi milioni mbili iliyotolewa kupitia Rais Daniel T. arap Moi kwa National Disaster Fund ili kuwasaidia watu waliopata maafa ya bomu tarehe 7 Agosti, 1998 jijini Nairobi.

Wafanya kazi

Harakati za kubadilisha utamaduni wa kampuni uliendelea kuimarika katika biashara yetu kwa haraka. Kwenye kusanyiko la pili lililofanyika mwaka 1998 linalohusu mambo ya wafanyakazi, ilionekana dhahiri kwamba tunazidi kuwasiliana kijamii. Vizuizi vingi vilivyotukumba kwa upande wa mawasiliano viliondolewa kwa kutumia hatua thabiti ya kubadilisha tabia sugu zilizofanya wafanyakazi kutengana. Kwa mfano, wafanyakazi wote, bila kujali vyeo vyao, ama awe ni mwanaume au mwanamke wanakula chakula cha aina moja wakikaa katika kantini moja. Katika nyumba ya liziko ya Kampuni ambayo hapo zamani ilitengwa tu kwa maafisa wa vyeo vya juu, sasa mlango umefunguliwa kwa wafanyakazi wote. Pia wafanyakazi huwaita wenzao wakitumia jina la kwanza.

Kampuni ilianzisha kilabu cha kijamii ili kuwakutanisha wafanyakazi wote bila kujali vyeo vyao ama awe ni mwanaume au mwanamke. Kilabu hiki kitawawezesha wafanyakazi kuwa na tafrija baada ya kazi.

Tunapoingia mwaka 1999 mipango thabiti imefanywa kutoa mafunzo mbali mbali kwa wafanyakazi chini ya miradi ijulikanayo kama *Winning in Our World* (WOW) na MRP II kwa shabaha ya kuwa Kampuni ya upeo wa juu mwakani 2000. Zaidi ya hayo, ujuzi ufaao utatolewa kuhakikisha kwamba wafanyakazi wetu wamejitayarisha kupambana na matatizo ya siku za usoni. Tunajitahidi kufikia shabaha hii jinsi inavyoonyeshwa na wito wetu usemao: *WE CAN, WE WILL*, yaani *TWAWEZA, NA TUTATENDA*.

Migawo

Mwezi Novemba mwaka jana, mgawo wa muda wa shilingi mbili na sumni (2/50) kwa kila hisa ulilipwa. Halmashauri yenu inapendekeza mgawo wa mwisho wa shilingi tano (5.00) kwa kila hisa, upewe kibali kwenye Mkutano Mkuu ujao wa Mwaka. Pendekezo hili likikubaliwa, litafanya jumla ya migao iliyogawanywa kuwa shilingi saba na sumni (7/50) kwa kila hisa ikilinganishwa na shilingi sita (6) kwa kila hisa mwaka 1997, ongezeko la asilimia 25.

Mwisho, ningependa kutoa shukrani za Halmashauri ya Wakurugenzi, wenye hisa, wakulima, wasambazaji na washiriki wetu wote katika biashara yetu kwa kuendelea kutuunga mkono katika harakati za kuongoza Kampuni yetu.

Evanson Mwaniki

Report of **Directors**

The Directors have pleasure in submitting their Report and the Audited Accounts for the year ended 31 December 1998.

	K.Shs. '000	K.Shs. '000
Profit and Appropriations		
Profit after taxation available for appropriation		1,156,914
Appropriated as follows:		
Dividends:		
Interim dividend of K.Shs. 2.50 per share	187,500	
Proposed final dividend of K.Shs. 5.00 per share	375,000	562,500
Retained Profit		594,414

Board of Directors
The following changes have taken place in the Board of Directors since the publication of the last annual report and accounts:

Mrs. B.A. Buyu resigned on 31 March 1998.
Mr. I. Hussain resigned on 31 March 1998 and was replaced by Mr. E. Watt on 1 April 1998.
Mr. D.N. Berry resigned on 31 March 1998.

Mr. J. Rowland-Rees was appointed an alternate to Mr. E. Watt on 1 April 1998.
Mr. S. Jurgens was appointed on 11 May 1998.

Mr. M.S. Hayes resigned from the Board on 15 February 1999 and was replaced by Mr. T.D. McConnell.

In accordance with Article 89 of the Articles of Association Messrs. E. Mwaniki, E. Watt and J.B. Wanjui 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. J. Rowland-Rees, S. Jurgens and T.D. McConnell retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

Auditors
PricewaterhouseCoopers were appointed as auditors following the merger of the former auditors, Price Waterhouse, with Coopers & Lybrand and continue in office in accordance with section 159(2) of the Companies Act.

15 March, 1999
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 1998.

	K.Shs. '000	K.Shs. '000
Faida iliyopatikana na ilivyogawanywa		
Faida iliyopatikana katika mwaka huo baada ya kodi ilikuwa		1,156,914
Iligawanywa ifuatavyo:		
Migawo ya faida kwa wenyehisa:		
Mgawo wa muda wa K.Shs. 2.50 kwa kila hisa	187,500	
Mgawo wa mwisho unaopendekezwa wa K.Shs. 5.00	375,000	562,500
Faida iliyowekwa Akiba		594,414

Halmashauri ya Wakurugenzi
Tangu kuchapichwa kwa repoti na hesabu mwaka jana, mabadiliko yafuatayo yametokea katika Halmashauri ya Wakurugenzi:

Bi. B.A. Buyu alijiuzulu tarehe Machi 31 1998.
Bw. I. Hussain alijiuzulu tarehe Machi 31 1998 na mahali pake pakachukuliwa na Bw. E. Watt, tarehe Aprili 1 1998.
Bw. N. Berry alijiuzulu tarehe Machi 31 1998.

Bw. J. Rowland-Rees aliteuliwa Aprili 1 1998 kumwakilisha Bw. E. Watt.
Bw. S. Jurgens aliteuliwa tarehe Mai 11 1998.

Bw. M.S. Hayes alijiuzulu tarehe Februari 15 1999, na mahali pake pakachukuliwa na Bw. T.D. McConnell.

Kwa mujibu wa Kifungu cha 89 cha Katiba ya Kampuni Mabw. E. Mwaniki, E. Watt na J.B. Wanjui watastaafu kwa zamu katika Mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kwa majibu waa kifungu cha 95 cha Katiba ya Kampuni Mabw. J. Rowland-Rees, S. Jurgens na T.D. McConnell watastaafu kutoka kwa Halmashauri katika Mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Wakaguzi wa Hesabu
PricewaterhouseCoopers waliteuliwa wakaguzi wa hesabu kwenye muungano wa Price Waterhouse na Coopers & Lybrand na wataendelea na ukaguzi wa vitabu kwa mujibu wa kifungu cha 159(2) cha Sheria za Makampuni.

Machi 15, 1999
Likoni Road
P.O. Box 30000, Nairobi

Kwa Amri ya Halmashauri
J.N. Kiragu
Katibu

Auditors' Report

Auditors' Report to the members of British American Tobacco Kenya Limited

1. We have audited the financial statements set out on pages 10 to 18 which have been prepared on the basis of the accounting policies set out on page 14. 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 of the company are in agreement with its books of account.

2. The directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs of the group and company and of the operating results of the group. 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 financial affairs of the group and company as at 31 December 1998 and of the profit and cash flows of the group for the year then ended and comply with Kenyan Accounting Standards and the Companies Act.

PricewaterhouseCoopers

Certified Public Accountants

Nairobi **15 March 1999**

Consolidated Profit and Loss Account
Including the Statement of Retained Profit

For the year ended 31 December

	Note	1998 K.Shs. '000	1997 K.Shs. '000
Turnover		11,726,706	10,842,600
Profit before taxation	1	1,751,790	937,995
Taxation	2	594,876	303,946
Profit after taxation	4	1,156,914	634,049
Dividends		**562,500**	**450,000**
Interim of K.Shs. 2.50 per share		187,500	150,000
Proposed final of K.Shs. 5.00 per share		375,000	300,000
Retained profit for the year		**594,414**	**184,049**
Statement of retained profit			
At 1 January		1,076,448	892,399
Retained profit for the year		594,414	184,049
At 31 December		1,670,862	1,076,448
Earnings per share (K.Shs.)	3	**15.43**	**8.45**

Consolidated Balance Sheet

As at 31 December

	Note	1998 K.Shs. '000	1997 K.Shs. '000
Fixed Assets	6	3,068,361	2,797,827
Current Assets			
Stocks	7	2,049,742	1,941,674
Debtors		1,027,707	1,185,175
Tax receivable		-	43,959
Cash at bank and in hand		319,914	158,695
		3,397,363	3,329,503
Current Liabilities			
Creditors		1,432,255	1,360,180
Inter-company accounts	8	11,186	41,804
Borrowings	9	-	627,758
Tax payable		242,888	-
Dividends - *(Gross)*		393,558	306,165
		2,079,887	2,335,907
Net Current Assets		1,317,476	993,596
Net Assets		4,385,837	3,791,423
Financed by:			
Share capital	10	750,000	750,000
Capital reserves	11	1,964,975	1,964,975
Retained profit		1,670,862	1,076,448
Funds Employed		4,385,837	3,791,423

The accounts on pages 10 to 18 were approved by the Board of Directors on 15 March 1999 and were signed on its behalf by:

J.D. Pike Director

T.D. McConnell Director

Company Balance Sheet

As at 31 December

	Note	1998 K.Shs. '000	1997 K.Shs. '000
Fixed Assets	6	3,068,361	2,797,827
Investment in subsidiary		12,000	-
Current Assets			
Stocks	7	2,049,742	1,941,674
Debtors		996,659	1,185,175
Tax receivable		-	43,959
Cash at bank and in hand		266,994	158,695
		3,313,395	3,329,503
Current Liabilities			
Creditors		1,410,435	1,360,180
Inter-company accounts	8	677,041	41,804
Borrowings	9	-	627,758
Tax payable		10,187	-
Dividends - *(Gross)*		393,558	306,165
		2,491,221	2,335,907
Net Current Assets		822,174	993,596
Net Assets		3,902,535	3,791,423
Financed by:			
Share capital	10	750,000	750,000
Capital reserves	11	1,964,975	1,964,975
Retained profit		1,187,560	1,076,448
Funds Employed		3,902,535	3,791,423

The accounts on pages 10 to 18 were approved by the Board of Directors on 15 March 1999 and were signed on its behalf by:

J.D. Pike Director

T.D. McConnell Director

Consolidated Cash Flow Statement

For the year ended 31 December

	Note	1998 K.Shs. '000	1997 K.Shs. '000
Cash flows from operating activities			
Profit before taxation		1,751,790	937,995
Adjustments for:			
Depreciation		203,288	205,261
Gain on disposal of fixed assets		(9,667)	(22,058)
Interest income		(17,803)	(690)
Interest expense		86,191	225,090
Operating profit before working capital changes		2,013,799	1,345,598
Decrease in debtors		157,468	328,690
(Increase)/decrease in stocks		(108,068)	212,821
Increase in creditors and inter-company accounts		41,457	197,110
Cash generated from operations		2,104,656	2,084,219
Income taxes paid		(308,029)	(417,487)
Net cash inflow from operating activities		1,796,627	1,666,732
Return on investments and servicing of finance			
Interest received		17,803	690
Interest paid		(86,191)	(225,090)
Dividends paid		(475,107)	(444,139)
Net cash outflow from investments and servicing of finance		(543,495)	(668,539)
Cash flows from investing activities			
Purchase of fixed assets		(566,464)	(452,365)
Proceeds from sale of fixed assets		102,309	36,402
Net cash outflow from investing activities		(464,155)	(415,963)
Net increase in cash and cash equivalents		788,977	582,230
Cash and cash equivalents at beginning of year		(469,063)	(1,051,293)
Cash and cash equivalents at end of year	13	**319,914**	**(469,063)**

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) Basis of consolidation

The consolidated financial statements incorporate the accounts of the company and its subsidiary made up to 31 December 1998.

(c) Turnover

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

(d) 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	2.5%
Leasehold buildings	2.5%-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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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:

	1998 K.Shs. '000	1997 K.Shs. '000
Depreciation	203,288	205,261
Directors' remuneration:		
Fees	154	154
Other emoluments	65,598	73,107
Auditors' remuneration	3,400	3,100
Interest on borrowings	86,191	225,090
Interest income	17,803	690

2. Taxation

Current taxation at 32.5% (1997, 35.0%) on the taxable profit for the year.	594,876	303,946

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 1998 and 1997 are based on profits after taxation of K.Shs. 1,156,914,000 and K.Shs. 634,048,590 respectively, calculated on issued capital of 75,000,000 ordinary shares of K.Shs. 10 each.

4. Profit after taxation

The profit after tax dealt with in the financial statements of the parent company is K.Shs. 673,611,850 (1997: K.Shs. 634,048,590).

5. Technical and advisory fees

British American Tobacco Kenya Limited has access to the technical expertise of the parent company British-American Tobacco (Investments) 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 (Investments) Limited in 1998 was K.Shs. 96,324,190 (1997, K.Shs. 86,692,849).

6 . **Fixed Assets - Group and Company**

		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 1998	12,000	1,437,450	4,294,522	5,743,972
	Additions	-	85,741	480,723	566,464
	Disposals	-	-	(103,920)	(103,920)
	At 31 December 1998	12,000	1,523,191	4,671,325	6,206,516
	Depreciation:				
	At 1 January 1998	750	138,732	2,806,663	2,946,145
	Charge for the year	250	39,470	163,568	203,288
	On disposals	-	-	(11,278)	(11,278)
	At 31 December 1998	1,000	178,202	2,958,953	3,138,155
	Net book amounts:				
	At 31 December 1998	11,000	1,344,989	1,712,372	3,068,361
	Historical cost	415	403,971	1,430,406	1,834,792
	Revaluation element	10,585	941,018	281,966	1,233,569
	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

(b) With the exception of motor vehicles and equipment, fixed assets were revalued as at 31 December 1994 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.

7. Stocks - Group and Company

	1998 K.Shs. '000	1997 K.Shs. '000
Raw materials	1,681,873	1,477,303
Finished goods and work in progress	154,557	187,044
Consumable stores	213,312	277,327
	2,049,742	1,941,674

8. Inter-company accounts

	Group		Company	
	1998 K.Shs. '000	1997 K.Shs. '000	1998 K.Shs. '000	1997 K.Shs. '000
Amounts due to/(from):				
Holding company	22,768	48,758	22,768	48,758
Fellow subsidiaries	(11,582)	(6,954)	654,273	(6,954)
	11,186	41,804	677,041	41,804

Inter-company balances 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 - Group and Company

	1998 K.Shs. '000	1997 K.Shs. '000
Commercial paper	-	184,727
Bank borrowings	-	443,031
	-	627,758

Commercial paper is short term finance issued at a discount. The discount is recognised over the period of the issue.

10. Share capital

	1998 K.Shs. '000	1997 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 - Group and Company

	1998 K.Shs. '000	1997 K.Shs. '000
At 1 January	1,964,975	1,973,670
Reversal of revaluation reserves on disposal of assets	-	(8,695)
	1,964,975	1,964,975

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 - Group and Company

In accordance with note (g) 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 1998	212,520
Arising in the year	(14,474)
At 31 December 1998	198,046

13. Cash and cash equivalents - Group

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

	1998 K.Shs. '000	1997 K.Shs. '000
Cash at bank and in hand	319,914	158,695
Commercial paper	-	(184,727)
Bank borrowings	-	(443,031)
	319,914	(469,063)

14. Capital commitments

Amounts authorised by the Directors but not provided for in these accounts are:	114,986	19,788
of which contracts have been placed for:	70,600	18,000

15. Holding company

British American Tobacco Kenya Limited's ultimate holding company is British American Tobacco plc which is incorporated in the United Kingdom.

Form of **Proxy**

To: . . . .

The Secretary
British American Tobacco Kenya Limited
P.O. Box 30000
Nairobi

I/We . . . .

. . . .

. . . .

of P.O. Box . . . .

member/members of British American Tobacco 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, 15 April 1999 at the Hotel Inter-Continental Nairobi, or at any adjournment thereof.

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

day of 1999

. . . .

(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, 14 April 1999.

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
BRITISH AMERICAN TOBACCO 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