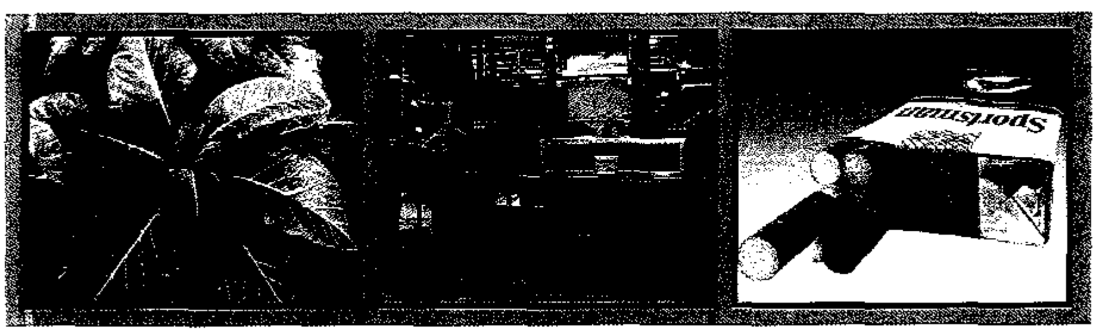
Annual Report & Accounts 2001



BRITISH AMERICAN TOBACCO
KENYA

CONTENTS

FINANCIAL CALENDAR

Annual General Meeting	To be held 11 April 2002
Proposed final dividend for the year to 31 December 2001	Payable April 2002

Board of Directors

Evanson Mwaniki
Chairman

Simon Welford
General Manager

Terry McConnell
Finance Director

Chris Burrell
Managing Director

Harris Mule
Non-Executive Director

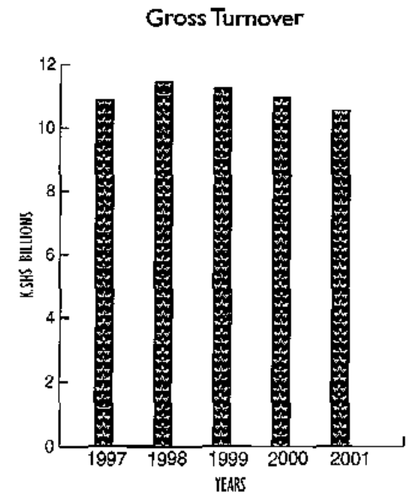
Prof. Joseph Kimura
Non-Executive Director

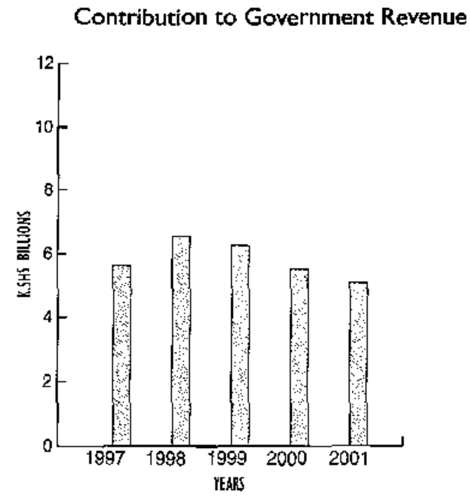
Michael Wanyoike
Non-Executive Director

Allan Ngugi
Non-Executive Director

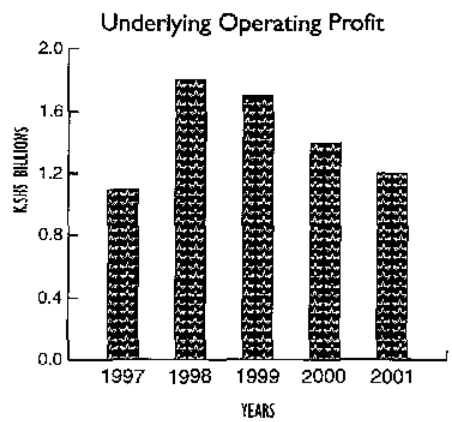
Highlights 2001

• Gross Turnover decreased to K. Shs 10.4 billion



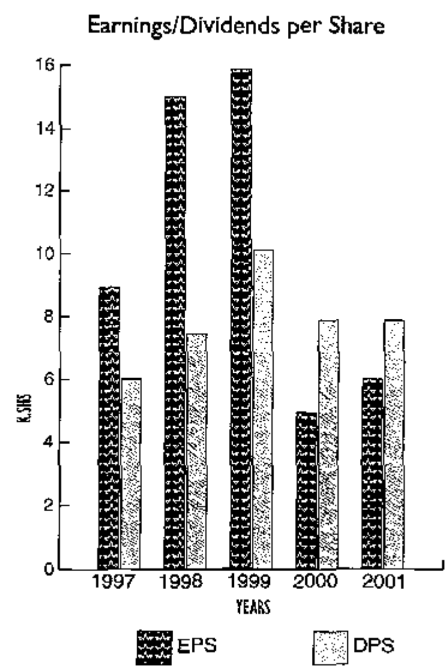


• Underlying operating profit decreased to K.Shs 1.2 Billion



• Total dividend payout of K.Shs 790 million

• Basic earnings per share increased to K.Shs 6.04



Chairman's Review

Business Environment - Year 2001

The year 2001 was another difficult one for the Kenyan economy. The level of investment remained depressed due to low investor confidence arising from well known inhibitive factors, such as poor economic governance and the lack of effective measures to combat corruption. Prospects for economic recovery were also undermined by continued suspension of donor support, the low international commodity prices and the global economic downturn particularly in the last quarter of the year.

The anticipated recovery in Kenya's GDP growth, largely attributed to the agricultural, transport and communications sectors, turned out to be too weak (around 1%) to have any real impact on unemployment and poverty reduction. Consumer disposable incomes continued to decline, thereby inducing the shrinkage of total demand for goods and services. As a consequence, the formal industrial sector down-sized their operations in Kenya with some well known companies relocating to, or sourcing products from other countries.

The overall domestic cigarette consumption declined by 6% over 2000, with a marked shift to the lower priced brands. Unprincipled competition, mainly in the form of tax evasion by some manufacturers, continued but at a much reduced scale following the successful implementation of excise tax stamps. The introduction of excise tax stamps has gone a long way in ensuring a level playing field for healthy competition and orderly marketing in the future.

Exports to our main export market, the Horn of Africa, declined substantially owing to the adverse conditions in that region - including the ban on trade with Somalia. We continue to export to Uganda, Rwanda, Democratic Republic of Congo and Tanzania. We welcome the reduction of asymmetrical duties which continue to favour importation from Tanzania and Uganda into Kenya but are prohibitive, with respect to exports from Kenya into Tanzania. With the signing of the East African Community protocols, improved trading opportunities between member countries are anticipated, particularly when the inter-territorial tariffs are harmonised. British American Tobacco Kenya has increasingly become the regional production source for East Africa. In 2001 we began exporting Benson & Hedges, manufactured in our Nairobi factory, to Uganda, Tanzania and the Democratic Republic of Congo. Export opportunities to other markets will be pursued.

Results

Our performance in 2001 was resilient despite the adverse economic and challenging market conditions prevailing. Due to unabated price competition in the lower-priced sectors of the market, our share of the domestic volume continued to decline in 2001. Overall turnover was 5% lower than previous year reflecting lower cigarette sales volume, down trading to cheaper cigarettes in the Kenyan market and volatile trading conditions in our major export markets. However, profit before tax improved by nearly 25% to KShs. 851 million, positively impacted by the restructuring initiatives undertaken in the year 2000 and by prudent price increases across the brand portfolio in July 2001, which were critical to maintaining margins in the face of rising material costs and the high cost of Excise tax stamps.

British American Tobacco Kenya remains a significant contributor to Government revenue with approximately KShs.5 billion paid in 2001 in Excise Duty, VAT and Company Income Tax.

Performance Improvement Initiatives

To achieve the impressive results highlighted above and to secure a firm base for future profitability of our company, certain key initiatives have been undertaken. These are discussed in greater detail in the Managing Director's Report. They include the restructuring initiatives in the Supply Chain, Manufacturing, Trade Marketing and Leaf - all of which have had a positive impact on our cost base. The recent introduction of our fighter brand - the Safari family - in the low price sector, aims to strengthen our competitiveness in that sector in order to fortify our overall market position and results to date are encouraging.

Other Initiatives

Tobacco Marketing Standards
A global initiative, driven by British American Tobacco, Japan Tobacco International and Philip Morris International, and increasingly supported by smaller regional tobacco manufacturers, has been introduced with the aim of promoting responsible marketing of tobacco products world-wide. British American Tobacco Kenya is in the process of implementing these standards in Kenya to achieve compliance by the end of 2002.

Corporate Governance
The Capital Markets Authority has issued guidelines on corporate governance practices for public listed companies in Kenya. Being a public listed subsidiary of British American Tobacco, the company adheres strictly to the Group's standards and practices of good corporate governance. Nevertheless, your Board of Directors is currently studying the CMA guidelines with a view to proposing appropriate action, if necessary, to ensure timely compliance with the spirit of the CMA guidelines.

Our commitment to invest in the development of our people continues, as we believe this is a pre-requisite for continued good performance of our company in a dynamic and increasingly challenging business environment. One of the tools used is international secondments. We currently have 18 Kenyans on such secondments in 10 countries and anticipate that they will take up more senior positions in the company upon their return to Kenya.

A share participation or similar scheme for our employees is contemplated for introduction in 2002 in order to reinforce their stakeholding in the company.

Financial Performance/Dividend
We are pleased to report that our company has retained the highest independent credit rating awarded to a Kenyan company. This confirms our robust financial health which, together with strong cashflows, enables the Board of Directors to recommend a final dividend of KShs. 2.10 per KShs.10/= ordinary share which, when added to the two interim dividends already paid, gives a total dividend of KShs. 7.90 per share - a yield of a very attractive 15.8%. The final dividend, which is subject to withholding tax will be paid on 12 April, 2002 to the shareholders on the share register at the close of business on 4 March, 2002.

The level of dividend recommended is consistent with the pursuit of a highly competitive dividend policy to the extent the company's cashflow and cash commitments allow.

Outlook
The future prospects for an economy such as Kenya's is difficult to predict particularly now, given the uncertainties surrounding the political succession, the constitutional review, resumption of donor support and economic governance issues.

Another issue with a direct impact on our business is the proposed Tobacco Control Bill, expected to be enacted in 2002. Although the views of Industry Stakeholders have been conveyed to the Ministry of Health, we do not know what, if any, amendments have been incorporated in the draft Bill. We are not, however, opposed to legislation per se. What we would like to see is a clear, sensible and practical legislation that balances the health concerns with social-economic realities of Kenya, as we believe it would contribute towards ethical and responsible behaviour by the industry, consistent with British American Tobacco's existing marketing standards.

We believe that Kenyans will strive to achieve a peaceful political succession, a new progressive constitutional order and an environment conducive to sustainable economic recovery.

The prospects for our company in the longer term remain good, given, inter alia, the initiatives already undertaken to reduce our cost base, streamline our operations and sharpen managerial competencies of our people. We are well poised to take full advantage of the anticipated economic recovery.

New Directors
Before I conclude, I take this opportunity to welcome to the Board of British American Tobacco Kenya the new Board members who joined in 2001 namely, Mr. Harris Mule, Professor Joseph Kimura and Mr. Simon Welford. These are men of high integrity and I am confident that our Board will benefit immensely from their extensive and varied experiences.

On behalf of the Board of British American Tobacco Kenya, I wish to express our appreciation and thanks to all stakeholders including our staff, farmers, distributors, shareholders and other business partners, for their unwavering support.

Taarifa Ya Mwenyekiti

Mwaka wa 2001 ulikuwa mwingine mgumu kwa shughuli za kiuchumi hapa nchini Kenya. Kiwango cha uwekaji rasilmali kiliendelea kupungua kutokana na kupungua kwa imani ya wawekaji rasilmali, hali iliyosababishwa na maswala kadhaa ya kutia hofu ambayo yalieleweka wazi kama vile usimamizi mbaya wa shughuli za kiuchumi na ukosefu wa hatua zifaazo za kupambana na ufisadi. Matarajio ya kufufua shughuli za kiuchumi pia yalihujumiwa na kuendelea kusimamishwa kwa misaada ya wafadhili, bei za chini za bidhaa za kimataifa na kuzorota kwa shughuli za kiuchumi kote duniani hasa katika robo ya mwisho ya mwaka huo. Matarajio ya kufufua ongezeko la pato la jumla la nchi hii yaani GDP, kutoka kwa sekta za kilimo, uchukuzi na mawasiliano yaligeuka na hivyo kupungua zaidi hadi kufikia kiwango cha aslimia 1 katika kukabiliana na hali ya ukosefu wa nafasi za kazi na upunguzaji umaskini. Mapato ya wateja kununulia bidhaa yaliendelea kupungua pia na hivyo basi kusababisha kupungua kwa jumla ya mahitaji ya bidhaa na huduma.

Kama sharti la kukidhi hali hii, sekta ya viwandani ilipunguza shughuli zake hapa nchini Kenya, huku baadhi ya kampuni zikihamisha shughuli zao, au kupata bidhaa kutoka nchi nyingine. Uvutaji wa sigara hapa nchini ulipungua kwa aslimia 6 katika mwaka wa 2001, huku wavutaji sigara wengi wakibadili aina zao za sigara na kuvuta zile za bei nafuu. Mashindano yasiyofaa hasa ya baadhi ya maafisa wa uuzaji kukwepa kulipa ushuru, yaliendelea kukithiri ingawa kwa kiwango cha chini zaidi kufuatia kufaulu kwa utekelezaji wa hatua ya stampu za ushuru wa sigara. Kuanzishwa kwa stampu za ushuru wa sigara kunapaswa kuendelea ili kuhakikisha kuweko kwa kiwango sawa cha mashindano yafaayo na utaratibu bora wa uuzaji katika siku zijazo. Mauzo ya nje kwa soko letu kuu la nje la upembe wa Afrika yalipungua kwa kiwango kikubwa kutokana na hali ngumu katika eneo hilo, ikiwemo hatua ya kupigwa marufuku kufanya biashara na nchi ya Somalia. Tunaendelea kuuza bidhaa zetu huko Uganda, Congo na Tanzania.

Tunafurahia kupunguzwa kwa ushuru usio na mpango, unaorahisisha uagizaji bidhaa kutoka Tanzania na Uganda kuingizwa humu nchini Kenya lakini kisha unanyima fursa kwa bidhaa kutoka Kenya kuingizwa nchini Tanzania. Kwa kutiwa saini kwa mikataba ya Jumuiya ya Afrika Mashariki, kuimarishwa kwa nafasi za kibiashara baina ya mataifa wanachama kunatarajiwa hasa wakati viwango vya ushuru vya mataifa haya ya Afrika Mashariki vitakapopunguzwa. Kampuni ya British American Tobacco Kenya imeendelea kuwa kampuni imara kwa utoaji bidhaa bora kwa eneo zima la Afrika Mashariki. Katika mwaka wa 2001, tulianza kuuza bidhaa za sigara aina ya Benson & Hedges zinazotengenezewa katika kiwanda chetu cha Nairobi hadi Tanzania na Congo. Nafasi za uuzaji bidhaa katika masoko mengine zitatafutwa.

MATOKEO:

Matokeo yetu katika mwaka wa 2001 yaliendelea kuimarika licha ya hali ngumu za kiuchumi na masharti makali yaliyokuwepo katika masoko. Kutokana na hali isiyobadilika ya mashindano ya bei katika sekta za bei nafuu za soko hilo, hisa yetu ya kiwango cha bidhaa humu nchini iliendelea kupungua katika mwaka wa 2001.

Pato la jumla lilikuwa aslimia 5 chini ya mwaka uliotangulia na kudhihirisha kiwango cha chini cha mauzo ya sigara kwa kuuza sigara za bei nafuu katika masoko ya humu nchini na masharti magumu ya kibiashara katika masoko yetu makubwa ya nje. Hata hivyo, faida kabla ya kukatwa ushuru iliimarika kwa karibu aslimia 25 hadi shilingi milioni 851, hali iliyowezekana kutokana na uimarishaji juhudi zilizofanywa mwaka wa 2000 ambazo zilikuwa muhimu katika kudumisha viwango vya kuongezeka kwa gharama za bidhaa na gharama ya juu ya stampu za ushuru wa sigara. Kampuni ya British American Tobacco Kenya inaendelea kuwa mshirika mkubwa kwa kutoa mchango muhimu kwa mapato ya serikali, huku takribani shilingi bilioni 5 zikilipwa katika mwaka wa 2001 kama ushuru, ushuru ziada wa thamani yaani VAT na ushuru wa kampuni.

JUHUDI ZA UIMARISHAJI MATOKEO:

Ili kupata matokeo ya kuridhisha yaliyoelezewa hapo juu na kupata msingi thabiti kwa faida ya siku zijazo kwa kampuni yetu, juhudi fulani muhimu zilifanywa. Haya yanaelezewa kwa kirefu zaidi kwenye taarifa ya wakurugenzi.

*Juhudi hizo ni pamoja na zile za uratibu mpya katika mtindo wa ugawaji, utengenezaji, uuzaji wa kibiashara na ununuzi wa tumbaku kutoka kwa wakulima, yote haya yakileta matokeo bora kukidhi gharama ya kampuni. Kuanzishwa hivi majuzi kwa aina yetu mpya ya sigara ya **"Safari"** katika sekta ya bei nafuu kulinuiwa kuimarisha mashindano yetu katika sekta hiyo ili kuthibiti zaidi soko letu kwa jumla.*

JUHUDI NYINGINE:

Viwango vya ubora vya uuzaji Tumbaku: Juhudi za Ulimwengu mzima zilizo shinikizwa na kampuni za British American Tobacco, Japan Tobacco International na Philip Morris International na kuungwa mkono na kampuni ndogo za kimataifa za utengenezaji bidhaa za

Taarifa Ya Mwenyekiti

tumbaku, zilianzishwa kwa lengo la kuimarisha uuzaji mahsusi wa bidhaa za tumbaku kote Ulimwenguni. Kampuni ya British American Tobacco Kenya inafanya mpango wa kutekeleza viwango hivi vya ubora hapa nchini Kenya ili kutimiza matakwa hayo kufikia muda wa mwisho wa Desemba mwaka huu wa 2002.

USIMAMIZI WA KAMPUNI:

Halmashauri ya usimamizi wa masoko ya hisa imetoa mwongozo kuhusu shughuli za usimamizi wa kampuni kwa kampuni zote za umma zilizoorodheshwa humu nchini. Ikiwa kama kampuni ya umma, British American Tobacco Kenya, inazingatia kwa maakini viwango vya ubora vya kundi hilo na shughuli za usimamizi bora wa kampuni. Hata hivyo, halmashauri ya wakurugenzi wenu kwa wakati huu inachunguza maongozi ya Halmashauri ya usimamizi wa masoko ya Hisa CMA, kwa lengo la kupendekeza hatua zifaazo, ikiwa muhimu ili kuhakikisha utekelezaji unaohitajika wa maongozi ya Halmashauri ya CMA. Jukumu letu la kuweka rasilmali katika maendeleo ya watu wetu linaendelea huku tukiamini kuwa jambo hili ni muhimu ili kuendelea kupata matokeo bora ya kampuni yetu katika mazingira yenye nguvu na yanayoendelea kuwa magumu ya kibiashara.

Moja ya vyombo vilivyotumiwa ni fursa za kazi za kimataifa kwa wafanyakazi wa kampuni yetu kutoka hapa nchini. Kwa wakati huu tuna Wakenya 18 waliopata fursa hizo katika nchi 10 na tunatarajia kwamba watapata kazi zaidi za vyeo vya juu katika kampuni hii watakaporejea hapa nchini. Uuzaji wa hisa nyingi za kampuni kwa wafanyakazi au mpango kama huo unafikiriwa kuanzishwa mwaka huu wa 2002 ili kuimarisha kiwango chao cha umilikaji hisa za kampuni.

MATOKEO YA KIFEDHA/MARUPURUPU:

Tuna furaha kutangaza kwamba kampuni yetu imedumisha kiwango cha juu cha akiba ya kibinafsi kwa kampuni yoyote ya Kenya kuweza kuwa nacho. Hii inadhihirisha kwamba uwezo wetu wa kifedha pamoja na mtiririko madhubuti wa pesa umeiwezesha Halmashauri ya wakurugenzi kuidhinisha marupurupu ya mwisho ya shilingi 2 na senti 10 kwa kila hisa ya shilingi 10 ambayo yakiongezwa na marupurupu mara mbili ya muda ambayo tayari yalilipwa, yanatoa jumla ya marupurupu hayo kuwa shilingi 7 na senti 90 kwa kila hisa, sawa na aslimia 15.8. Marupurupu ya mwisho ambayo yanatarajiwa kukatwa ushuru yatalipwa mnamo tarehe 12 Aprili mwaka huu wa 2002 kwa wenye hisa kwa hisa zilizosajiliwa wakati wa kufunga biashara hiyo mnamo tarehe 4 Machi mwaka huu wa 2002. Kiwango cha marupurupu kilichoidhinishwa kinaambatana na mashindano ya juu ya sheria ya marupurupu kwa kiwango cha mtiririko wa pesa za kampuni na majukumu ya pesa hizo.

MATARAJIO:

Matarajio ya siku zijazo kwa uchumi kama vile wa nchi hii ni vigumu kubashiri hasa wakati huu, ikifahamika vyema hali isiyoeleweka ya viongozi wa siku zijazo wa kisiasa, mpango wa marekebisho ya katiba, kurejeshwa kwa misaada ya wafadhili na maswala ya usimamizi wa kiuchumi. Swala jingine lenye umuhimu mkubwa katika biashara yetu ni mswada wa kusimamia bidhaa za tumbaku uliopendekezwa ambao unatarajiwa kutekelezwa mwaka huu wa 2002. Ingawa maoni ya wahusika wakuu wa viwanda yaliwasilishwa kwa wizara ya Afya, hatuna habari zozote juu ya ikiwa marekebisho yameshirikishwa kwenye taarifa ya mswada huo. Hata hivyo hatupingi sheria hiyo moja kwa moja. Kile tunachotaka kuona ni sheria iliyo wazi, yenye msingi na inayoweza kutekelezwa ambayo itawiana na mahitaji ya kiafya kwa manufaa ya kijamii na kiuchumi kwa Kenya, kwani tunaamini kuwa itachangia maadili na tabia nzuri kwa sekta hii kuambatana na viwango vya ubora vilivyoko vya uuzaji kwa kampuni ya British American Tobacco Kenya.

Tunaamini kwamba Wakenya watajizatiti kufikia hatua ya kupata uongozi wa kisiasa kwa njia ya amani, sheria mpya mwafaka ya kikatiba na mazingira bora ili kudumisha shughuli za ufufuzi wa uchumi. Matarajio ya kampuni yetu ya kipindi kirefu yanaendelea kuwa msimamo bora miongoni mwa maswala mbali mbali, zikiwemo juhudi ambazo tayari zimefanywa ili kupunguza gharama za kampuni, kuratibu shughuli zetu na kunoa mbinu za usimamizi bora wa watu wetu. Tumejiandaa vilivyo kuchukua fursa kamili ya kufufua shughuli za kiuchumi.

WAKURUGENZI WAPYA:

Kabla sijakamilisha, nachukua fursa hii kuwakaribisha kwa Halmashauri ya kampuni ya British American Tobacco Kenya, wanachama wapya wa Halmashauri hiyo ambao walijiunga nayo mwaka wa 2001, ambao ni Bwana Harris Mule, Profesa Joseph Kimura na Bwana Simon Welford. Hawa ni watu wenye sifa kubwa na wenye kuheshimika mno na nina imani kwamba Halmashauri yetu itanufaika vilivyo kutokana na kuwepo kwao na tajiriba mbali mbali walizo nazo. Kwa niaba ya Halmashauri ya kampuni ya British American Tobacco Kenya ni furaha yetu kuu na shukurani nyingi sana kwa wahusika wote wakiwemo wafanyakazi wetu, wakulima, wagawaji, wenye hisa na washirika wengine wa kibiashara kwa msaada wao usio na kikomo.

Managing Director's Report

British American Tobacco Kenya continues to operate in a very challenging market. Total cigarette consumption and quality of brand mix have further declined in 2001. Competition in the cheaper price sectors of the market has intensified. Consequently, the company's market share has continued to erode, averaging an estimated 75% in 2001.

The restructuring initiatives undertaken last year have had a positive impact on our cost base; manufacturing costs and quality are now in line with international norms. Implementation in 2002 of the shared services centre for East and Central Africa, to be based in Nairobi, will further reduce administrative overheads.

The July 2001 price increase across the portfolio, the first since 1998, was nonetheless critical to maintaining margins. There have been encouraging performances from our higher priced brands since July. Benson & Hedges, our premium international brand, continues to deliver strong growth from a modest base, increasing by 62% over 2000, and Embassy has proven exceptionally resilient.

In the cheaper price sectors, our price fighter Safari family, recently enhanced by the addition of Safari Super, now accounts for 12% of our total domestic volume.

Our financial performance remains strong; the retention of the highest independent credit rating awarded to a Kenyan company confirms our robust financial health. Strong cashflows enable your Board of Directors to recommend the pursuit of a highly competitive dividend policy, yielding an attractive 15.8%.

The industry continues to face a degree of unethical competition. In this respect, the successful implementation of excise stamps was an important step towards an orderly, structured market and a level fiscal playing field in the future. The introduction of similar measures in neighbouring markets in 2002 is expected to complement the efforts of the Kenya Revenue Authority, although it would be unrealistic to expect this to translate into instant market share growth for British American Tobacco.

Exports to the Horn of Africa, our main export market, have suffered from volatile trading conditions, including a temporary ban on trade with Somalia. We are however delighted to now be manufacturing Benson & Hedges in our Nairobi factory, to the highest international quality standards and to be exporting the brand to Uganda, Democratic Republic of Congo and Tanzania. Recognition of our world class manufacturing capability paves the way for new export opportunities in the future.

The shift in our leaf growing strategy attracted media attention in 2001. The decision to cease growing dark fire-cured tobacco for export reflects the niche and non-strategic nature of the variety. It is a source of great satisfaction that in agreement and cooperation with British American Tobacco, the crop is now being supported by our export agents, Standard Commercial. In consequence, rural revenues have been protected, commercial risk for your company has been reduced and our Thika threshing plant continues to process the leaf.

In March, the Ministry of Health sponsored hearings with industry stakeholders with regard to the draft Tobacco Control Bill. We applaud the initiative on the part of the authorities, but at the time of writing we have no indication of what, if any, amendments may have been incorporated in the draft Bill. It is our expectation that new legislation will be enacted in 2002. We do not, however, see this as entirely negative. We welcome sensible and clear legislation and believe it will contribute to ensuring that, the entire industry behaves ethically and responsibly and in a manner consistent with British American Tobacco's existing marketing standards.

British American Tobacco continues to invest in its people. We are proud to have a total of 18 Kenyans on international secondment in 10 countries, and anticipate their returning to more senior positions in your Company in the future. The reputation of our Kenyan management team has never been better. In order to reinforce alignment of employee and company performance, the Directors propose to develop a company wide share participation, or similar scheme in 2002.

We were also delighted to improve our ranking to 6th position in the latest PriceWaterhouseCoopers survey of East Africa's most respected companies. This we believe reflects our concerted efforts to act and achieve recognition as a responsible company and to pursue our mission "to delight all stakeholders through comprehensive, sustainable and responsible leadership".

Supply Chain and Manufacturing

MANUFACTURING

During the year under review the Nairobi factory produced a total of 5.4 billion cigarettes of which 80% was for domestic consumption while the balance was for export markets within the region. The production figure reflected a decline in demand in certain segments that was dictated by market conditions both locally and in the neighbouring markets.

During the year, we accelerated our investment program in new modern machinery with a view to improving quality, increasing productivity and to rationalise our technology base so as to contain our spare parts holding costs. The main investments included a new packing line for our plain cigarettes, a complete refurbishment of one of our older lines, upgrading of cigarette making technology on certain product ranges, automatic case packers and filter handling equipment.

Even as we invest in technology, we recognise that our people are a very valuable asset. To this end we continued to aggressively pursue the development of the skills of our staff through training locally and abroad. In order to improve the cost effectiveness of our training, we also strengthened our local training capability through training designed specifically for trainers and adoption of training methodologies developed by some of our sister companies. We also further embedded the learnings of the Oliver Wight MRP2 particularly in areas related to team working and employee empowerment. As a result of these efforts, we are now confident that we possess one of the best developed workforces in the cigarette industry on the African continent.

The combined effect of our investment in people and technology has paid dividends in uplifting many of our performance measures. Specifically, we achieved a 14% improvement in manpower productivity as measured in cigarettes produced per man hour. Wastage of raw materials during the production process that results from weaknesses in machinery maintenance and operation also improved by a further 15% which brings the overall improvement since 1999 to 50%. These improvements had a significant impact in containing our operating costs in a difficult environment.

On the quality front, we posted a 10% improvement in quality as measured by standard British American Tobacco methods.

As a result of the above achievements our Parent company last year approved the local manufacture of Benson & Hedges after a thorough evaluation of our processes, quality performance and costs. This was a major milestone for the production department and for the company as a whole.

SUPPLY CHAIN

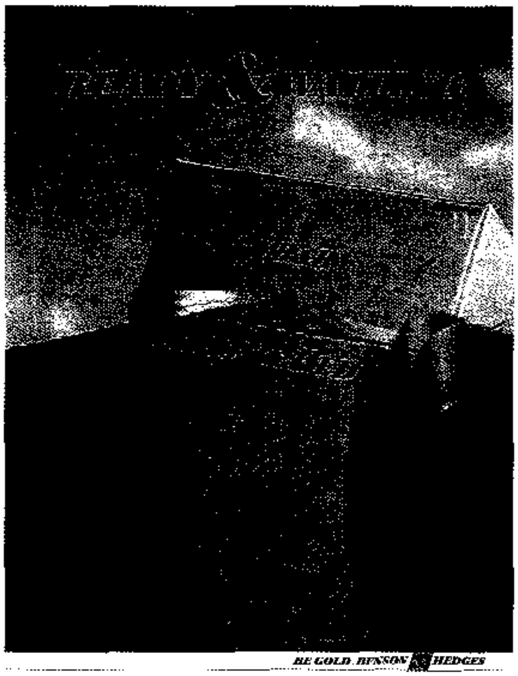
We progressed the consolidation of the Supply Chain initiatives in line with the challenges in the business environment. We achieved total Supply Chain integration within the organisation, upstream integration with our suppliers and downstream with our distributors and customers.

Customer order fulfilment is recognised as a core process and is controlled through an order management and factory order/shipment process. This core process is supported by a common information system that provides end to end visibility of the pipeline from order through to delivery. This close linkage has synchronised manufacturing, materials requirement and customer order fill rates, which has significantly improved our wrapping material and finished good inventory levels, order cycle time, delivery consolidation and route optimisation.

In line with the global trends, the procurement process has set up an e- commerce trading platform where buyers and suppliers are trading in a transparent manner. We have realised tangible benefits from the programmes which were initiated early in the year, including; supplier base rationalisation, supplier development programmes, integrated information systems, centralised inventory and collective strategy development.

As markets, technologies and competitive forces change at ever-increasing rates, we continue training our people and aligning our sub processes to maintain the leading edge. We believe that with the above initiatives and achievements, we are now well positioned to fully leverage our strengths in both manufacturing and supply chain management to provide our customers with the best quality products at very competitive prices.

Marketing Activities



The economic difficulties of the previous years persisted into 2001 and continued to create a challenging marketing environment. Consumer disposable income was further eroded leading to shrinkage of the total cigarette market in Kenya and ongoing switching to lower priced cigarette brands.

The introduction of Excise Tax Stamps by the Kenya Revenue Authority in September was a positive move towards creating a more regulated and fairer competitive environment by attacking the level of untaxed cigarettes in the market. The company worked closely with the KRA to ensure that the implementation of the tax stamps was smooth and that all traders and consumers were informed of the rationale for their introduction - as well as the penalties for trading in unstamped product.

In July we increased prices across our total brand portfolio. This was the first price increase in three years and was implemented to maintain margins that had been eroded over the period as a result of the rising cost of imported materials, increasing distribution costs due to deteriorating infrastructure and the heavy incremental cost of tax stamps. The price increase resulted in an expected immediate slowdown in sales but recovery was steady through to the end of the year.

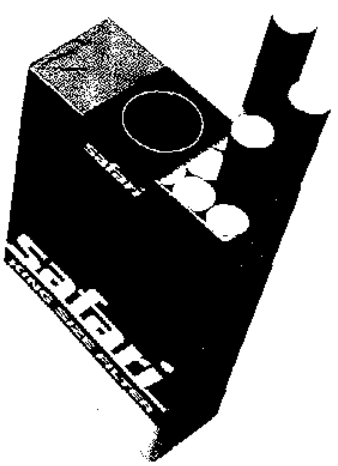
Marketing Activities

In the premium price segment of the market, Benson & Hedges continued to register very encouraging growth, closing the year up 62% on the prior year. Although this growth is coming off a low base we remain confident that the brand has a strong future in the Kenyan market. Growth was driven by trade activities aimed at expanding distribution and by continuous consumer support that included an instant win promotion and sponsored Street Jams in Nairobi and Mombasa.

In the course of the year we rolled out the new "Blue Wash" campaign for Embassy. The new campaign has been positively received by the brand's consumers and has played a key role in stimulating a growth in market share, after several years of slow decline. Keen attention to resolving distribution issues hindering the brand has resulted in improved stocking levels and built trade support throughout all regions.

Our biggest brand Sportsman is the brand most challenged by low consumer disposable income forcing reduced consumption and switching to lower priced brands. Overall sales volume fell in the year under review by 13% largely as a result of the price increase which forced the brand from its attractive Ksh 50/- retail price point. A national consumer promotion 'Fungua Biashara na Sportsman" attracted a record number of entries. To further build value in the brand, a new Brand identifier was developed and rolled out in the market alongside the existing "True Spirit, True Taste" campaign that was launched early in 2001.

As part of our continuous effort to meet evolving consumer trends we launched Safari Super as an extension to the Safari family in December. The launch was a response to consumer taste preferences as identified through marketing research. Although currently in its infancy initial indicators are positive. The Safari brand is now firmly establishing its role as a price fighter brand, offering value to consumers who are forced to smoke low priced brands as disposable income erodes.



INTERNATIONAL MARKETING STANDARDS

In September, British American Tobacco and the two other leading global tobacco companies, Philip Morris and Japan Tobacco launched the International Marketing Standards. The Standards are an industry wide voluntary code of conduct that seeking to ensure that all marketing activities and advertising is targeted and reaches only adults. British American Tobacco Kenya will implement the Standards progressively during the coming year to achieve compliance by December 2002.

The Standards will result in a gradual withdraw from advertising on billboards, in the press and on the radio, and more emphasis on communication of our products at the point of sale. Emphasis will also be placed on reinforcing our trading relationships with strategic partners and key outlets

The Standards are a commitment to our objective of demonstrating responsibility in the marketing of our brands through ensuring that advertising of tobacco products is aimed at adults only.

Leaf Growing

GROWING

In the 2001 season British Americans Tobacco Kenya supported 15,000 farmers to grow nearly 9,000 tonnes of green leaf tobacco for domestic and export use. This earned the farmers over Kshs 500 million in revenue.

The restructuring of the leaf business, which started in 2000, continued in this season with a revaluation of types of tobacco grown by British American Tobacco farmers. Due to Dark Fired tobacco's small export customer base and increasing pressure to reduce areas of risk in the business, a decision was made to restict the company's exposure in this type of tobacco.

It was announced in August that British American Tobacco was in future to concentrate on the production of dark fire cured tobacco for domestic requirements only and was to withdraw from producing for export. Consequently one leaf Centre in Nyanza area, Taranganya, was mothballed and a number of staff made redundant. At the time British American Tobacco stated that they would look for an altenative source of income for the 3000 farmers affected in the Nyanza and Malakisi areas. This was achieved when Stancom Kenya Ltd, an international tobacco merchant that is listed on the New York Stock Exchange, agreed to take up these farmers for their own export.

The emphasis in 2002 will continue to be on quality leaf production. This will be achieved by:

- Focusing on the higher calibre farmers.
- Training by our expert extension staff
- Promotion of best practices.

SOCIAL RESPONSIBILITY

British American Tobacco Kenya continues its drive to be a more socially responsible company. A reduction in chemical usage on the farms has been achieved through our integrated crop management methods. For example we no longer use a soil sterilant for our seedbeds.

Best practices are being promoted with our farmers to improve their yields, and reduce woodfuel requirements for curing tobacco. Afforestation is still a key objective to ensuring farmers use a renewable fuel resource for curing their tobacco. The company not only supplies tree seedlings to its farmers, but also has planted over 800,000 tree seedlings in 2001 alone, in community projects in conjunction with local governments.

LEAF PROCESSING

Through 2001 the Thika Green Leaf Threshing Plant processed a total of 18,500 tonnes of tobacco comprising of 10,000 from Kenya and a further 8,500 from within East and Central Africa.

Over the year improvements to the plant were carried out to achieve improved quality, efficiencies and safety for the employees.

The Thika processing plant continued to be major source of seasonal employment within Thika town offering up to 1,500 seasonal jobs in the peak processing season.

SUMMARY

Due to the ever changing business environment in Kenya, leaf production has faced many challenges in recent years, which has led to the restructuring of the business and the change in emphasis on crop types. We believe that the present structure and focus on quality will provide a sound base for supporting our core business of cigarette manufacturing and marketing in the future.

Notice of the Meeting

NOTICE IS HEREBY GIVEN that the Fiftieth Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ball Room, Hotel Intercontinental, Nairobi, on Thursday, 11 April 2002 at 3.00pm for the following purposes:-

1. **To receive and consider the Accounts for the year ended 31 December 2001 and the Reports of the Directors and Auditors thereon.**
2. **To declare a dividend.**
3. **To elect Directors.**
4. **To reappoint Auditors and authorise the Directors to fix their remuneration.**

1 February 2002	**By Order of the Board**
Likoni Road,	**J. N. Kiragu**
P. O Box 30000, Nairobi	**Company Secretary**

NOTE

1. A member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy *to attend and vote in his stead. Such proxy need not be a member of the Company.*

2. A proxy form is provided with this report, which shareholders who do not propose to be at the Meeting are *requested to complete and return to the Registered Office of the Company so as to arrive not later than 3.00* p.m. on Wednesday, 10 April 2002.

Directors' Report
&
Financial Statements
2001

Directors and Advisors

Board of Directors
Mr. E. Mwaniki* (Chairman)
Mr. C.M. Burrell (Managing Director)
Mr S. Welford (General Manager)
Mr. T.D. McConnell
Mr. A. Ngugi*
Prof J.H. Kimura*
Mr. H.M Mule*
Mr M.M. Wanyoike*

*Non - executive directors

Audit Committee
Mr. E. Mwaniki
Mr. C.M. Burrell
Mr S. Welford
Mr. T.D. McConnell
Prof J.H. Kimura
Mr. D. Kiambi
Mr. T. Hext

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

Auditors
PricewaterhouseCoopers
Rahimtulla Tower
Upper Hill Road
P.O. Box 43963
Nairobi

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

Transfer Agents
Barclays Advisory & Registrar Services Limited
Bank House
Moi Avenue
P.O. Box 30120
Nairobi

Bankers
Barclays Bank of Kenya Limited
Citibank N.A
Commercial Bank of Africa Limited
Credit Agricole Indosuez
Stanbic Bank Kenya Limited
Standard Chartered Bank Kenya Limited

Report of the Directors
Ripoti ya Wakurugenzi

The Directors submit their report and the audited financial statements for the year ended 31 December 2001.

Principal activities
The principal actitivities of the group are the manufacture and sale of cigarettes and tobaccos.

Results and dividends	**K.Shs. '000**
Net profit for the year	604,109
Appropriated as follows:	
Dividends:	
Interim dividends of K.Shs 5.80 per share	580,000
Proposed final dividend of K.Shs 2.10 per share	210,000
	790,000

Financial risk management objectives and policies
The company's activities expose it to a variety of financial risks, including credit risk, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance within the options available in Kenya to hedge against such risks.

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

Mr. J.B Wanjui resigned as a director on 12 February 2001.

Messrs S.A. Welford, H.M. Mule and Prof. J.H. Kimura were appointed as directors on 6 July 2001.

In accordance with article 89 of the Articles of Association, Messrs E. Mwaniki, M.M. Wanyoike and C.M. Burrell, 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 S.A. Welford, H.M. Mule and Prof. J.H. Kimura retire from the Board at the Annual General Meeting and being eligible, offer themselves for re-election.

Auditors
Messrs PricewaterhouseCoopers, will continue in office in accordance with section 159(2) of the Companies Act.

11 March 2002
Likoni Road
P.O. Box 30000, Nairobi

By order of the Board
J. N. Kiragu
Company Secretary

Wakurugenzi wanatoa Ripoti yao na hesabu za fedha zilizokaguliwa kwa mwaka uliomalizika Desemba 31 2001.

Shughuli muhimu za kundi la makampuni
Shughuli muhimu za kundi la makampuni ni utengenezaji na uuzaji wa sigara na tumbaku.

Faida iliyopatikana	***K.Shs.'000***
Faida iliyopatikana katika mwaka huo baada ya kodi ilikuwa	*604,109*
Iligawanywa ifuatavyo:	
Migawo ya faida kwa wenyehisa:	
Mgawo wa muda wa K.Shs. 5.80 kwa kila hisa	*580,000*
Mgawo wa mwisho unaopendekezwa wa K.Shs 2.10	*210,000*
	790,000

Maongozi na Maudhui ya kukabiliana na hatari za usimamizi wa fedha
Shughuli za kampuni hii zinaifanya kuwa wazi kwa hatari mbali mbali za kifedha, ikiwemo hatari ya mikopo, viwango vya ubadilishanaji pesa za kigeni na viwango vya riba. Mradi wa kukabiliana na usimamizi wa hatari za kampuni kwa jumla, unazingatia hali isiyoweza kubashiriwa ya masoko ya kifedha na unatafuta kupunguza athari, zinazoweza kuwepo kuhusu hali yake ya kifedha kuambatana na nafasi zilizoko hapa nchini Kenya ili kuzuia hatari kama hizo.

Halmashauri ya Wakurugenzi
Tangu mkutano mkuu wa mwaka jana mabadiliko yafuatayo yametokea katika halmashauri ya wakurugenzi:

Bw. J.B Wanjui alijiuzulu tarehe 12 Februari 2001.

Mabw. S.A. Welford, H.M. Mule na Prof. J.H. Kimura walitueliwa wakurugenzi tarehe 6 Julai 2001.

Kwa mujibu wa kifungu 89 cha Katiba ya Kampuni Mabw. E.Mwaniki, M.M. Wanyoike na C.M. Burrell wastaafu kwa zamu katika Mkutano wa Mwaka na, kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kwa mujibu wa kifungu 95 cha katiba ya Kampuni Mabw. S.A. Welford, H.M.Mule na Prof J.H. Kimura wastaafu katika Mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Wakaguzi wa Hesabu
PricewaterhouseCoopers wataendelea na ukaguzi wa vitabu kwa mujibu wa kifungu cha 159(2) cha Sheria za Makampuni.

Machi 11 2002
Likoni Road
P.O. Box 30000, Nairobi

Kwa amri ya Halmashauri
J. N. Kiragu
Katibu wa Kampuni

Statement of Directors' Responsibilities

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company, as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Accounting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and the company and of group profit. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the group will not remain a going concern for at least the twelve months from the date of this statement.

C.M. Burrell
Director

T.D. McConnell
Director

11 March 2002

Auditors' Report

Report of the auditors to the members of British American Tobacco Kenya Limited

We have audited the financial statements set out on pages 20 to 36. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. The company's balance sheet is in agreement with the books of account.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 18. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. 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.

Opinion

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 of the company as at 31 December 2001 and of the group profit and cash flows for the year then ended and comply with International Accounting Standards and the Kenyan Companies Act.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi **11 March 2002**

Consolidated Profit and Loss Account

For the year ended 31 December 2001

	Notes	2001	2000
		K.Shs.'000	K.Shs.'000
Gross turnover		10,363,992	10,895,622
Excise duty & Value Added Tax		(4,902,924)	(5,419,937)
Net turnover		5,461,068	5,475,685
Cost of operations	1	(4,236,931)	(4,060,745)
Reorganisation costs	2	(257,204)	(889,393)
Other operating income		8,693	182,320
Operating profit	3	975,626	707,867
Finance costs	5	(124,283)	(24,897)
Profit before tax		851,343	682,970
Tax	6	(247,234)	(100,260)
Net profit		604,109	582,710
Earnings per share			
Basic earnings per share (K.Shs.)	8	6.04	5.83
Diluted earnings per share (K.Shs.)	8	6.04	5.83
Dividends			
Interim dividends paid	7	580,000	625,000
Proposed final dividend for the year	7	210,000	165,000
		790,000	790,000

Consolidated Balance Sheet

At 31 December 2001

	Notes	2001 K.Shs.'000	2000 K.Shs.'000
CAPITAL EMPLOYED			
Share capital	9	1,000,000	1,000,000
Share premium		23	23
Revaluation reserves	10	885,536	953,103
Retained earnings		2,087,153	2,205,477
Proposed dividends	7	210,000	165,000
Shareholders' funds		4,182,712	4,323,603
Non-current liabilities			
Retirement benefits obligation	11	82,203	81,483
Deferred tax	12	504,979	484,900
		4,769,894	**4,889,986**
REPRESENTED BY:			
Non-current assets			
Property, plant and equipment	13	3,498,163	3,483,043
Current assets			
Inventories	14	1,978,732	2,292,011
Receivables and prepayments	15	689,804	620,584
Tax recoverable		79,516	154,230
Cash and bank balances		496,392	606,713
		3,244,444	3,673,538
Current liabilities			
Payables and accrued expenses	17	1,068,454	1,186,962
Bank borrowings	16	674,259	1,079,633
Dividends payable	7	230,000	-
		1,972,713	2,266,595
Net current assets		1,271,731	1,406,943
Total assets less current liabilities		**4,769,894**	**4,889,986**

The financial statements on pages 20 to 36 were approved for issue by the Board of Directors on 11 March 2002 and were signed on its behalf by:

C.M. Burrell Director

T.D. McConnell Director

Company Balance Sheet

At 31 December 2001

	Notes	2001 K.Shs.'000	2000 K.Shs.'000
CAPITAL EMPLOYED			
Share capital	9	1,000,000	1,000,000
Share premium		23	23
Revaluation reserves	10	885,536	953,103
Retained earnings		2,087,153	2,205,477
Proposed dividends		210,000	165,000
Shareholders' funds		4,182,712	4,323,603
Non-current liabilities			
Retirement benefit obligations	11	82,203	81,483
Deferred tax	12	504,979	484,900
		4,769,894	**4,889,986**
REPRESENTED BY:			
Non-current assets			
Property, plant and equipment	13	3,498,163	3,483,043
Investment in subsidiary		12,000	12,000
		3,510,163	3,495,043
Current assets			
Inventories	14	1,978,732	2,292,011
Receivables and prepayments	15	1,113,572	901,475
Tax recoverable		59,180	148,250
Cash and bank balances		264,280	303,391
		3,415,764	3,645,127
Current liabilities			
Payables and accrued expenses	17	1,251,774	1,170,551
Bank borrowings	16	674,259	1,079,633
Dividends payable		230,000	-
		2,156,033	2,250,184
Net current assets		1,259,731	1,394,943
Total assets less current liabilities		**4,769,894**	**4,889,986**

The financial statements on pages 20 to 36 were approved for issue by the Board of Directors on 11 March 2002 and were signed on its behalf by:

C.M. Burrell Director

T.D. McConnell Director

Consolidated Statement of Changes in Equity

	Notes	Share capital K.Shs.'000	Revaluation reserves K.Shs.'000	Retained earnings K.Shs.'000	Proposed dividends K.Shs.'000	Total K.Shs.'000
Year ended 31 December 2000						
At start of year		750,000	981,676	2,634,194	600,000	4,965,870
Transfer of excess depreciation	10	-	(40,819)	40,819	-	-
Deferred tax on transfer	10	-	12,246	(12,246)	-	-
Net gains/ (losses) not recognised in income statement		-	(28,573)	28,573	-	-
Net profit for the year		-	-	582,710	-	582,710
Dividends:	7					
-Final for 1999		-	-	-	(600,000)	(600,000)
-Interim for 2000		-	-	(625,000)	-	(625,000)
-Proposed final for 2000		-	-	(165,000)	165,000	-
Bonus issue of shares		250,000	-	(250,000)	-	-
At end of year		1,000,000	953,103	2,205,477	165,000	4,323,580
Year ended 31 December 2001						
At start of year		1,000,000	953,103	2,205,477	165,000	4,323,580
Transfer of excess depreciation	10	-	(43,496)	43,496	-	-
Transfer on disposal		-	(53,028)	53,028	-	-
Deferred tax on transfer	10	-	28,957	(28,957)	-	-
Net gains/(losses) not recognised in income statement		-	(67,567)	67,567	-	-
Net profit for the year		-	-	604,109	-	604,109
Dividends:	7				-	-
-Final for 2000		-	-	-	(165,000)	(165,000)
-Interim for 2001		-	-	(580,000)	-	(580,000)
-Final for 2001		-	-	(210,000)	210,000	-
At end of year		1,000,000	885,536	2,087,153	210,000	4,182,689

Company Statement of Changes in Equity

	Notes	Share capital K.Shs.'000	Revaluation reserves K.Shs.'000	Retained earnings K.Shs.'000	Proposed dividends K.Shs.'000	Total K.Shs.'000
Year ended 31 December 2000						
At start of year		750,000	981,676	2,634,194	600,000	4,965,870
Transfer of excess depreciation	10	-	(40,819)	40,819	-	-
Deferred tax on transfer	10	-	12,246	(12,246)	-	-
Net gains/ (losses) not recognised in income statement		-	(28,573)	28,573	-	-
Net profit for the year		-	-	582,710	-	582,710
Dividends:	7					
-Final for 1999		-	-	-	(600,000)	(600,000)
-Interim for 2000		-	-	(625,000)	-	(625,000)
-Proposed final for 2000		-	-	(165,000)	165,000	-
Bonus issue of shares		250,000	-	(250,000)	-	-
At end of year		1,000,000	953,103	2,205,477	165,000	4,323,580
Year ended 31 December 2001						
At start of year		1,000,000	953,103	2,205,477	165,000	4,323,580
Transfer of excess depreciation	10	-	(43,496)	43,496	-	-
Transfer on disposal		-	(53,028)	53,028	-	-
Deferred tax on transfer	10	-	28,957	(28,957)	-	-
Net gains/(losses) not recognised in income statement		-	(67,567)	67,567	-	-
Net profit for the year		-	-	604,109	-	604,109
Dividends:	7					
-Final for 2000		-	-	-	(165,000)	(165,000)
-Interim for 2001		-	-	(580,000)	-	(580,000)
-Final for 2001		-	-	(210,000)	210,000	-
At end of year		1,000,000	885,536	2,087,153	210,000	4,182,689

Consolidated Cash Flow Statement

For the year ended 31 December 2001	Notes	2001	2000
		K.Shs.'000	K.Shs.'000
Operating activities			
Cash generated from operations	19	1,345,058	1,512,186
Interest received		5,194	11,078
Interest paid		(131,727)	(74,314)
Tax paid		(152,441)	(423,409)
Net cash from operating activities		1,066,084	1,025,541
Investing activities			
Purchase of property, plant and equipment	13	(297,988)	(438,037)
Proceeds from disposal of property, plant and equipment		41,957	32,860
Net cash used in investing activities		(256,031)	(405,177)
Financing activities			
Dividends paid		(515,000)	(1,225,000)
Net cash used in financing activities		(515,000)	(1,225,000)
Increase/(decrease) in cash and cash equivalents		295,053	(604,636)
Movement in cash and cash equivalents:			
At start of year		(472,920)	131,716
Increase/(decrease)		295,053	(604,636)
At end of year	16	(177,867)	(472,920)

Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with and comply with International Accounting Standards. The financial statements are presented in Kenya Shillings (K.Shs.) and are prepared under the historical cost convention as modified by the revaluation of land and buildings.

(b) Group accounting

The consolidated financial statements incorporate the company and its subsidiaries, made up to 31 December 2001. Subsidiaries are consolidated from the date on which control is transferred to the group and are not consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

(c) Revenue recognition

Sales are recognised upon delivery of goods to customers and are stated net of excise duty and VAT. Interest income is recognised as it accrues unless collectability is in doubt.

(d) Property, plant and equipment

All property, plant and equipment is initially recorded at cost. Land and buildings are subsequently shown at valuation, less subsequent depreciation.

Increases in the carrying amount arising on the revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated on the straight-line basis to write down the cost of each asset, or the revalued amount, to its expected residual value over its estimated useful life as follows:

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
Plant, machinery, vehicles and equipment	-7% to 30%

Freehold land is not depreciated.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Translation of 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 the transaction. The resulting differences from conversion are dealt with in the profit and loss account in the year in which they arise.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(g) Trade receivables

Trade receivables are carried at original invoiced amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified.

(h) Deferred tax

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their values for financial reporting purposes. Tax rates enacted or substantially enacted at the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(i) Retirement benefit obligations

The company operates two defined contribution retirement benefit schemes for all its employees. The assets of both schemes are held in separate funds which are managed by an independent fund manager and are funded by contributions from both the company and employees. The company's contributions to the schemes are charged to the profit and loss account in the year which they relate.

The company also operates an unfunded retirement benefit scheme to provide additional retirement benefits to management staff. The scheme operates on a defined benefit basis. No contributions are payable to the scheme, but a provision is made in the financial statements for the estimated cost of the future benefits under the scheme. The adequacy of such provisions is confirmed periodically by an independent actuarial valuation.

(j) Dividends

Dividends on ordinary shares are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(k) Reorganisation provisions

Reorganisation provisions mainly comprise employee termination payments and are recognised in the year in which the company becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the company are not provided for in advance.

Notes forming part of the Financial Statements

1. Cost of operations

	2001 K.Shs.'000	2000 K.Shs.'000
Raw materials and consumables	2,070,483	1,870,396
Marketing and distribution costs	579,721	568,888
Administrative expenses	1,360,574	1,400,861
Depreciation	226,153	220,600
	4,236,931	4,060,745

2. Reorganisation costs

Redundancy costs	159,874	334,065
Restructuring expenses	97,330	555,328
	257,204	889,393

During the year, the company continued the reorganisation of leaf, supply chain and trade marketing operations which resulted in redundancies and restructuring expenses.

3. Operating profit

	2001 K.Shs.'000	2000 K.Shs.'000
The following items have been charged in arriving at operating profit:		
Depreciation of property, plant and equipment (Note 13)	226,153	220,600
Staff costs (Note 4)	718,140	949,962
Auditors' remuneration	4,400	4,050

4. Staff costs

The following items are included within staff costs:		
Retirement benefits costs:		
– defined contribution schemes (Note 11)	41,881	41,813
– defined benefit scheme (Note 11)	13,696	27,803

The number of persons employed by the company at the year end was 540 (2000 : 651)

5. Finance (costs) /income

	2001 K.Shs.'000	2000 K.Shs.'000
Interest income	5,194	11,078
Net foreign currency exchange gains	2,250	38,339
Interest expense and similar charges	(131,727)	(74,314)
	(124,283)	(24,897)

Notes forming part of the Financial Statements (continued)

6. **Tax**

	2001 K.Shs.'000	2000 K.Shs.'000
Current tax	227,155	319,384
Under-provision in prior years	-	26,323
Deferred tax (Note 12)	20,079	(245,447)
	247,234	100,260

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2001 K.Shs.'000	2000 K.Shs.'000
Profit before tax	851,343	682,970
Tax calculated at a tax rate of 30% (2000: 30%)	255,403	204,891
Tax effect of:		
Income not subject to tax	(13,161)	(26,910)
Expenses not deductible for tax purposes	4,992	13,163
Under provision of current tax in prior years	-	26,323
Over provision of deffered tax in prior years	-	(117,207)
Tax charge	247,234	100,260

7. **Dividends**

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. During the year, an interim dividend of K.Shs. 3.50 per share amounting to K.Shs. 350,000,000 was paid on 31 August 2001. A second interim dividend of K.Shs. 2.30 per share amounting to K.Shs. 230,000,000 was paid on 10 January 2002. At the annual general meeting to be held on 11 April 2002, a final dividend of K.Shs. 2.10 per share amounting to K.Shs. 210,000,000 is to be proposed. The total dividend for the year is, therefore, K.Shs. 7.90 per share (2000: K.Shs. 7.90), amounting to K.Shs. 790,000,000 (2000: K.Shs. 790,000,000). Payment of dividends is subject to withholding tax at a rate of 5% and 10% for residents and non-residents respectively.

8. **Earnings per share**

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2001	2000
Net profit attributable to shareholders (K.Shs. '000)	604,109	582,710
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (K.Shs.)	6.04	5.83

There were no potentially dilutive shares outstanding at either year ends.

Notes forming part of the Financial Statements (continued)

9. Share capital

	Number of shares (Thousands)	Ordinary shares K.Shs.'000
At 1 January 2001 and at 31 December 2001	100,000	1,000,000

The total authorised number of ordinary shares is 100,000,000 with a par value of Kshs 10 per share. All issued shares are fully paid.

10. Revaluation reserves – Group and Company

Revaluation reserves relate to surplus on revaluation of the company's land and buildings (Note. 13). Revaluation reserves are non-distributable.

The movement in revaluation reserves during the year was as follows:

	2001 K.Shs.'000	2000 K.Shs.'000
At start of year	953,103	981,676
Transfer of excess depreciation	(43,496)	(40,819)
Transfer on disposal	(53,028)	-
Deferred tax on transfer	28,957	12,246
At end of year	885,536	953,103

11. **Retirement benefits obligation**

Unfunded retirement benefit scheme

The company makes a provision in the financial statements for the estimated cost of the future benefits under the defined "top-up" scheme for management staff. The movement in the provision during the year is as follows:

	2001 K.Shs.'000	2000 K.Shs.'000
At start of year	81,483	91,260
Charge to profit and loss account in the year	13,696	27,803
Utilised	(12,976)	(37,580)
At end of year	82,203	81,483

The last actuarial assessment of the company's liabilities under the scheme was carried out as at 31 December 1999. The main actuarial assumptions applied are as follows:

Discount rate	9%
Future annual salary increase	7%
Future annual increase in contributions to provident fund	7%

Defined contribution schemes

The company also operates two defined contribution schemes for all its staff. The two schemes are the BAT Kenya Staff Provident Fund (which is a closed fund into which no additional contributions are payable) and the BAT Kenya Staff Provident Fund – 1991. Contributions to the scheme, determined by the rules of the scheme amounted to K.Shs. 41,109,000 (2000: 41,028,000).

Contributions to the statutory pension scheme, NSSF, are determined by local statute and amounted to K.Shs. 771,578 (2000: 785,360).

12. **Deferred tax – Group and Company**

Deferred tax is calculated, in full, on all temporary differences under the liability method using the enacted tax rate of 30% (2000: 30%). The movement on the deferred tax account is as follows:

	2001 K.Shs.'000	2000 K.Shs.'000
At start of year	484,900	730,347
Profit and loss account charge/(credit) (Note 6)	20,079	(245,447)
	504,979	484,900

Deferred tax assets and liabilities, and deferred tax charge/credit in the profit and loss account are attributable to the following items:

	1 January K.Shs.'000	Charged to profit and loss account K.Shs.'000	31 December K.Shs.'000
Deferred tax liabilities			
Property, plant and equipment			
- Historical cost	229,011	64,831	293,842
- Revaluation surplus	407,211	(28,957)	378,254
	636,222	35,874	672,096
Deferred tax assets			
Tax losses carried forward	(106,781)	(34,021)	(140,802)
Other temporary differences	(44,541)	18,226	(26,315)
Net deferred tax liability	484,900	20,079	504,979

Deferred tax of K.Shs. 28,957,000 has been transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

13. Property, plant and equipment – Group and Company

	Freehold land & buldings K.Shs.'000	Leasehold land & buildings K.Shs.'000	Plant & machinery K.Shs.'000	Vehicles & equipment K.Shs.'000	Total K.Shs.'000
(a) **Cost or valuation:**					
1 January 2001	13,500	1,856,627	2,270,269	551,690	4,692,086
Additions	-	18,203	239,632	40,153	297,988
Disposals and assets written down	-	(75,000)	(11,009)	(11,997)	(98,006)
At 31 December 2001	13,500	1,799,830	2,498,892	579,846	4,892,068
Depreciation:					
1 January 2001	262	53,051	855,842	299,888	1,209,403
Charge for the year	262	56,175	107,394	62,322	226,153
Disposals and assets written down	-	(21,972)	(9,831)	(9,488)	(41,291)
At 31 December 2001	524	87,254	953,405	352,722	1,399,905
Net book amounts:					
At 31 December 2001	12,976	1,712,576	1,545,487	227,124	3,498,163
Historical cost	436	509,539	1,545,487	227,124	2,282,586
Revaluation	12,540	1,203,037	-	-	1,215,577
At 31 December 2000	13,238	1,803,576	1,414,427	251,802	3,483,043
Historical cost	446	456,053	1,414,427	251,802	2,122,728
Revaluation	12,792	1,347,522	-	-	1,360,314

(b) Freehold land and buildings were revalued as at 31 December 1999, by Tyson's Limited, on the following bases:

i) open market value for land and residential properties in major urban areas; and

ii) net current replacement cost on existing use basis for all other properties

Notes forming part of the Financial Statements (continued)

14. Inventories – Group and Company

	2001 K.Shs.'000	2000 K.Shs.'000
Raw materials and consumables	1,864,995	2,206,787
Finished goods and work in progress	113,737	85,224
	1,978,732	2,292,011

15. Receivables and prepayments

	Group		Company	
	2001 K.Shs.'000	2000 K.Shs.'000	2001 K.Shs.'000	2000 K.Shs.'000
Trade receivables	161,282	76,902	55,036	60,440
Prepayments and other debtors	277,863	332,789	277,863	332,789
Related companies (Note 20)	250,659	210,893	780,673	508,246
	689,804	620,584	1,113,572	901,475

16. Cash and cash equivalents – Group

For the purpose of the cash flow statement, the year end cash and cash equivalents comprise the following:

	2001 K.Shs.'000	2000 K.Shs.'000
Cash and bank balances	496,392	606,713
Bank borrowings	(674,259)	(1,079,633)
	(177,867)	(472,920)

Bank borrowings are unsecured.

The weighted average effective interest rates on bank borrowings during the year was 10.7% (2000:10.4%)

17. Payables and accrued expenses

	Group		Company	
	2001	2000	2001	2000
	K.Shs.'000	K.Shs.'000	K.Shs.'000	K.Shs.'000
Trade payables	216,414	185,109	178,513	168,699
Related companies (Note 20)	86,795	7,900	308,025	7,900
Excise duty & VAT payable	490,492	469,377	490,492	469,376
Accruals and other creditors	274,753	524,576	274,744	524,576
	1,068,454	1,186,962	1,251,774	1,170,551

18. Contingent liabilities

At 31 December 2001, the group had given guarantees amounting to Shs 50 million (2000: Shs 39 million) on behalf of third parties.

19. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2001	2000
	K.Shs.'000	K.Shs.'000
Profit before tax	851,343	682,970
Adjustments for:		
Depreciation (Note 13)	226,153	220,600
Loss on sale of property, plant and equipment	14,758	5,413
Interest income (Note 5)	(5,194)	(11,078)
Interest expense (Note 5)	131,727	74,314
Changes in working capital:		
– receivables and prepayments	(69,220)	198,394
– inventories	313,279	227,853
– payables and accrued expenses	(118,508)	123,497
– retirement benefits obligation	720	(9,777)
Cash generated from operations	1,345,058	1,512,186

20. Related party disclosures

(i) Related party transactions

The ultimate parent and controlling party of the group is British American Tobacco plc, incorporated in England and Wales. There are other companies that are related to British American Tobacco Kenya Limited through common shareholding or common directorships.

The company receives technical and advisory support from the parent company in areas such as marketing, management training, and research and development. Technical and advisory fees payable to the parent company in respect of these services in the year was K.Shs. 157,400,000 (2000: K.Shs. 122,756,000).

Royalties are payable to related parties for certain cigarette trademarks that are owned by those parties. Royalties are payable at a rate of 5% of the net turnover of qualifying brands. Total royalties payable in the year were K.Shs. 57,909,000(2000: K.Shs. 32,530,000).

Outstanding balances arising from the transactions with related parties are as follows:

	2001 K.Shs.'000	2000 K.Shs.'000
Receivables		
Fellow subsidiaries	250,659	210,893
Payables		
Parent company	29,905	-
Fellow subsidiaries	56,890	7,900
	86,795	7,900

(ii) Directors remuneration

Fees	190	165
As management	62,518	62,321
	62,708	62,486

SUBSIDIARY COMPANIES IN THE BRITISH AMERICAN TOBACCO KENYA LIMITED GROUP

	% equity shares held
BAT Kenya Tobacco Company Limited	100
African Cigarette Company (Overseas) Limited	100 (non- trading)
East African Tobacco Company Kenya Limited	100 (non- trading)

Corporate Governance

The Chairman has alluded to the recently gazetted guidelines on corporate governance issued by the Capital Markets Authority.

The Board of Directors is currently studying the guidelines with a view to identifying any material differences between the recommendations and current practices within the British American Tobacco group. British American Tobacco Kenya adheres strictly to the group's global standards and practices of good corporate governance. The sections below outline key aspects of existing corporate governance practices within British American Tobacco Kenya.

The Board of Directors

The Board meets at least five times a year. Its current membership of executive and non-executive Directors appears earlier in this report. In 2001, one non-executive Director (Mr. Joe Wanjui) resigned from the Board, two new non-executive Directors (Professor Joseph Kimura and Mr. Harris Mule) and one new executive Director (Mr. Simon Welford) were appointed.

The Board provides overall strategic direction, reviews performance and takes material policy decisions.

Responsibility for implementing strategy is delegated to the top management team (Kenya Strategy Team), which meets monthly.

The Board is responsible for the overall system of internal control, and for reviewing the effectiveness of these controls.

Board Committees

The Audit Committee

Chaired by the non-executive Chairman of the Board of Directors, Mr. Evanson Mwaniki, the Audit Comittee meets a minimum of three times a year, to review with internal and external auditors, as well as management, the effectiveness of internal controls, matters raised in regular audit reports and annual financial statements prior to their submission to the Board.

The Chairman and non-executive members of the Audit Committee are at liberty to meet with external auditors in the absence of both management and executive Directors whenever they deem it necessary.

Audit Committee membership currently includes two members of management, three executive Directors and two non-executive Directors.

The Board Compensation Committee

Also chaired by Mr. Evanson Mwaniki, the Board Compensation Committee approves remuneration policy for employees, management and non-executive Directors. Committee membership includes one non-executive Director, three executive Directors and two members of management.

Corporate Governance (continued)

The Nominations Committee

Chaired by Mr. Evanson Mwaniki, it recommends candidates for appointment to the Board of Directors.

Provident Funds

The two British American Tobacco Kenya provident funds are under the stewardship of a joint Board of Trustees.

Chaired by Mr. Michael Wanyoike (a non-executive director), the trustees include representatives of employees and management, in addition to both executive and non-executive Directors.

Both Funds are compliant with the requirements of the Retirement Benefits Act.

Corporate Citizenship

British American Tobacco Kenya has adopted a structured approach to environmental, health and safety management, in compliance with group best practices, across all operations.

The company supports numerous social responsibility initiatives including Jua Kali, The Agricultural Society of Kenya and afforestation. Contributions of Ksh 20 million were made in 2001.

No payments were made for political purposes.

Employees

British American Tobacco Kenya actively encourages dialogue and participation from all employees in the Company's business via monthly team briefs, regular internal publications and meetings with groups of employees and their representatives.

Major Shareholders

Shareholder	Percentage Shareholding*
1. Molensteegh Invest BV	60.00%
2. Board of Trustees of the National Social Security Fund	20.00%
3. Kanaksinh Karsandas Babla and Sandip Kanaksinh Babla	1.03%
4. Old Mutual Life Assurance Company Limited - Account 0469950	0.98%
5. Insurance Company of East Africa Limited "Life Fund" Account	0.87%
6. Barclays (Kenya) Nominees Limited - Account 1256	0.84%
7. Stanbic Nominees Kenya Limited - Account SCKPF	0.67%
8. Barclays (Kenya) Nominees Limited - Account 9226AA	0.53%
9. Old Mutual Life Assurance Company Limited - Account 0810870	0.50%
10. Mahendra Fulchand Gandhi and Mrs Malvika Mahendra Gandhi	0.48%

* Based on the share register as at 6 February 2002

British American Tobacco Website
Further information on the British American Tobacco Group is available from the Group Website: www.bat.com

Form of PROXY

To: ....

The Company 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, 11 April 2002 in the Ball Room, Hotel Intercontinental, Nairobi, or at any adjournment thereof.

As my witness my/our hand/s this

....

day of ....2002.

(signature)

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, 10 April 2002.
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
BRITISH AMERICAN TOBACCO KENYA LIMITED
P.O. BOX 30000
NAIROBI

FOLD 3

KISHA KUNJA HAPA

INSERT FLAP INSIDE

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