C Financial Statements 2002

BRITISH AMERICAN TOBACCO

KENYA

Annual review & Highlights 2002

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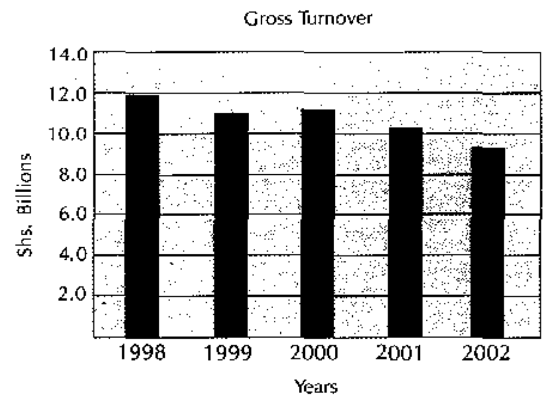
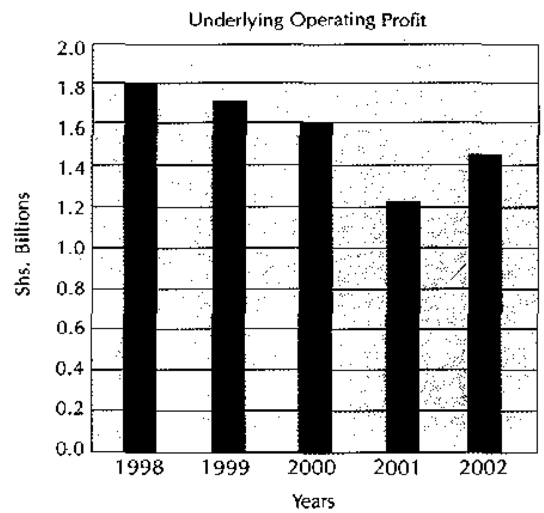
Highlights 2002

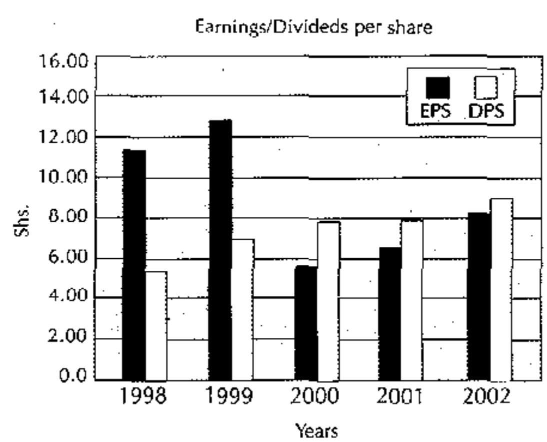
- Gross Turnover decreased to Shs.9.4billion



- Underlying profit* increased by 18%



- Total Divided increased by 14%
- Earnings per share increased to Shs. 8.23



*Profit before reorganisation costs

"Board of Directors\Working together...

BRITISH AMERICAN TOBACCO KENYA BOARD OF DIRECTORS

seated from left

Chris Burrell (Non-Executive Director) • Evanson Mwaniki (Chairman)
Simon Welford (Managing Director) • Allan Ngugi (Non-Executive Director)

standing from left

Harris Mule (Non-Executive Director) • D Keli Kiilu (Corporate & Regulatory Affairs Director)
Prof. Joseph Kimura (Non-Executive Director) • Michael Wanyoike (Non-Executive Director)
Luis Rapparini (Finance Director)

...with the aim of promoting responsible marketing of tobacco"

Notice of Annual General Meeting 2003

NOTICE IS HEREBY GIVEN that the Fifty-First Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ball Room, Hotel Intercontinental, Nairobi on Thursday 29 May 2003 at 2.30 p.m. for the following purposes:-

Ordinary Business

1. To receive and consider the Accounts for the year ended 31 December 2002 and the Reports of the Directors and Auditors thereon.

2. To declare a dividend.

3. To elect Directors:

i Mr. Luis Rapparini who was appointed by the Board on 8th July 2002 retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.

ii Mr. D. Keli Kiilu who was appointed by the Board on 8th July 2002 retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.

iii Prof. Joseph H. Kimura retires by rotation and being eligible offers himself for re-election in accordance with Article 89 of the Articles of Association.

iii Mr. Allan Ngugi retires by rotation and being eligible offers himself for re-election in accordance with Article 89 of the Articles of Association.

iv Mr. Harris M. Mule retires by rotation and being eligible offers himself for re-election in accordance with Article 89 of the Articles of Association.

4. To authorise the Directors to fix the remuneration of the auditors, PricewaterhouseCoopers.

Special Business

5. To consider and if found fit, pass the following resolution as a Special Resolution:
'That the Articles of Association of the company be amended by the insertion of the following new Articles immediately after Article 31 under the sub-title:

Application of Central Depositories Act:

32(a) "The provisions of the Central Depositories Act 2000 as amended or modified from time to time shall apply to the company to the extent that any securities of the company are in part or in whole immobilised or dematerialized or are required by the regulation or rules issued under the Central Depositories Act to be immobilised or dematerialized in part or in whole, as the case may be.

Any provisions of these Articles that are inconsistent with the Central Depositories Act or any regulations or rules issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities.

For the purposes of these Articles of Association, immobilisation and dematerialisation shall be construed in the same way as they are construed in the Central Depositories Act"

32(b) "Where any securities of the company are forfeited pursuant to these Articles of Association after being immobilised or dematerialized, the company shall be entitled to transfer such securities to a securities account designated by the Directors for this purpose"

28 April 2003
Likoni Road,
P. O Box 30000, Nairobi

By Order of the Board
Ruth T. Ngobi
Company Secretary

Notes

1. *Any 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. Shareholders who do not propose to be at the Meeting are requested to complete and return the form to the Registered Office of the Company so as to arrive not later than 2:30pm on Wednesday 28th May 2003.*

Explanatory Note for the Special Resolution

The Special Resolution proposed is to apply the Central Depositories Act 2000 to the company. The Central Depositories Act, 2000 provides for electronic trading in securities listed on the Stock Exchange, whereby the Share Certificate is gradually phased out as the physical evidence of share ownership. When the Central Depository Act is fully implemented, one will need to open an account with the Central Depository to be able to trade.

Initially the share certificates will be immobilised, meaning that they will still be the prima facie evidence of ownership, but they will be deposited at the Central Depository. Subsequently, the shares will be dematerialised - certificates will cease to exist and instead, shares will only be represented by entries in the Securities Account of the Shareholder with the Central Depository, just like in the case of a bank.

All listed companies have been required to pass this resolution as an initial step towards implementation of the Act. The effect of this resolution will not be to invalidate certificates but it will open the way for introduction of electronic accounts and trading when the Capital Markets Authority, the NSE and the Board consider that time is ripe for it.

Chairman's Review\Taarifa ya Mwenyekiti

"Following various initiatives we have undertaken in recent years... the future prospects of our company remain very promising."

Business Environment - Year 2002

The performance of the domestic economy remained depressed in 2002. The anticipated recovery of the economy was hampered by various constraints including continued decline in domestic savings, lack of donor funding, dilapidated infrastructure and low investor confidence owing to the uncertainties surrounding political succession, resumption of donor support and economic governance issues. Kenya's GDP growth turned out to be too weak (below 1%) to have any significant impact on unemployment and poverty reduction.

The total cigarette consumption in the Kenya market declined further by approximately 7% compared to 2001 as a consequence of continuing erosion of consumer disposable incomes and the impact of industry-wide price increases taken in mid 2001. Competition intensified during the year particularly in the cheap price segments thereby accelerating consumer shift to extremely low priced competitor brands. The availability of competitor brands at unjustifiably low prices continues. Such unethical behaviour needs to be stamped out in order to level the playing field and, at the same time, avoid substantial loss of the Government's tax revenue.

Results

Due to the adverse economic and challenging market conditions prevailing in 2002, and in particular, the acute price competition in the lower priced market segments, our domestic sales volumes declined further in 2002 thereby reducing our share of market to an average of 68%. Gross turnover at Shs. 9.4 billion was 9% below 2001. However underlying profit increased by 18% to Shs. 1.46 billion reflecting not only the positive impact of the prudent price adjustments across the brand portfolio introduced in mid 2001, but also the considerable cost reductions in company overheads, supply chain logistics, benefits of past years' restructurings and efficiencies in the procurement of goods and services. In addition, strong cash flows enabled the company to eliminate borrowings and generate net interest income in 2002.

MAZINGIRA YA KIBIASHARA MWAKA WA 2002

Matokeo ya shughuli za kiuchumi hapa nchini yaliendelea kudidimia mnamo mwaka wa 2002. Matarajio ya kufufuliwa kwa uchumi yalitatizwa na vikwazo mbali mbali vikiwemo kuendelea kupungua kwa uwekaji akiba hapa nchini, ukosefu wa pesa za wafadhili, kuharibika kwa miundo msingi na kupungua kwa imani ya wawekezaji kulikotokana na kutoeleweka kwa hali ya mabadiliko ya kisiasa, kurejeshwa kwa misaada na wafadhili na usimamizi wa maswala ya kiuchumi. Ukuaji wa pato la taifa ulipungua na kuwa chini ya asilimia 1, hivyo kutoweza kuwa na umuhimu wowote kwa tatizo la uhaba wa nafasi za kazi na upunguzaji umaskini.

Uvutaji wa sigara kwa ujumla katika soko letu hapa nchini ulipungua zaidi kwa asilimia 7 ikilinganishwa na mwaka wa 2001, kutokana na kuendelea kuathiriwa kwa mapato ya wanunuzi na athari zilizosababishwa na ongezeko la bei katika sekta hiyo mnamo kati kati ya mwaka wa 2001. Mashindano yaliimarika katika mwaka huu hasa kwa bidhaa za bei ya chini na hivyo kusababisha wanunuzi wengi kubadili aina ya sigara wanazovuta na zile za bei ya chini. Kuweko kwa mashindano yasiyofaa ya bidhaa za bei ya chini mno zisizoeleweka kunaendelea. Jambo hili lisilo la haki linahitaji kuangamizwa ili kusawazisha mashindano kama hayo na wakati huo huo, kuepusha kupungua kwa kiasi kikubwa ushuru unaolipwa serikali.

MATOKEO

Kutokana na hali ngumu za kiuchumi na changamoto za soko hili zilizokuweko katika mwaka wa 2002, na hasa ongezeko la mashindano makali ya bei kwa bidhaa za bei ya chini, mauzo ya bidhaa zetu hapa nchini yalipungua zaidi mwaka wa 2002 na hivyo kupunguza mtaji wetu wa soko hadi kiwango wastani cha asilimia 68. Pato la jumla la shilingi bilioni 9.4 lilikuwa asilimia 9 chini ya mwaka wa 2001. Hata hivyo faida iliongezeka kwa asilimia 18 hadi shilingi bilioni 1.46 na kudhihirisha sio tu matokeo mazuri ya kupanga bei za bidhaa mnamo kati kati ya mwaka wa 2001, bali pia kupunguza gharama za Kampuni na mpangilio wa mbinu za mapokezi na usambazaji wa bidhaa manufaa ya marekebisho ya miaka iliyopita, uratibu na upatikanaji wa bidhaa na huduma kwa njia bora. Mbali na hayo, mtiririko mzuri wa fedha uliiwezesha kampuni kumaliza uombaji mikopo na kuleta faida ya riba katika mwaka wa 2002.

MBINU

Matokeo haya ya kuridhisha yaliyofikiwa katika hali ngumu za uchumi wa taifa na soko lisiloridhisha, yalipatikana kupitia mbinu muhimu zilizojadiliwa kwa kirefu kwenye taarifa ya mkurugenzi mkuu.

Strategy

These commendable results, achieved in a weak national economy and a highly volatile market, were realised through effective strategies discussed in greater detail in the Managing Director's Report. Key strategies in marketing involved concentrating our resources on our "drive brands" of Benson & Hedges, Embassy, Sportsman and Safari; improving the availability of our products in all markets through a variety of distribution enhancements; enhancing merchandising at the point of sale through a major rebranding exercise and through the deployment of new kiosks.

In manufacturing we continued to invest in new technology in our Nairobi plant thereby substantially reducing unit operating costs and waste, and improving product quality and flexibility of operations to world class standards. Our strategy now is to make our factory the preferred source of a wide range of products, including international brands, for the export markets of Eastern and Central Africa. In this regard we plan to make substantial investments in 2003 and 2004 in machinery and training to enhance the capability of the factory to cope with increased demand.

In Leaf growing, whilst volumes grown by our farmers were below target, good progress was made in improving quality and uniformity of the tobacco. Emphasis will continue to be on quality improvement and cost efficiency as these are key to generating export markets for the crop. This will be achieved through continuous improvement of the farmer base, enhanced training and promotion of agronomic best practices. Our drive for environmental conservation has been sustained through continued reduction of chemical usage on farms and promotion of afforestation to ensure use of renewable fuel resources for curing tobacco.

Mbinu muhimu za uuzaji zilihusisha uzingatiaji wa rasilmali zetu kwa bidhaa zetu maarufu sana za Benson & Hedges,Embassy, Sportsman na Safari, na kuimarisha usambazaji wa bidhaa zetu katika masoko yote kupitia vituo mbali mbali vya ugawaji, kuimarisha matangazo ya bidhaa zetu katika vituo vya mauzo,kupitia shughuli kubwa ya kuweka alama mpya za bidhaa zetu kwenye vibanda na kuongeza vibanda vipya vya uuzaji.

Katika utengenezaji tuliendelea kutumia teknolojia mpya katika kiwanda chetu cha Nairobi na hivyo kupunguza kwa kiasi kikubwa gharama za utengenezaji na uharibifu mwingine, na pia kuimarisha ubora wa bidhaa zetu na kuhimili hali ya utendaji kazi kufikia kiwango kinachokubalika ulimwenguni.

Lengo letu kuu sasa ni kukifanya kiwanda chetu kiongoze kutoa bidhaa za aina mbali mbali zilizo maarufu, zikiwemo zile za kimataifa, kwa uuzaji katika masoko ya Afrika Mashariki na Kati. Kufuatia lengo hili, tuna mpango wa kuweka rasilmali kubwa katika mwaka wa 2003 na 2004 kwa kuweka mitambo na kutoa mafunzo ili kuimarisha uwezo wa kiwanda chetu kukabiliana na ongezeko la mahitaji ya bidhaa.

Katika ukuzaji wa tumbaku, japo kiwango cha zao hilo kinachokuzwa na wakulima wetu kilikuwa cha chini mno kuliko ilivyotarajiwa, mafanikio yalipatikana katika kuboresha na kuthibiti usawa wa tumbaku hiyo.

Mkazo unaendelea kusisitizwa katika uboreshaji na upunguzaji gharama, hayo yakiwa maswala muhimu katika kupata masoko ya nje kwa zao hilo. Haya yatafikiwa kupitia kuendelea kuimarishwa kwa shughuli za wakulima, utoaji mafunzo muhimu na kuboresha mbinu za ukuzaji wa zao hilo. Juhudi zetu za kuhifadhi mazingira zimedumishwa kupitia kuendelea kupunguzwa kwa matumizi ya kemikali kwenye mashamba na kuendeleza shughuli za ustawishaji misitu ili kuhakikisha upatikanaji wa kuni kwa matumizi ya kukausha tumbaku.

Chairman's Review\Taarifa ya Mwenyekiti cont.

Social Responsibility
Conscious of our corporate social responsibility we have continued to contribute to various worthy causes in society. Our principal partners have been the Jua Kali associations, the Agricultural Society of Kenya shows and the Kerio Valley poverty alleviation project. In each of these areas we are confident that our partnership and support have made a real difference to the lifes of many. Contributions to these and other initiatives amounted to Shs.40 million in 2002.

Corporate Governance
Being a public listed subsidiary of British American Tobacco, our company adheres strictly to the Group's global standards and practices of good corporate governance. I am pleased to confirm that our Company continues to embrace the principles of good corporate governance as issued by the Capital Market Authority.

Dividend
We are pleased to report that as a result of our strong financial position our company maintained an excellent financial performance rating from Global Credit Ratings. Given our robust financial health and the strong cash flows, your Board of Directors recommends a final dividend of Shs. 2.50 per Shs 10 ordinary share which, when added to the two interim dividends already paid, gives a total dividend of Shs. 9.00 per share a yield of 12.6% based on the share price as at 24 April 2003. The final dividend is subject to withholding tax and will be paid on 30 May 2003 to the share-holders on the share register at the close of business on 20 May 2003.

Outlook
The peaceful political transition has brought with it high hopes and expectations for the future of the Kenya economy. The new Adminis-tration is seen as having the neces-sary political will and managerial competence to adopt and implement appropriate policies and programmes for the revival and growth of the economy. Accordingly, good prospects for the business are anticipated.

For our business, the issue of unethi-cal competition continues to be a major challenge. Through unethical practices, extremely low - priced cigarettes are available in the market. This induces consumers to switch to these brands thereby undermining our sales while denying Government its rightful tax revenues.

Through regular dialogue with the relevant authorities, we have highlighted the detrimental impact on our business and on Government tax revenues.

WAJIBU WA KIJAMII

Kama sehemu ya jukumu letu la kijamii kama kampuni, tuliendelea kuunga mkono shughuli mbali mbali muhimu kama vile miradi ya Jua Kali, Maonyesho ya Kilimo nchini na mradi wa kupunguza umaskini katika bonde la Kerio. Katika kila sehemu hizi tuna imani kwamba ushirikiano wetu na msaada umeleta mabadiliko halisi kwa maisha ya wengi. Michango kwa miradi hii na shughuli nyingine ilifikia shilingi milioni 40 katika mwaka wa 2002.

USIMAMIZI WA KAMPUNI

Ikiorodheshwa katika soko la hisa kuwa miongoni mwa kampuni za British American Tobacco, kampuni yetu inazingatia kikamilifu viwango vya kimataifa vya kampuni hii na kuzingatia usimamizi bora. Nina furaha kuthibitisha kwamba kampuni yetu pia imepiga hatua kubwa ya kuzingatia kikamilifu maongozi ya usimamizi wa kampuni yaliyotolewa na Halmashauri ya Usimamizi wa Masoko ya Hisa.

MGAO WA FAIDA

Tuna furaha kueleza kwamba kufuatia hali nzuri ya kifedha, kampuni yetu imedumisha matokeo bora ya kifedha katika viwango vya kimataifa. Kwa kuwa na usimamizi bora wa kifedha na mtiririko mzuri wa pesa, Wakurugenzi wa Halmashauri yenu wamependekeza mgao wa faida wa mwisho wa shilingi 2.50 kwa kila hisa ya kawaida ya shilingi 10 ambao ukiongezwa ile migao miwili ya faida ambayo tayari imelipwa, inafikisha jumla ya migao hiyo kuwa shilingi 9.00 kwa kila hisa ambayo ni faida ya asilimia 12.6 kulingana na bei ya hisa kufikia tarehe 24 mwezi Aprili mwaka 2003. Mgao wa faida wa mwisho unasubiri kodi na utalipwa mnamo tarehe 30 mwezi Mei mwaka wa 2003 kwa wenye hisa kwenye sajili ya hisa wakati wa kufungwa kwa biashara mnamo tarehe 20 mwezi Mei mwaka 2003.

MTAZAMO

Mabadiliko ya kisiasa kwa njia ya amani yameleta matumaini makubwa na matarajio mema kwa uchumi wa nchi hii katika siku zijazo. Utawala mpya unaonekana kuwa na nia nzuri ya kisiasa na uwezo wa usimamizi wa kufikia na kutekeleza maongozi muafaka na miradi ya kufufua na kukuza uchumi. Hivyo basi, kuna matarajio mema kwenye biashara yetu.

Kwa biashara yetu, swala la mashindano yasiyofaa linaendelea kuwa changamoto kubwa. Kupitia hali kama hii isiyo ya haki, sigara za bei ya chini mno zinapatikana katika soko. Bei hizi zimewashawishi wanunuzi kubadili aina zao za sigara na kuvuta sigara za bei ya chini mno na hivyo kuhujumu mauzo yetu na pia kuinyima serikali ushuru wake wa haki. Kupitia mashauri ya mara kwa mara na maafisa wanao-husika, tumeangazia athari za madhara kwa biashara yetu na kwa ushuru unaolipwa serikali. Tunaamini kwamba hatua zifaazo zitachukuliwa kuleta mashindano yafaayo miongoni mwa wafanyi-biashara wa bidhaa hizi. Hatua kama hiyo pia itaongeza ushuru unaolipwa serikali kutokana na bidhaa za tumbaku.

We trust that appropriate steps will be taken to level the playing ground for fair competition amongst all marketers. Such action will also raise Government tax revenues from tobacco products.

Another issue which has a direct impact on our business is the proposed Tobacco Control Bill, now expected to be enacted during 2003. Our position on this issue is clear; we support the enactment of realistic, workable and enforceable regulation that addresses health concerns whilst taking into account Kenya's socio - economic realities. Such regulation should also ensure that all manufacture's of tobacco products behave in a responsible manner consistent with societal expectations. We have accordingly, made well-thought-out proposals which we recommend be considered for incorporation into the Bill to ensure that it meets the objectives described above. It should be remembered that "bad law does not become good law because it is anti tobacco law." We have the opportunity to enact good tobacco legislation - let us do so.

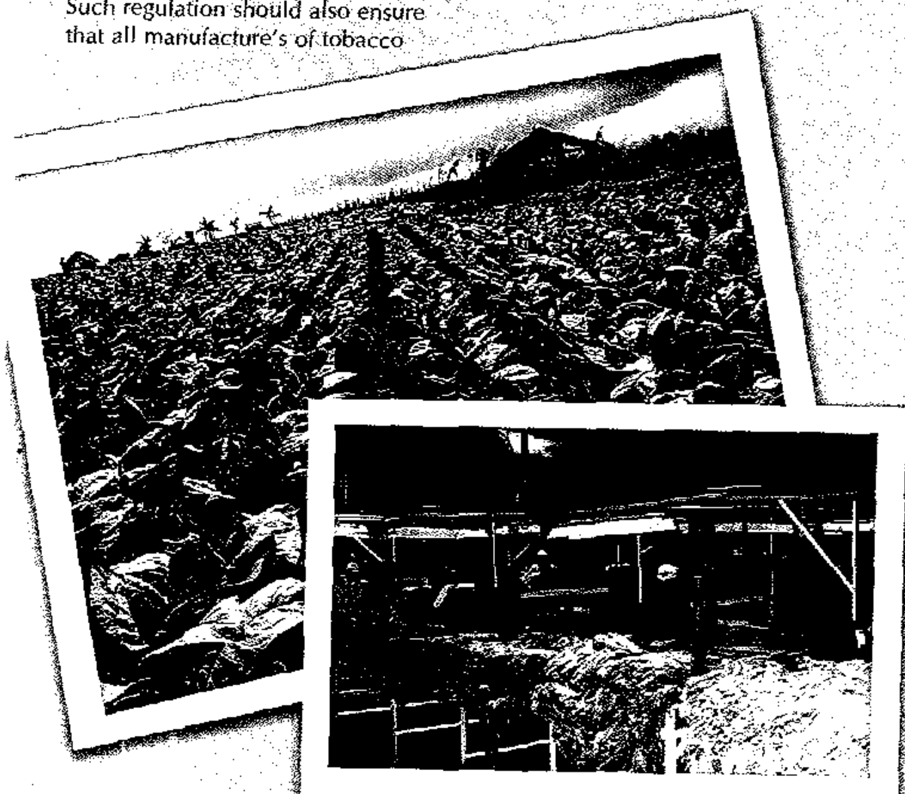
We remain confident that through proactive consultations with the relevant Government authorities, pragmatic solutions to the issues of unethical competition and tobacco regulation will be found.

Following various initiatives we have undertaken in recent years to reduce our cost base, streamline our operations in all areas, further improve the quality and range of our products and given the quality of our people, the future prospects for our company remain very promising.

New Directors

As I conclude, I welcome to the Board of British American Tobacco Kenya the new Board Members who joined in 2002 namely Luis Rapparini and D. Keli-Kiilu. These men have extensive experience in their respective fields which will be of great benefit to the company.

Finally, on behalf of the Board of Directors, I wish to thank all our stakeholders including our staff, farmers, distributors, shareholders and other business partners for their invaluable support.



Kufuatia juhudi mbai mbali tulizo fanya katika miaka ya hivi punde ili kupunguza gharama zetu,kuratibu shughuli zetu katika sehemu zote, kuendeleza zaidi ubora na kutoa bidhaa aina mbali mbali na ustadi wa wafanyakazi wetu, tuna tumai kuwa kampuni yetu itaendelea kupata mafanikio bora zaidi siku zijazo.

Swala lingine lenye athari ya moja kwa moja kwa biashara yetu ni kupendekezwa kwa mswada wa usimamizi wa tumbaku, ambao sasa unatarajiwa kuanza kutekelezwa mnamo mwaka wa 2003. Msimamo wetu kuhusu swala hili uko wazi: tunaunga mkono kubuniwa kwa sheria iliyo wazi, inayofaa na itakayo zingatiwa katika kushughulikia athari za kiafya na pia kuzingatia ukweli halisi wa maswala ya kijamii na kiuchumi. Sheria kama hiyo inapaswa pia kuhakikisha kwamba watengenezaji wote wa bidhaa za tumbaku wanawajibika na kuzingatia viwango vya kimataifa vya uuzaji.

Tumetoa mapendekezo ambayo tungependa yashirikishwe kwenye mswada huo ili kuhakikisha kwamba unazingatia malengo yaliyotajwa hapo juu. Inapaswa kukumbukwa kwamba "sheria mbaya haiwezi kuwa nzuri eti kwa sababu inapinga matumizi ya tumbaku." Tunayo fursa ya kutekeleza sheria muafaka ya tumbaku - na tufanye hivyo.

Tuna imani kwamba kupitia mashauri yafaayo na maafisa wanaohusika wa serikali, suluhisho linaloweza kutekelezwa kwa maswala ya mashindano yasiyofaa na sheria ya tumbaku litapatikana.

WAKURUGENZI WAPYA

Nikimalizia, nina wakaribisha wakurugenzi wapya wa Halmashauri ya kampuni ya British American Tobacco Kenya waliojiunga nasi mnamo mwaka wa 2002 ambao ni Luis Rapparini na D Keli Kiilu. Hawa ni watu wenye ujuzi wa kutosha katika nyanja zao mbali mbali ambao utainufaisha kampuni.

Mwisho, kwa niaba ya Halmashauri ya Wakurugenzi, Nina washukuru wahusika wote wakiwemo wafanyakazi, wakulima, wagawaji, wenye hisa na washirika wengine wa kibiashara kwa usaidizi wao mkubwa.

Managing Director's Report

"Beginning in 1999 your Company began a series of bold restructuring initiatives. We are now seeing these initiatives bearing fruit and having a positive impact on the cost base."

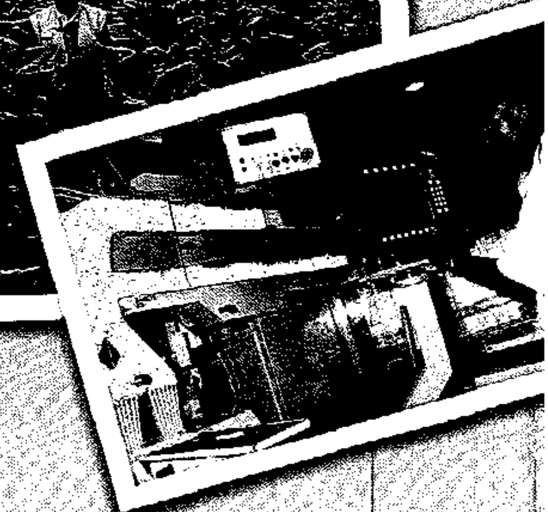
The market for tobacco products in Kenya has not been spared from the rigours which have faced the Kenyan economy in recent years. With a decline in total cigarette consumption of 7% and intensified competition within the cheaper price sectors of the market, we continued to face a difficult trading environment during 2002. Considering this, the company has achieved financial results which are commendable despite a slightly reduced turnover due to a fall in cigarette volumes. Underlying profit, before reorganisation costs, rose by 18% to Shs 1.46bn. This performance was built upon two key elements, pricing and cost control.

During 2002 we benefited from improved margins on all our brands following a price increase across our portfolio in July 2001. Whilst the cigarette market took some time to absorb these price increases, and we have lost 2% market share during 2002 due to the continuing fragility of consumer disposable incomes, we are encouraged that the market has now settled and we are well placed to recover volumes as the economy and consumer expenditure pick up.

Our strategy of concentrating our marketing resources on supporting our drive brands (Benson & Hedges, Embassy, Sportsman and Safari) is working well and these brands collectively gained one and a half share points. Sportsman, our lead brand with 30% market share, benefited from the unique promotional concept of 'Jenja Jina na Sportsman'. This rewards the winning consumer's community as well as the individual and is a model of responsible marketing. Benson & Hedges, although still a niche brand, continues to go from strength to strength, recording for the fourth consecutive year since its launch, growth in excess of 50% per annum.

The key challenge facing our business remains one of unethical competition. The availability of extremely low priced cigarettes on the market continues to induce downtrading by consumers. This is not only to the detriment of our own volume and market share but impacts heavily on Government's tax revenues. Since we have been in regular dialogue with the authorities we are confident that we have been able to demonstrate our concerns which will result in steps being taken to ensure a level playing field amongst all manufacturers in the future, whilst optimising the Government's tax revenue.

The second key driver of our performance has been control of costs. Beginning in 1999 your Company began a series of bold restructuring initiatives. These targeted all functions with the business and were aimed at minimising our cost base and maximising the efficiencies of our operations. We are now seeing these initiatives bearing fruit and having a positive impact on our cost base.



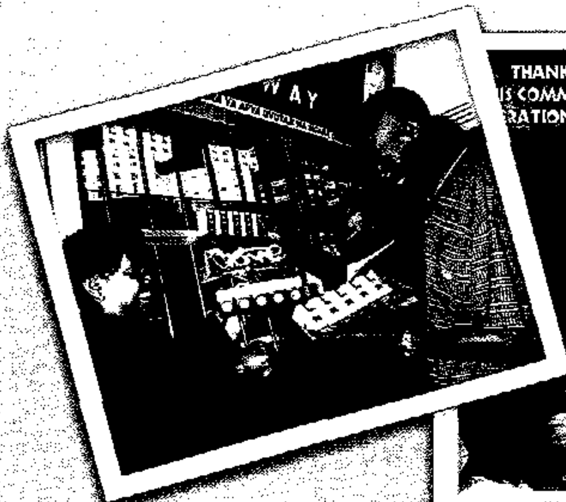
During 2002 we introduced new technology in filter manufacturing and tobacco processing to further improve our productivity, quality of manufacture and flexibility of operations. These investments have enhanced our exports of tobacco and filters to smaller BAT sister companies in Eastern Africa. We intend to continue investing in our plant in 2003 and 2004 in order to leverage our improved productivity and world class product quality standards. Our objective is simple - we want to make our Nairobi factory the preferred production source for a variety of export products that are currently manufactured in Europe and sold into markets in the Horn of Africa.

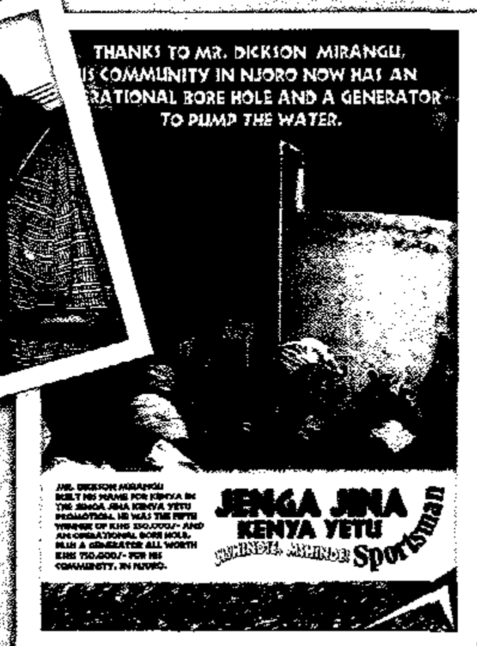
Demonstrating our sincerity to act as a socially responsible company we achieved compliance with Marketing Standards, a global, self-regulatory code of conduct for marketing activities. We voluntarily withdrew from electronic, billboard and other forms of broadcast advertising, and now place more emphasis on communicating with our consumers at the point of sale. We believe that this clearly shows that your Company is conscious of its responsibility in marketing its products solely to adults.

British American Tobacco supports and wishes to help deliver tobacco regulation that will address the key concerns and avoid perverse outcomes, while ensuring that adults consumers can continue making informed choices about consuming a legal product.

We have submitted suggestions for incorporation in tobacco legislation and we hope that they will be given consideration.

We believe that we have a unique opportunity to work together with Government to enact realistic workable and enforceable legislation that will 'raise the bar' and ensure that all manufacturers behave in a responsible manner that is consistent with our own marketing standards.

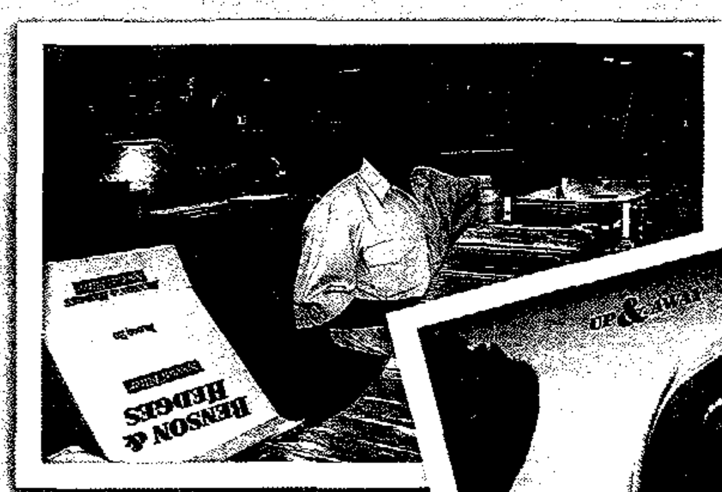




In financial terms we maintained our excellent financial rating from Global Credit Ratings indicating our strong financial position. Our strong cashflows enables your Board of Directors to recommend a final dividend of Shs. 2.50 per Shs. 10 ordinary share. Together with interim dividends already paid this represents total dividends per share of Shs. 9.00 for 2002, up 14% on the prior year.

Let me take this opportunity to thank all our employees, the Board of Directors, our shareholders and our valued business partners for their continued support and co-operation.

I am confident that with their continued co-operation your Company will deliver its corporate objectives in 2003.



Leaf Growing

"The emphasis... continues to be on quality... driven by continuous improvement of the farmer base, enhanced training by our expert extension staff and promotion of agronomic best practices"

During the 2002 season your Company contracted over 10,000 farmers who grew nearly 4,500 tonnes of green leaf tobacco, earning them a revenue of over Shs. 200 million.

The year saw a concerted effort to improve the quality and uniformity of the tobacco grown and we made good progress in these areas. As a result we have enhanced the reputation of Kenyan tobaccos in the export market.

We concetrated on an intensive and extensive "back to basics" programme which involved farmer training on all aspects to do with quality ranging from field operation, barn design to curing techniques. The result of this programme was an overall improvement of the quality of the crop. At buying, leaf uniformity was emphasised so as to improve separation of grades. This was a key concern to our customers. Consequently the improvement in grading helped to sell the export portion of the 2002 crop with a positive feedback from our export customers.

A new farmer management system, whose development costs have been shared with ten other BAT operating companies, will be introduced in late 2003. The new system will aid farmer management, bale tracking and planning.

The emphasis in the coming year will continue to be on quality. This will be driven by continuous improvement of the farmer base, enhanced training by our expert extension staff and the promotion of agronomic best practices.

We have sustained our commitment to be a socially responsible company. In this regard we have continued to reduce chemical usage on farms through our integrated crop management methods and best practices. Afforestation remains a key focus to ensuring farmers use a renewable fuel resource for curing their tobacco. Last year the company raised over 2.3 million seedlings which were planted by the farmers while a further 800,000 tree seedlings were donated for planting by the local communities in conjunction with Government.

Our Thika Green Leaf Threshing plant processed a total of 18,500 tonnes of tobacco of which 6,300 tonnes were from Kenya and a further 12,200 tonnes came from within East and Central Africa.

It is envisaged that volumes for processing from East and Central Africa will continue to increase over the short term. A new green leaf store was built to cater for this increased volume. This will reduce the requirement for storage and transport off site. Other improvements to the plant were carried out to achieve improved quality, efficiencies and safety for the employees. The Thika processing plant continues to be a major source of seasonal employment within the Thika town offering up to 2000 seasonal jobs during the peak season.

Leaf production continues to face many challenges. However given the present establishment and the renewed focus on quality and control on costs, our Leaf operations will continue to deliver competitive tobacco to the core business of cigarette manufacturing and marketing.

Manufacturing and Supply Chain

"The company's strategy is to further expand the role of the factory by fully utilising our existing capability and our recognised expertise to make it the preferred source for a variety of products to the export markets of Eastern Africa."

A total of 4.6 billion cigarettes were produced in our Nairobi factory during 2002 for the domestic Kenyan market and our regular East African export markets. This was a reduction on the previous year's volume occasioned by the weak domestic market. In recent years we have continually invested in our manufacturing facilities focussing in particular on controlling unit operating costs, waste reduction, and on quality improvement. We are glad to report that the major strides made in each of these areas were sustained during 2002 despite the decline in volumes.

As a result of these achievements and the recognition of our factory as one of our Parent company's premier installations in the Africa & Middle East Region, we gained approval during 2001 for the manufacture of international brands of cigarettes. Having begun with the manufacture of Benson & Hedges for the Kenyan market we expanded our operations last year and we now supply this growing brand to other East & Central African markets including the DRC, Uganda and Tanzania.

The company's strategy is to further expand the role of the factory by fully utilising our existing capability and our recognised expertise to make it the preferred source for a variety of products to the export markets of Eastern Africa.

To this end, we have embarked on a program of machinery modifications and increased investments that will enable us to produce a wider range of cigarette formats to cater for the specific needs of the various markets within the region.

During the period, we enhanced our filter production capability, creating a flexibility that now allows us to produce a wider range of filters for our domestic products and to also export to our sister companies in Rwanda, Eritrea, and the Sudan. Tobacco processing capability was also enhanced so that we can meet special processing and packaging requirements for the same markets.

Supply Chain

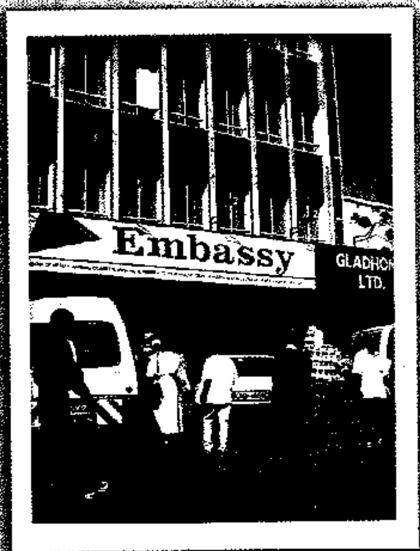
Performance improvement has been one of the principal drivers of the company's overall search for profit. Following the integration of the key processes, we have focused on the metrics that address the three areas of business performance, namely working capital, our supply chain cost base and customer service.

The synchronisation of the demand process and materials requirement planning and backward integration with our suppliers has resulted in improved stability of supplies, reduced order cycle time and decreased working capital requirements.

During 2002 we improved our on time in full (OTIF) customer service, reducing stock turn for both wrapping materials and finished goods respectively. In addition, we realised important cost savings from order consolidation with other regional BAT companies and began to see improved prices through consortium buying with other leading Kenyan companies under a common planning process. In 2002 we extended our focus to cover the procurement of indirect goods and services (those inputs not related to the final product) which have resulted in an aggregate saving of 5%.

With Supply Chain recognised as a key platform for achieving our business objectives we have continued to focus on people development, technology and sub-process re-engineering so as to achieve effective and efficient response to market. We are confident that we can continue to leverage these achievements to augment our competitive advantage and to realise our goal of making your company the preferred source of manufacture within Eastern Africa.

Marketing Activities



"...our marketing strategy of concentrating our resources on our 'drive brands' of Benson & Hedges, Embassy, Sportsman and Safari is yielding good results"

Although 2002 remained a difficult trading year, your Company has maintained its leadership position in the market of tobacco products.

The weak national economy and the erosion of consumer disposable incomes coupled with the impact of industry wide price increases taken in mid 2001 resulted in a further shrinkage of the total Kenyan cigarette market by approximately 7% compared to the previous year.

The competitive environment intensified particularly in the cheap priced segments, where extremely low price competitor products continue to induce consumer down trading.

We intensified our efforts towards ensuring that all players in the industry adopt and practice ethical marketing practises and we expect progress in these areas during this current year. In particular we are encouraged that the system of excise tax stamps has gone a long way to drive untaxed product out of the market.

Notwithstanding the fragility of the total market for cigarettes, our marketing strategy of concentrating our marketing resources on our 'drive brands' of Benson & Hedges, Embassy, Sportsman and Safari is yielding good results.

On a composite basis our drive brands gained one and a half share points in 2002. This is an important measure to us as these brands compete in the more profitable segments of the market with improved margins for your Company.

Our premium brand, Benson & Hedges grew by 50% over previous year, representing the fourth year of similar high level growth which is very commendable given the depressed economic environment. This indicates that an increasing proportion of Kenyan smokers are seeking international quality products.

We remain confident that the brand has a strong future in the Kenyan market. Benson & Hedges continues to be supported through continuous consumer music event sponsorships and selective distribution expansion to relevant outlets in the key urban areas.

Embassy sustained its market share despite higher retail pricing following the mid 2001 price increase.

The brand, which is the leading lights offer in the market, benefitted from the growing consumer preference towards the lights cigarette sector.

Sportsman continues to be our key brand as well as the market leader in Kenya. From the end of the first quarter the brand showed steady and consistent recovery to the year end. In an effort to build equity into the brand to stimulate this recovery, the "Jenja Jina na Sportsman", promotion was conducted in the second and fourth quarter. This is a unique promotional concept which rewarded both consumers and the consumer's community.

This fusion of corporate social responsibility and marketing has been well received by our consumers and is seen as a model of responsible marketing.

Safari registered good growth of 25% compared to the previous year. The brand plays an important role in capturing consumers migrating to lower priced brands and retaining them within our brand portfolio. The Safari brand continues to firmly establish its role as a price fighter brand,.offering value for money to consumers who are forced to smoke low priced brands as a result of continued shrinkage of their disposable incomes.

The optimisation of our distribution network was a critical area that your Company invested in during the year. New initiatives were implemented to improve the availability of our brands in the remote rural areas and low income urban residential locations where there is intense competitive activity.

These innovative distribution efforts have resulted in a reduction of stock-outs as well as improved listing of our brands.

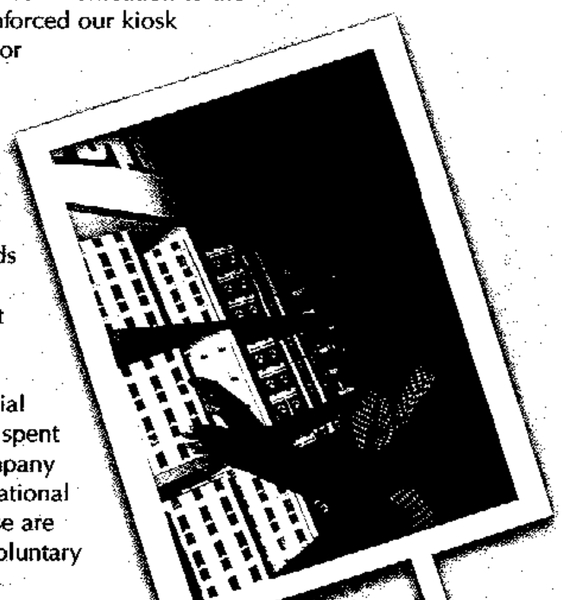
Merchandising also received a higher level of focus alongside the decision to move out of the traditional broadcast media.

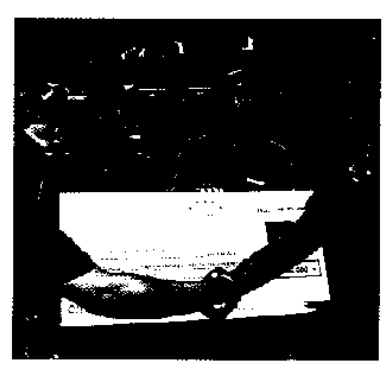
We have concentrated our communication to the point of purchase and reinforced our kiosk programme through a major re-branding exercise in new Sportsman liveries. We deployed a futher 500 kiosks into the market.

These kiosks serve as new selling points for our brands and in the process create much needed employment opportunities.

During the year a substantial amount of resources were spent on ensuring that your Company was compliant with International Marketing Standards. These are an agreed industry wide voluntary framework of responsible marketing practises that seek to ensure that all marketing activities and advertising is directed to reach only adultsmokers.

We are confident that the current focus of our marketing activities will enable your company to benefit from improved sales as consumer disposable incomes begin to recover.





Corporate Governance (continued)

Employees
British American Tobacco Kenya actively encourages dialogue and participation in the Company's business through regular team briefs, internal publications, employee surveys and regular meetings with employees and their representatives. The Company's employment policy includes commitments to recruit people on the basis of their ability and to equal opportunities.

Shareholding Structure

Major Shareholders

Shareholder	No. of Shares	% Holding
Molensteegh Invest BV	60,000,000	60.00%
Board of Trustees of the National Social Security Fund	20,000,000	20.00%
Old Mutual Life Assurance Company Limited - Account 0469950	980,138	0.98%
Barclays (Kenya) Nominees Ltd - Account 9000634	946,666	0.94%
Insurance Co. of East Africa Limited "Life Fund" Account 0122752	878,912	0.87%
Stanbic Nominees Kenya Ltd	761,210	0.76%
Old Mutual Life Assurance Co.	501,097	0.50%
Mahendra Fulch and Gandhi and Mrs Malvika Mahendra Gandhi	447,960	0.44%
Insurance Co. of East Africa Limited Account 0122600	400,157	0.40%
Barclays (Kenya) Nominees Ltd - Account 9001005	388,866	0.38%

Summary of Shareholders

Shareholder	No. of Sharesholders	Shares	% Holding
Kenyan	4,897	39,912,692	39.91%
Foreign	25	60,036,110	60.04%
East African	22	51,198	0.05%
Grand Total	**4,944**	**100,000,000**	**100%**

Distribution of shareholders

Share Holding (No. of Shares)	No. of Shareholders	No. of Share Held	% Share holding
less than 500	2,118	633,723	0.63
501 to 5,001	2,459	3,921,152	3.92
5,001 to 10,000	167	1,191,143	1.19
10,001 to 100,000	172	4,970,553	4.97
100,001 to 1,000,000	26	9,283,429	9.28
Above 1,000,000	2	80,000,000	80.00
Total	**4,944**	**100,000,000**	**100.00**

*Based on the share register as at 15 April 2003

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

Financial Statements 2002

Directors and Advisors

Board of Directors

Mr. E Mwaniki*	(Chairman)
Mr. S A Welford	(Managing Director)
Mr. L C Rapparini	(Finance Director)
Mr. D K Kiilu	(Corporate & Regulatory Affairs Director)
Mr. C M Burrell*	
Mr. A N Ngugi*	
Prof. J H Kimura*	
Mr. M M Wanyoike*	
Mr. H M Mule*	

Audit Committee

Mr. E Mwaniki*
Mr. C M Burrell*
Prof. J H Kimura*
Mr. H M Mule*
Mr. S A Welford
Mr. L C Rapparini
Mr. H Yunus
Mr. T Hext

Nominations Commitee

Mr. E Mwaniki*
Mr. C M Burrell*
Mr. A N Ngugi*
Mr. S A Welford

Board Compensation Commitee

Mr. E Mwaniki*
Mr. C M Burrell*
Mr. M M Wanyoike*
Mr. S A Welford
Mr. L C Rapparini
Mr. M Owor
Mr. D Kiambi

Transfer Agents

Barclays Bank Advisory &
Registrar Services Limited,
Bank House, Moi Avenue,
P.O. Box 30120,
NAIROBI

Auditors

PricewaterhouseCoopers,
Rahimtulla Tower, Upper Hill Road
P.O. Box 43693,
NAIROBI

Advocates

Kaplan & Stratton
Queensway House
P.O. Box 40111,
NAIROBI

Bankers

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

Secretary and Registered Office

Mr. J N Kiragu	- Retired	5 February 2003
Mrs. R T Ngobi	- Appointed	5 February 2003

Likoni Road
P.O. Box 30000,
NAIROBI
Telephone: 69042000

*Non-executive Directors

Directors Report

The directors submit their report and the audited financial statements for the year ended 31 December 2002.

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

Results and dividends	**Shs.'000**
Net profit for the year	823,120
Appropriated as follows:	
Dividends:	
Interim dividends of Shs. 6.50 per share	650,000
Proposed final dividend of Shs. 2.50 Per share	250,000
	900,000

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.

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

Mr. T. D. McConnell resigned from the Board on 8 July 2002 and his place was taken by Mr. L. C Rapparini who was appointed to the Board on 8 July 2002. Mr. D. Keli Kiilu was appointed to the Board on 8 July 2002 in accordance with Article 95 of the Company's Articles of Association.

In accordance with Article 89 of the Articles of Association Messrs. J.H. Kimura, A. N. Ngugi and H.M. Mule 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 L. C. Rapparini and D. Keli Kiilu 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.

28 April 2003
Likoni Road
P.O. Box 30000, Nairobi

By Order of the Board
Ruth T. Ngobi
Company Secretary

Ripoti ya Wakurugenzi

Wakurugenzi wanatoa Ripoti yao na hesabu za fedha zilizokaguliwa kwa mwaka uliomalizika Desemba 31 2002.

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

Matokeo ya migawo ya faida	**Shs."000**
Faida iliyopatikana katika mwaka huo Baada ya kodi ilikuwa	*823,120*
Iligawanywa ifuatavyo:	
Migawo ya faida kwa wenyehisa:	
Mgawo wa muda wa Shs. 6.50 kwa kila hisa	*650,000*
Mgawo wa mwisho unaopendekezwa wa K.Shs 2.50 kwa kila hisa	*250,000*
	900,000

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. T D McConnell alijiuzulu tarehe 8 July 2002 na mahali pake pakachukuliwa na Bw. Luis Rapparini ambaye aliteuliwa tarehe 8 July 2002. Bw. D Keli-Kiilu aliteuliwa tarehe 8 July 2002 kwa mujibu wa kifungu 95 cha Katiba ya Kampuni.

Kuambatana na kifungu 89 cha Katiba ya Kampuni Mabw. J.H. Kimura, A Ngugi na H M Mule watastaafu kwa zamu katika Mkutano Mkuu wa Mwaka na, kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kuambatana na kifungu 95 cha Katiba ya Kampuni Mabw. L C Rapparini na D Keli-Kiilu watastaafu katika Mkutano Mkuu wa Mwaka na, kwa vile wanastahili, wanajitolea kuchaguliwa tena.

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

Aprili 28, 2003
Likoni Road
P.O. Box 30000, Nairobi

Kwa Amri ya Halmashauri
Ruth T. Ngobi
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 and the group as at the end of the financial year and of the group 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 Financial Reporting 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 company and the group and of the profit of the group. 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 company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.

S A Welford
Managing Director

L C Rapparini
Finance Director

28 April 2003

Auditors' Report

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

We have audited the financial statements set out on pages 22 to 38. The balance sheet of the company is in agreement with its books of account.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 20.
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.

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary to provide a reasonable basis for our opinion.

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 the company as at 31 December 2002 and of the group profit and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

28 April 2003

Consolidated Profit and Loss Account

For the year ended 31 December 2002

	Notes	2002 Shs.'000	2001 Shs.'000
Gross turnover		9,422,530	10,363,992
Excise duty and value added tax		(4,008,074)	(4,902,924)
Net turnover		5,414,456	5,461,068
Cost of operations	1	(3,955,060)	(4,228,242)
Reorganisation costs	2	(160,388)	(257,204)
Operating profit	3	1,299,008	975,622
Finance income/(costs)	5	11,415	(124,283)
Profit before tax		1,310,423	851,339
Tax	6	(487,303)	(247,234)
Net profit		823,120	604,105
Earnings per share			
Basic and diluted earnings per share (Shs)	8	8.23	6.04
Dividends			
Interim dividends – paid in the year	7	650,000	580,000
Proposed final dividend for the year	7	250,000	210,000
		900,000	790,000

Consolidated Balance Sheet

As at 31 December 2002

	Notes	2002 Shs.'000	2001 Shs.'000
CAPITAL EMPLOYED			
Share capital	9	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	10	829,489	817,650
Retained earnings		2,031,298	2,087,030
Proposed dividends	7	250,000	210,000
Shareholders' funds		4,110,810	4,114,703
Non-current liabilities			
Retirement benefits obligation	11	118,641	82,203
Deferred tax	12	505,124	475,885
		4,734,575	**4,672,791**
REPRESENTED BY:			
Non-current assets			
Property, plant and equipment	13	3,421,542	3,400,833
Prepaid operating lease rentals	14	223	227
		3,421,765	3,401,060
Current assets			
Inventories	15	1,426,257	1,978,732
Receivables and prepayments	16	1,017,926	689,804
Current tax		-	79,516
Cash and bank balances	18	447,848	496,392
		2,892,031	3,244,444
Current liabilities			
Payables and accrued expenses	17	1,367,528	1,068,454
Current tax		211,693	-
Bank overdrafts	18	-	674,259
Dividends payable		-	230,000
		1,579,221	1,972,713
Net current assets		1,312,810	1,271,731
		4,734,575	**4,672,791**

The accounts on pages 22 to 38 were approved for issue by the board of directors on 28 April 2003 and signed on its behalf by:

S A Welford — Managing Director

L C Rapparini — Finance Director

Company Balance Sheet

As at 31 December 2002

	Notes	2002	2001
		Shs.'000	Shs.'000
CAPITAL EMPLOYED			
Share capital	9	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	10	829,489	817,650
Retained earnings		2,021,187	2,087,030
Proposed dividends	7	250,000	210,000
Shareholders' funds		4,100,699	4,114,703
Non-current liabilities			
Retirement benefits obligation	11	118,641	82,203
Deferred tax	12	515,235	475,885
		4,734,575	**4,672,791**
REPRESENTED BY:			
Non-current assets			
Property, plant and equipment	13	3,421,542	3,400,833
Prepaid operating lease rentals	14	223	227
Investment in subsidiaries		12,000	12,000
		3,433,765	3,413,060
Current assets			
Inventories	15	1,426,257	1,978,732
Receivables and prepayments	16	974,043	1,113,572
Current tax		-	59,180
Cash and bank balances		419,705	264,280
		2,820,005	3,415,764
Current liabilities			
Payables and accrued expenses	17	1,360,064	1,251,774
Current tax		159,131	-
Bank overdrafts		-	674,259
Dividends payable		-	230,000
		1,519,195	2,156,033
Net current assets		1,300,810	1,259,731
		4,734,575	**4,672,791**

The accounts on pages 22 to 38 were approved for issue by the board of directors on 28 April 2003 and signed on its behalf by:

S A Welford — Managing Director

L C Rapparini — Finance Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Notes	Share capital Shs.'000	Share premium Shs.'000	Revaluation surplus Shs.'000	Retained earnings Shs.'000	Proposed dividends Shs.'000	Total Shs.'000
Year ended 31 December 2001							
At start of year							
- as previously reported		1,000,000	23	953,103	2,205,477	165,000	4,323,603
- prior year adjustment	10,14	-	-	(67,886)	(119)	-	(68,005)
- as restated		1,000,000	23	885,217	2,205,358	165,000	4,255,598
Transfer of excess depreciation	10	-	-	(43,496)	43,496	-	-
Deferred tax on transfer	10	-	-	13,049	(13,049)	-	-
Transfer on disposal	10	-	-	(53,028)	53,028	-	-
Deferred tax on disposal	10	-	-	15,908	(15,908)	-	-
Net gains/(losses) not recognised in the profit and loss account		-	-	(67,567)	67,567	-	-
Net profit		-	-	-	604,105	-	604,105
Dividends:	7						
- Final for 2000		-	-	-	-	(165,000)	(165,000)
- Interim for 2001		-	-	-	(580,000)	-	(580,000)
- Proposed final for 2001		-	-	-	(210,000)	210,000	-
At end of year		1,000,000	23	817,650	2,087,030	210,000	4,114,703
Year ended 31 December 2002							
At start of year							
- as previously reported		1,000,000	23	885,536	2,087,153	210,000	4,182,712
- prior year adjustment	10,14	-	-	(67,886)	(123)	-	(68,009)
- as restated		1,000,000	23	817,650	2,087,030	210,000	4,114,703
Transfer of excess depreciation	10	-	-	(30,212)	30,212	-	-
Deferred tax on transfer	10	-	-	9,064	(9,064)	-	-
Revaluation surplus	10	-	-	47,124	-	-	47,124
Deferred tax on revaluation	10	-	-	(14,137)	-	-	(14,137)
Net gains/(losses) not recognised in the profit and loss account		-	-	11,839	21,148	-	32,987
Net profit		-	-	-	823,120	-	823,120
Dividends:	7						
- Final for 2001		-	-	-	-	(210,000)	(210,000)
- Interim for 2002		-	-	-	(650,000)	-	(650,000)
- Proposed final for 2002		-	-	-	(250,000)	250,000	-
At end of year		1,000,000	23	829,489	2,031,298	250,000	4,110,810

Accounting Policies

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

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya Shillings (Shs) and are prepared under the historical cost convention as modified by the revaluation of certain property.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(b) Group accounting

The consolidated financial statements incorporate the company and its subsidiaries, made up to 31 December 2002. 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 value added tax. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

(d) 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.

(e) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at valuation, less subsequent depreciation. All other plant and equipment is stated at historical cost less depreciation.

Increases in the carrying amount arising on the revaluation are credited to a revaluation surplus. 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 estimated residual value over its estimated useful life as follows:

Freehold buildings	2.5% per annum
Leasehold buildings	2.5% - 10% per annum or over the period of the lease if less than 40 years
Plant, machinery, vehicles and equipment	7% - 30% per annum.

Freehold land is not depreciated.

Property, plant and equipment are periodically reviewed for impairment. 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.

(f) Accounting for leases

Leases of property, plant and equipment where the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of fair value of the leased property and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the profit and loss account over the lease period. The property, plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(g) 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 exclude 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.

(h) Trade receivables

Trade receivables are carried at amortised invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

Accounting Policies (continued)

(i) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(j) 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 carrying values for financial reporting purposes. Tax rates enacted or substantively 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.

(k) Retirement benefits obligation

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 administered 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 to which they relate.

The company also operates an unfunded retirement benefit scheme to provide additional "top up" 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.

(l) 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.

(m) 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 in advance.

(n) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to take into account the reclassification of leasehold land to comply with International Accounting Standard 17, Leases.

1 **Cost of operations**

	2002	2001
	Shs.'000	**Shs.'000**
Raw materials and consumables	1,734,563	2,070,483
Marketing and distribution costs	602,699	579,721
Administrative expenses	1,390,384	1,351,885
Depreciation of property, plant and equipment	227,414	226,153
	3,955,060	4,228,242

2 **Reorganisation costs**

Redundancy costs	93,398	159,874
Other reorganisation expenses	66,990	97,330
	160,388	**257,204**

3 **Operating profit**

The following items have been charged in arriving at operating profit:

	2002	2001
	Shs.'000	**Shs.'000**
Depreciation of property, plant and equipment (Note 13)	227,414	226,153
Staff costs (Note 4)	663,251	718,140
Auditors' remuneration	4,500	4,400

4 **Staff costs**

The following items are included within staff costs:

Retirement benefit costs:

Defined contribution schemes (Note 11)	34,170	41,881
Unfunded retirement benefits obligations (Note 11)	50,114	13,696

The number of persons employed by the company at the year end was 449 (2001: 540).

5 **Finance income/(costs)**

Interest income	12,311	5,194
Net foreign currency exchange gains	2,644	2,250
Interest expense and similar charges	(3,540)	(131,727)
	11,415	**(124,283)**

6 **Tax**

Current tax	472,201	227,155
Deferred tax (Note 12)	(1,783)	20,079
Underprovision of deferred tax in prior years (Note 12)	16,885	-
	487,303	**247,234**

Notes forming part of the Financial Statements (continued)

6 **Tax (continued)**

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

	2002 Shs.'000	2001 Shs.'000
Profit before tax	1,310,423	851,339
Tax calculated at a tax rate of 30 % (2001: 30%)	393,127	255,402
Tax effect of:		
Income not subject to tax	(119)	(13,161)
Expenses not deductible for tax purposes	77,410	4,993
Underprovision of deferred tax in prior years	16,885	-
Tax charge	487,303	247,234

7 **Dividends**

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the annual general meeting. At the annual general meeting to be held on 29 May 2003, a final dividend in respect of the year ended 31 December 2002 of Shs. 2.50 per share amounting to Shs. 250,000,000 is to be proposed. During the year a first interim dividend of Shs. 4.00 per share amounting to Shs. 400,000,000 was paid on 2 September 2002. A second interim dividend of Shs. 2.50 per share amounting to Shs. 250,000,000 was paid on 11 December 2002. The total dividend for the year is therefore Shs. 9.00 per share (2001: Shs. 7.90) amounting to a total of Shs. 900,000,000 (2001: Shs. 790,000,000).

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

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.

	2002	2001
Net profit attributable to shareholders (Shs'000)	823,120	604,105
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	8.23	6.04

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

9 **Share capital**

	Number of shares (Thousands)	Ordinary Shares Shs.'000
At 1 January 2002 and at 31 December 2002	100,000	1,000,000

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

10 Revaluation surplus - Group and Company

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

	2002 Shs.'000	2001 Shs.'000
At start of year		
- as previously reported	885,536	953,103
- reclassification of leasehold land (Note 14)	(96,980)	(96,980)
- deferred tax on reclassification (Note 12)	29,094	29,094
	67,886	67,886
- as restated	817,650	885,217
Revaluation surplus in the year	47,124	-
Deferred tax on revaluation (Note 12)	(14,137)	-
Transfer of excess depreciation	(30,212)	(43,496)
Deferred tax on transfer	9,064	13,049
Transfer on disposals	-	(53,028)
Deferred tax on disposal	-	15,908
At end of year	829,489	817,650

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

11 Retirement benefits obligation

Unfunded retirement benefits obligation

The company has an obligation to fund additional "top up" retirement benefits to its management staff in addition to their retirement benefits under the defined contribution scheme (Provident fund). The company makes a provision for the additional "top up" retirement benefits costs for management staff based on the advice of independent actuaries. The movement in the provision during the year was as follows:

	2002 Shs.'000	2001 Shs.'000
At start of year	82,203	81,483
Charge to profit and loss account in the year:	50,114	13,696
Utilised in the year	(13,676)	(12,976)
At end of year	118,641	82,203

An actuarial assessment of the company's obligation under the scheme was carried out as at 31 December 2001. The actuarial review revealed an under-provision of Shs. 30,361,000 for the unfunded liability, which has been charged to the profit and loss account for the year. The main actuarial assumptions applied are as follows: Discount rate - 9%, future annual salary increase - 7% and future annual increase in contributions to the 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 and no additional contributions are payable) and the BAT Kenya Staff Provident Fund – 1991. Contributions to the company scheme are determined by the rules of the scheme and amounted to Shs. 32,822,000 (2001: Shs 41,109,000).

Contributions to the statutory pension scheme, National Social Security Fund (NSSF), are determined by local statute and amounted to Shs. 1,348,000 (2001: Shs. 772,000).

10 Revaluation surplus - Group and Company

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

	2002 Shs.'000	2001 Shs.'000
At start of year		
- as previously reported	885,536	953,103
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- deferred tax on reclassification (Note 12)	29,094	29,094
	67,886	67,886
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Defined contribution schemes

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Contributions to the statutory pension scheme, National Social Security Fund (NSSF), are determined by local statute and amounted to Shs. 1,348,000 (2001: Shs. 772,000).

Notes forming part of the Financial Statements (continued)

12 Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using the enacted tax rate of 30% (2001: 30%). The movement on the deferred tax account is as follows:

	Group		Company	
	2002 Shs.'000	2001 Shs.'000	2002 Shs.'000	2001 Shs.'000
At start of year				
- as previously reported	504,979	484,900	504,979	484,900
- prior year adjustment (Note 10)	(29,094)	(29,094)	(29,094)	(29,094)
- as restated	475,885	455,806	475,885	455,806
(Credit)/charge to profit and loss account (Note 6)	(1,783)	20,079	8,328	20,079
Tax effect on revaluation (Note 10)	14,137	-	14,137	-
Underprovision in prior year	16,885	-	16,885	-
At end of year	505,124	475,885	515,235	475,885

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

Group	1 January 2002 Shs.'000	Charged to Profit and Loss Shs.'000	Charged to equity Shs.'000	31 December 2002 Shs.'000
Deferred tax liabilities				
Property, plant and equipment				
- on historical cost basis	342,056	2,283	-	344,339
- on revaluation surplus	300,946	(9,064)	14,137	306,019
Unrealised exchange gains	-	4,450	-	4,450
	643,002	(2,331)	14,137	654,808
Deferred tax assets				
Tax losses carried forward	(140,802)	140,802	-	-
Other temporary differences	(26,315)	(123,369)	-	(149,684)
	(167,117)	17,433	-	(149,684)
Net deferred tax liability	475,885	15,102	14,137	505,124
Company				
Deferred tax liabilities				
Property, plant and equipment				
- on historical cost basis	342,056	2,283	-	344,339
- on revaluation surplus	300,946	(9,064)	14,137	306,019
Unrealised exchange gains	-	4,450	-	4,450
	643,002	(2,331)	14,137	654,808
Deferred tax assets				
Tax losses carried forward	(140,802)	140,802	-	-
Other temporary differences	(26,315)	(113,258)	-	(139,573)
	(167,117)	27,544	-	(139,573)
Net deferred tax liability	475,885	25,213	14,137	515,235

Deferred tax of Shs. 9,064,000 (2001: Shs. 13,049,000) was transferred within shareholders' equity from revaluation surplus 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 and buildings Shs.'000	Plant and machinery Shs.'000	Vehicles and equipment Shs.'000	Total Shs.'000
Cost or valuation				
At start of year	1,813,330	2,498,892	579,846	4,892,068
- reclassification of leasehold land (Note 10)	(97,330)	-	-	(97,330)
- as restated	1,716,000	2,498,892	579,846	4,794,738
Additions	11,100	194,272	73,690	279,062
Disposals and assets written down	-	(51,289)	(41,485)	(92,774)
At end of year	1,727,100	2,641,875	612,051	4,981,026
Depreciation				
At start of year	87,778	953,405	352,722	1,393,905
Charge for the year	43,676	127,683	56,055	227,414
Revaluation surplus	(47,124)	-	-	(47,124)
Disposals and assets written down	-	(13,145)	(1,566)	(14,711)
At end of year	84,330	1,067,943	407,211	1,559,484
Net book amount				
At 31 December 2002	1,642,770	1,573,932	204,840	3,421,542
Historical cost	507,262	1,573,932	204,840	2,286,034
Revaluation	1,135,508	-	-	1,135,508
At 31 December 2001 (restated)	1,628,222	1,545,487	227,124	3,400,833
Historical cost	509,625	1,545,487	227,124	2,282,236
Revaluation	1,118,597	-	-	1,118,597

Freehold land and buildings were revalued as at 31 December 2002, by external professional valuers, on the following basis:

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

The book values of revalued assets were adjusted to revaluations and the resultant surplus, net of deferred tax, was credited to revaluation surplus in shareholders' equity.

Notes forming part of the Financial Statements (continued)

14 Prepaid operating lease rentals

Following a clarification by the International Accounting Standards Board (IASB) in January 2002 and further guidance by the Institute of Certified Public Accountants of Kenya (ICPAK), the company has reclassified leasehold land from property, plant and equipment to prepaid operating lease rentals to be carried at historical cost less amortisation over the period of the lease. As part of the reclassification, the revaluation surplus on leasehold land has been reversed against the revaluation surplus in the shareholders' equity. The effect of the reclassification of leasehold land is as follows:

	2002 Shs.'000	2001 Shs.'000
Net book amount reclassified from property, plant and equipment (Note 13)	97,330	97,330
Reversal of revaluation surplus (Note 10)	(96,980)	(96,980)
Accumulated amortisation	(123)	(119)
	227	231
Amortisation charge for the year	(4)	(4)
At end of year	223	227

15 Inventories – Group and Company

	2002	2001
Raw materials and consumables	1,304,071	1,864,995
Finished goods and work in progress	122,186	113,737
	1,426,257	1,978,732

16 Receivables and prepayments

	Group		Company	
	2002 Shs.'000	2001 Shs.'000	2002 Shs.'000	2001 Shs.'000
Trade receivables	94,896	161,282	5,037	55,036
Prepayments and other receivables	567,146	277,863	567,146	277,863
Due from related companies (Note 21)	355,884	250,659	401,860	780,673
	1,017,926	689,804	974,043	1,113,572

17 Payables and accrued expenses

	Group		Company	
	2002	2001	2002	2001
	Shs.'000	Shs.'000	Shs.'000	Shs.'000
Trade payables	263,956	216,414	263,956	178,513
Due to related companies (Note 21)	109,163	86,795	109,163	308,025
Other payable and accrued expenses	994,409	765,245	986,945	765,236
	1,367,528	1,068,454	1,360,064	1,251,774

18 Cash and cash equivalents – Group

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks net of bank overdrafts. The year-end cash and cash equivalents comprise the following:

	2002	2001
	Shs.'000	Shs.'000
Cash at bank and in hand	117,848	496,392
Short term bank deposits	330,000	-
Bank overdrafts	-	(674,259)
	447,848	(177,867)

The weighted average effective interest rate on short-term bank deposits at the year-end was 6.86%.

19 Contingent liabilities

At 31 December 2002, the group had given guarantees amounting to Shs. 50 million (2001: Shs. 50 million) on behalf of third parties.

20 Cash generated from operations

Reconciliation of profit before taxation to cash generated from operations:

	2002	2001
	Shs.'000	Shs.'000
Profit before taxation	1,310,423	851,339
Adjustments for:		
Depreciation (Note 13)	227,414	226,153
Amortisation of prepaid operating lease rentals (Note 14)	4	4
Write-down/Loss on sale of property, plant and equipment	65,636	14,758
Interest income (Note 5)	(12,311)	(5,194)
Interest expense (Note 5)	3,540	131,727
Changes in working capital:		
- receivables and prepayments	(328,122)	(69,220)
- inventories	552,475	313,279
- payables and accrued expenses	299,074	(118,508)
Change in retirement benefit obligations	36,438	720
Cash generated from operations	2,154,571	1,345,058

Notes forming part of the Financial Statements (continued)

21 Related party disclosures

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 administrative 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 Shs. 148,775,000 (2001: Shs. 157,400,000). The company pays royalties to related parties for certain cigarette trademarks that are owned by those parties. The royalties are payable at a rate of 5% of the net turnover of the qualifying brands. Total royalties payable in the year were Shs. 61,853,000 (2001: Shs. 57,909,000).

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

	2002 Shs.'000	2001 Shs.'000
Receivables		
Fellow subsidiaries	355,884	250,659
Payables		
Parent company	43,070	29,905
Fellow subsidiaries	66,093	56,890
	109,163	86,795
ii) Directors remuneration		
- Fees	204	190
- As management	47,813	32,946
	48,017	33,136

SUBSIDIARY COMPANIES IN THE BRITISH AMERICAN TOBACCO KENYA LIMITED GROUP (ALL INCORPORATED IN KENYA)

	% of 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)

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, 29 May 2003 in the Ball Room, Hotel Intercontinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this

....

day of 2003

(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 2.30 p.m. on Wednesday, 28 May 2003.
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.