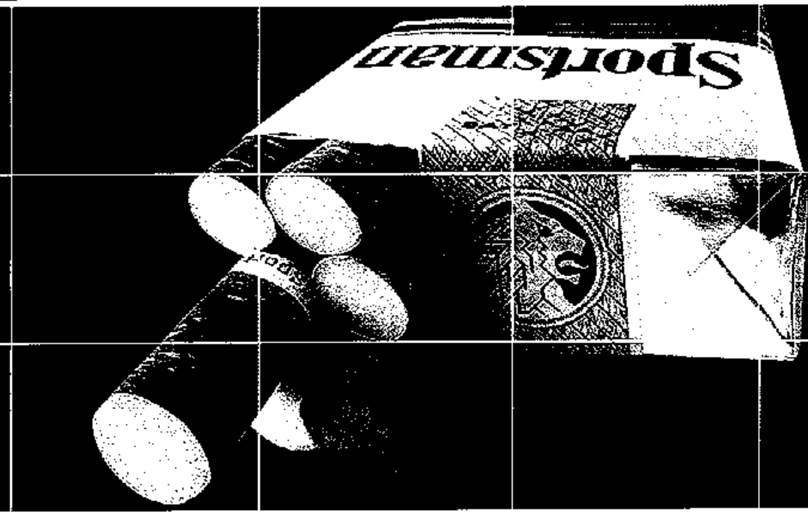
ANNUAL REPORT & FINANCIAL STATEMENTS 2003

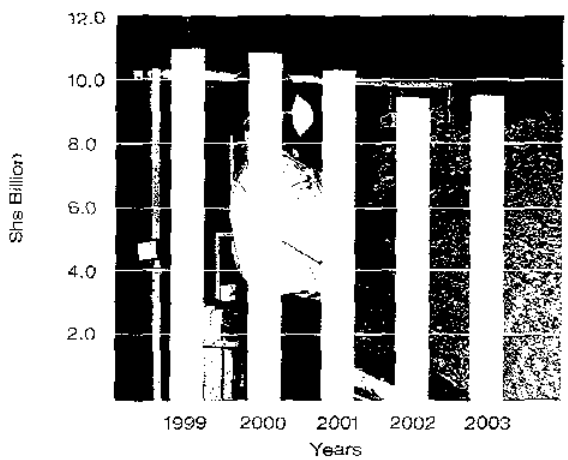


BRITISH AMERICAN TOBACCO
KENYA

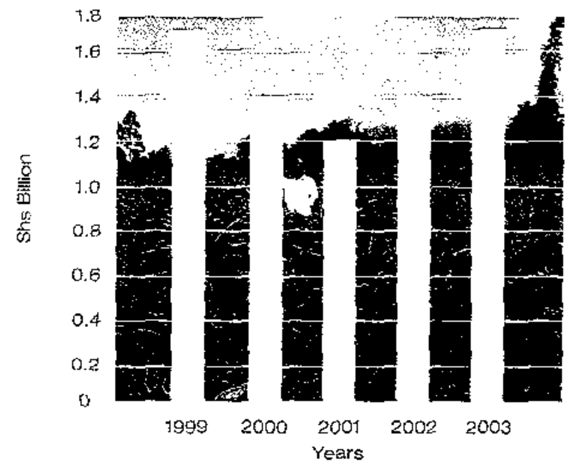
ANNUAL REVIEW & HIGHLIGHTS 2003

Highlights 2003

Gross Turnover

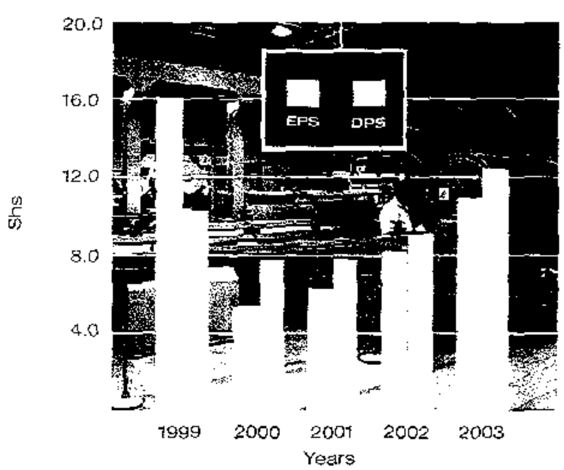


Underlying Operating Profit

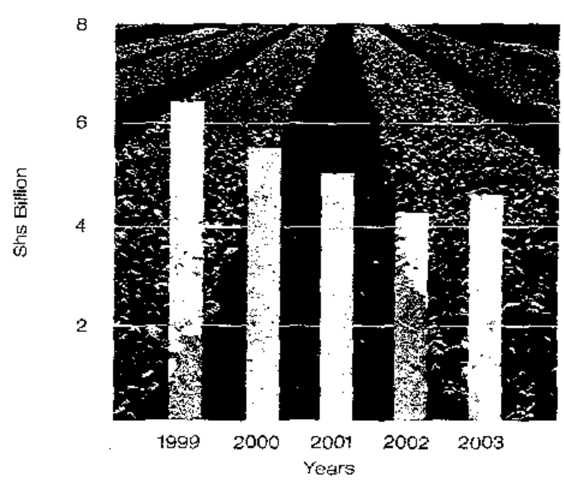


- Gross Turnover increased marginally to Shs 9.4 billion
- Underlying Operating Profit increased by 19% to Shs 1.7 billion

Earnings/Dividend Per Share



Contribution to Government Revenue



- Total Dividend increased by 39% to Shs 1.25 billion
- Basic earnings per share increas to Shs 11.4
- Contribution to Government Revenue increased by 10% to Shs 4.7 billion

Board of Directors

Front row from left
Chris Burrell* • Evanson Mwaniki* (Chairman) • Simon Welford (Managing Director)

Second row from left
Allan Ngugi* • Luis Rapparini* • Keli Kiilu (Corporate & Regulatory Affairs Director)

Third row from left
Harris Mule* • Philip Lopokoiyit (Finance Director) • Ruth Ngobi (Company Secretary) • Prof. Joseph Kimura*
Michael Wanyoike*

*Non-Executive Director

Notice of Annual General Meeting 2004

NOTICE IS HEREBY GIVEN that the Fifty-Second Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ball Room, Hotel Intercontinental, Nairobi on Thursday, 22 April 2004 at 2.30 p.m. for the following purposes:-

Ordinary Business

1. To receive and consider the Accounts for the year ended 31 December 2003 and the Reports of the Directors and Auditors thereon.

2. To declare a dividend.

3. To elect Directors:

(i) Mr. P. R. Lopokoiyit who was appointed by the Board on 1 January 2004 retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.

(ii) Mr. M.M. Wanyoike retires by rotation and being eligible offers himself for re-election in accordance with Article 89 of the Articles of Association.

(iii) Mr. S. A. Welford retires by rotation and being eligible offers himself for re-election in accordance with Article 89 of the Articles of Association.

(iv) Mr. C.M. Burrell 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.

12 March 2004
Likoni Road,
P. O. Box 30000-00100,
Nairobi

By Order of the Board
R 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 2:30 p.m. on Wednesday, 21 April 2004.

Chairman's Review\Taarifa ya Mwenyekiti

Business Environment

The business environment in 2003 experienced renewed optimism in the recovery and growth of the economy. This optimism was generated by the peaceful political transition at the close of 2002, the laudable policies and programmes put in place by the new Government and the pledges of substantial donor support. Inflation remained in single digits and bank lending rates, while remaining relatively high, maintained a downward trend. The Nairobi Stock Exchange recorded an all time high trading in stocks during 2003 with share prices of certain stocks recording phenomenal increases. The GDP growth rate for 2003 is estimated at 1.4%, reflecting a marginal increase of about 0.5% over the rate recorded in 2002.

The Government embarked on implementation of positive policies to create a favourable environment for investment. The anti corruption drive, revival and strengthening of institutions that serve key sectors of the economy, regular consultations with key stakeholders including the private sector and the fiscal incentives offered to Industry and Agriculture in the 2003 Budget are some of the initiatives undertaken. However, insecurity and poor road network remain major areas of concern.

In our industry, exhaustive consultations with the Government resulted in a fundamental reform of the excise tax policy. The old ad valorem excise tax system on cigarettes was replaced by a new specific tax system from mid 2003. There is clear evidence already that the new excise system (although increasing industry tax burden) is yielding higher tax revenues for the Exchequer while helping to level the playing field.

Performance

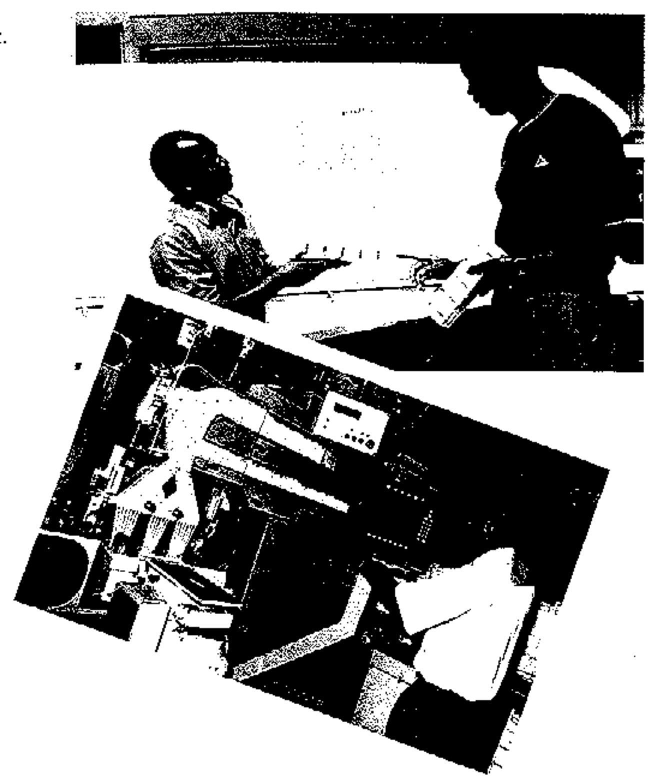
The overall domestic consumption of tobacco products stabilised in 2003. While consumer disposable incomes remained weak, our key brands perfomed well. Our share of market recovered by 5 percentage points, to close at 73% by the end of the year.

Mazingira ya Kibiashara

Mwaka wa 2003 ulileta matumaini mapya ya ufufuzi na ukuaji wa kiuchumi katika mazingira yetu ya kibiashara. Matumaini haya yaliwezeshwa na mabadiliko ya kisiasa yaliyofanywa kwa njia ya amani mnamo mwisho wa mwaka wa 2002, mipango na sera nzuri zilizowekwa na serikali mpya na ahadi za kuungwa mkono na wafadhili. Kiwango cha gharama za maisha na riba kwa mikopo inayokopeshwa na benki kiliendelea kuwa cha juu, huku kikipungua pole pole. Biashara katika Soko la Hisa la Nairobi iliendelea kwa wingi wakati wote katika miaka ya hivi punde, huku bei ya hisa ikongezeka. Pato la Taifa kwa mwaka wa 2003, linakisiwa kuwa asilimia 1.4 na kudhihirisha ongezeko la karibu asilimia 0.5 dhidi ya pato la mwaka wa 2002.

Serikali ilianzisha utekelezaji wa maongozi mwafaka ya kubuni mazingira bora kwa wawekezaji. Juhudi za kupambana na ufisadi, kufufua na kuimarisha Taasisi zinazohudumia sekta muhimu za kiuchumi, kushauriana mara kwa mara na wahusika dau muhimu ikiwemo sekta ya kibinafsi na vishawishi vilivyotolewa kwa sekta za Viwanda na Kilimo wakati wa bajeti ya mwaka wa 2003, ni baadhi ya jitihada zilizofanywa. Hata hivyo hali ya ukosefu wa usalama na barabara mbovu ndiyo matatizo makubwa yanayoendelea kukithiri.

Katika sekta yetu, mashauri kati yetu na serikali yaliwezesha kufanywa kwa marekebisho ya maongozi ya ushuru. Ushuru wa zamani wa sigara uliojulikana kama ad valorem excise tax system uliondolewa na mahala pake kuchukuliwa na ushuru mpya wa specific tax system, kuanzia kati kati ya mwaka wa 2003. Kuna ushahidi ulio wazi tayari kwamba ushuru huu mpya ingawa umeongezea mzigo wa ushuru kwa sekta hii, unaleta mapato zaidi ya ushuru kwa hazina kuu ya serikali huku ukisaidia kusawazisha utekelezaji biashara hii.



Results

Gross turnover at Shs 9.4 billion was marginally higher than in 2002. However, pretax income increased by 28% to Shs 1.67 billion reflecting the impact of increased export sales, as well as the benefit of past years' overhead reduction initiatives and lower re-organisation costs.

Strategy

The company carried out promotional activities to drive both value and volume share of the market. The community based Sportsman brand promotion, "Jenga Jina" where the winner got a cash prize and a project of choice for the community, boosted the performance of our key volume brand.

We completed phase I of our program of migrating additional contract manufacture into our Kenya operation with the launch of Burrus & Sons and John Player Gold Leaf. These brands were previously manufactured in Switzerland and the UK for export to the Horn of Africa. The decision to invest in machinery and resources to manufacture these brands in Kenya was driven by improved business prospects and support of the Government. This is a vote of confidence in British American Tobacco Kenya and the nation by our parent Group.

The company entered into a leaf growing partnership with long time tobacco merchant, Stancom Tobacco (Kenya) Ltd, who have opened up new areas in addition to taking up some of the existing regions. The tobacco grown by both companies is processed in the Thika Leaf Processing Plant out of which 60% is exported to overseas markets.

Social Responsibility

Last year, the company initiated the Social Reporting process which is a new concept to Corporate organisations worldwide and indeed a first for any company in Kenya. Our company is set to join other BAT sister companies globally in this process. In simple terms, "Social Reporting" is a business practice that independently audits the conduct of an organisation. Through this process, British American Tobacco Kenya seeks to engage constructively with its stakeholders in collectively addressing the various issues raised about our business as well as about our environmental and social performance.

Our performance is independently verified and is reported publicly, thus making the organisation accountable for its ethical conduct in the same way that it is with its financial results.

Kazi yetu:

Matumizi ya hapa nchini ya bidhaa za tumbaku yaliendelea kuimarika mwaka wa wa 2003. Huku mapato ya matumizi kwa wateja wetu yakiendelea kupungua, aina mbali mbali za bidhaa zetu ziliendelea kufurahiwa. Biashara yetu ilipata asilimia 5 ya pointi na kufikisha asilimia 73 kufikia mwisho wa mwaka.

Matokeo:

Pato letu la shilingi bilioni 9.4 liliongezeka kidogo likilinganishwa na mwaka wa 2002. Hata hivyo pato letu kabla ya kutozwa ushuru liliongezeka kwa asilimia 28 hadi shilingi bilioni 1.67 kudhihirisha ongezeko la mauzo ya nje na vile vile faida ya miaka iliyopita, kupunguka kwa gharama za utendaji kazi na gharama za marekebisho.

Mbinu:

Kampuni iliandaa shindano la kutangaza bidhaa zake, kueleza thamani na kiwango cha bidhaa zetu katika soko, ambavyo vyote vimeelezewa kwa kirefu katika taarifa ya uuzaji. Shindano la sigara aina ya Sportsman kwa jamii linalofahamika kama "Jenga Jina" ambalo mshindi alipata zawadi ya pesa taslimu na mradi wa jamii aliouchagua, liliimarisha uuzaji wa aina hii ya sigara.

Tulikamilisha awamu ya kwanza ya mradi wetu wa kuanzisha kandarasi zaidi hapa nchini kwa kuzindua aina ya sigara ya Burrus & Sons na ile ya John Player Gold Leaf. Aina hizi za sigara awali zilikuwa zikitengenezwa nchini Switzerland na Uingereza kwa uuzaji katika nchi za eneo la Upembe wa Afrika. Uamuzi wa kuleta mashine na rasilimali kutengeneza aina hizi za sigara hapa Kenya ulitokana na kuimarika kwa shughuli za kibiashara na kuungwa mkono na serikali. Hii ni ishara ya kuwa kampuni yetu kuu Uingereza, ina imani na kampuni ya British American Tobacco Kenya na Taifa kwa jumla.

Kampuni iliingia katika ushirikiano wa ukuzaji tumbaku na kampuni ya biashara ya tumbaku ya Stancom Tobacco (Kenya) Ltd ambayo imeanza ukuzaji wa tumbaku katika maeneo mapya,

Managing Director's Report

2003 was a year of good progress for your Company. Turnover recorded a small increase in an otherwise flat total market for tobacco products. Profit before tax increased by 28%, built upon increased export sales, the benefit of past year's restructurings flowing through into a reduced cost base and lower reorganisation costs.

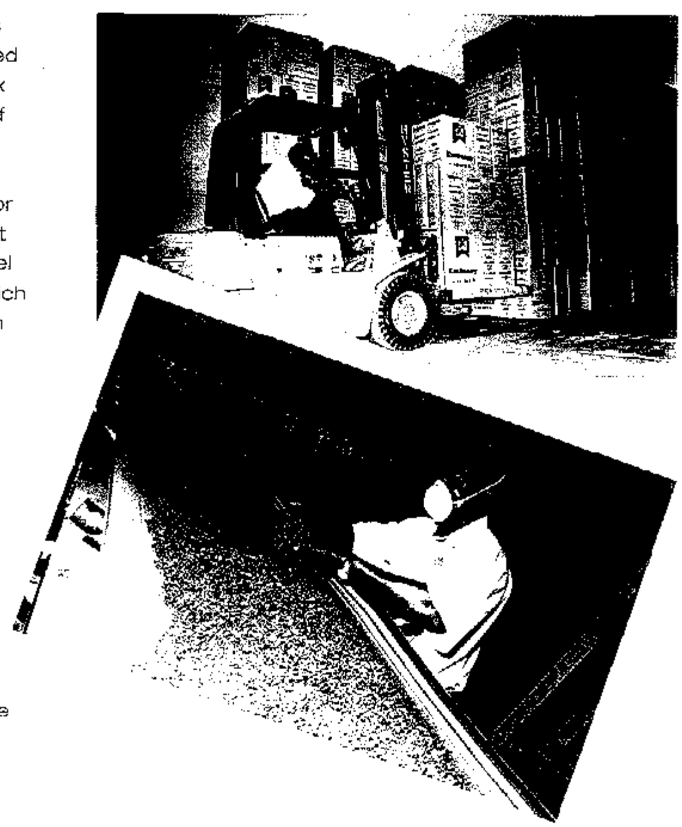
The principal driver of improved performance was the levelling of the competitive playing field in the tobacco industry. The fundamental shift in excise tax policy from an ad valorem system of collection of excise to a specific system of collection led to a reduction in the availability of extremely low price cigarettes in the market as the capacity for tax evasion by unethical manufacturers was reduced. Your Company benefited from this more levelled competitive environment as did the Government with tax revenues from the tobacco industry in the second half of the year improving significantly.

After six years of consecutive decline, the total market for tobacco products in Kenya stabilised during 2003. Whilst consumer disposable incomes still remain weak, the level of down-trading to very low priced products, a trend which has characterised the market in recent years, was much reduced due to more realistic industry pricing.

Company share of market increased during the year by five share points, closing the year at 73%. Our continued long term focus of our resources on our four key drive brands of Benson & Hedges, Embassy, Sportsman and Safari continues to prove highly successful. Together, the four brands which represent our current and future sources of profitability, captured additional market share and now represent 50% of the total cigarette market. Safari, our price fighter, grew impressively showing the brand's capacity to compete effectively in the lower price end of the market.

During the past three financial years, we have critically reviewed our productivity throughout the company taking a series of opportunities to restructure all functions to minimise our cost base and optimise our operational efficiency. These measures continued to bear fruit during 2003 with our cost base reduced by 10% compared to the prior year.

In 2002, we announced a major strategic initiative by the British American Tobacco Group that impacts favourably upon your Company. This is the establishment of our Nairobi factory as a centre of manufacturing excellence for Eastern Africa and the progressive migration of considerable volumes of production from European factories into local production. The brands are being manufactured under contract for supply to already established markets. During 2003, we commenced this two year project with the manufacture of two new brands, Burrus & Sons and John Player Gold Leaf. Further brands will commence manufacture in 2004 following the completion of a Shs 500m investment in new manufacturing capacity to ensure our product quality remains the match of any similar manufacturing facility anywhere in the world.



In tobacco growing, we embarked upon a new strategy of focussing growing on supplying domestic requirements. We entered into a partnership with our long time export agent, Stancom Tobacco (Kenya) Ltd, which enabled them to begin growing Flue Cured Virginia tobaccos for the first time. The partnership benefits farmers as it ensures continued rural income generation in all growing regions, ensures good capacity utilisation of our Thika green leaf processing plant whilst removing the commercial risk of exports to your Company.

We continue to support the delivery of sensible regulation in the tobacco sector. We are encouraged that suggestions that we have made for incorporation into a Tobacco Bill that will help deliver sensible and unambiguous legislation are being given consideration. We believe that this will contribute to ensuring that the entire tobacco industry behaves ethically and responsibly in a manner consistent with British American Tobacco's own International Marketing Standards.

During the year, we embarked upon a process of Social Reporting, the first company in Kenya to do so. During a series of dialogue sessions, we engaged directly with a broad cross section of stakeholders over issues surrounding our business in a constructive and transparent manner. Our goal is to better understand our stakeholders so ensuring that we meet our commercial objectives in a manner consistent with reasonable public expectations of a responsible tobacco company.

Your Company improved its excellent credit rating from Global Credit Ratings with our long term rating improving to AA from AA (negative). This makes your Company the highest independently rated corporate in the country, a reflection of our strong management team and robust financial position.

Strong cashflows generated by your Company enable your Board of Directors to recommend a final dividend of Shs 4.50 per Shs 10 ordinary share. Together with interim dividends already paid, this represents total dividends per share of Shs 12.50 for 2003, up 39% on the prior year.

We believe that we will continue to meet the challenges that face us in 2004 and that we will continue to generate more value for all of our stakeholders.

The Management thanks each and every one of our customers, consumers, employees, valued business partners and shareholders, as well as the Board of Directors for their continued support and co-operation during 2003.

Leaf Growing

In the 2003 season, your Company supported over 8,000 farmers who grew 4.7 m kgs of green leaf tobacco. This reflected a 4% expansion on the prior year with farmers earning over Shs 270 m in revenue from the crop. This represented a 32% increase on earnings principally driven by our successful "back to basics" campaign which drives crop quality improvements though all aspects of leaf growing and curing.

2003 saw further efforts through our extension services to drive quality and yield in order to further improve farmer income. This led to the re-introduction of medium term curing barn loans and a continued emphasis on agronomic best practices, ripe reaping and optimal curing.

Mid year, we announced an evolution in our leaf growing strategy. Commencing with the current cropping season, your Company will focus on growing tobacco for domestic manufacturing requirements. Stancom Tobacco (Kenya) Ltd, our export agents expanded their operations into Flue Cured Virginia tobacco growing in addition to the growing of Dark Fire Cured tobaccos which began in 2001. All tobaccos grown by Stancom will continue to be processed through our Thika green leaf processing plant. The partnership is beneficial to all parties concerned in that it removes export risk from your Company, earns a return on assets though optimisation of the Thika processing capacity and guarantees security of supply for domestic manufacture. For our farmers it assures the expansion of leaf growing in key growing areas.

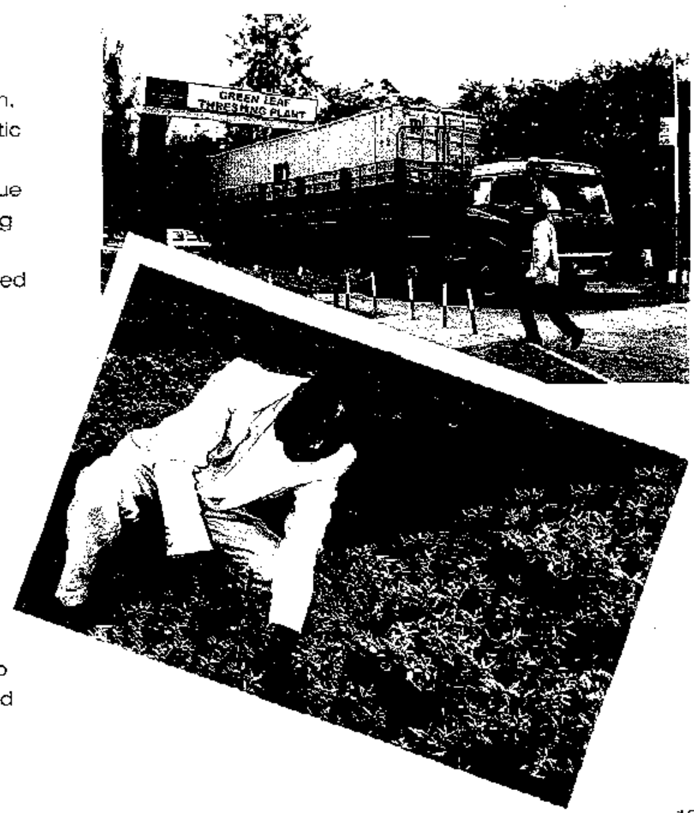
Afforestation received continued focus with more emphasis placed on survivability of the raised seedlings to ensure the effectiveness of the program. During the year, the company raised and distributed to farmers and other interest groups over two million tree seedlings while the farmers themselves raised over 1.6 million tree seedlings with our support.

During 2004, our emphasis continues to be on producing quality tobaccos. This will be driven by a continuous improvement of the farmer base, enhanced farmer training by our expert extension staff and promotion of agronomic best practices.

Leaf processing
The Thika green leaf processing plant processed a total of 22,000 tonnes of tobacco comprising of 6,200 tonnes from Kenya and a further 15,800 tonnes from within East and Central Africa.

In order to improve on efficiency, a number of non core processes were contracted out during the year. These included compound maintenance, factory cleaning and waste disposal. The plant continues to be a major source of seasonal employment within the Thika town offering up to 2,000 seasonal jobs at the peak time.

Leaf production has faced many challenges in the recent past but we are confident that with the present structure, focus on quality, the control of costs and the new partnership with Stancom, your Company will deliver quality competitive tobacco to the core business of cigarette manufacturing.



Manufacturing and Supply Chain

Manufacturing

During 2003, the Nairobi factory produced a total of 4.8 billion cigarettes to cater for the domestic market as well as export markets of Somalia, Uganda, Tanzania and the Democratic Republic of Congo. This represented a 3% increase over the previous year.

In late 2002, we announced an expansion in the role of the Nairobi factory to make it the preferred source of manufacture within Eastern Africa. During 2003, we invested in a new filter making machinery to further enhance our capability. We additionally purchased a new state-of-the-art cigarette manufacturing line, installation of which will be completed by mid 2004. In order to ensure sustained good performance, we implemented extensive training programs for our staff to broaden our skills base in all aspects of manufacturing.

As a direct consequence of the above, we received approval from the trademark owners to commence manufacture under contract of two new export brands – "Burrus and Sons" and "John Player Gold Leaf".

Manufacture of these brands constitutes the first phase of a program that is designed to transfer manufacture of a number of brands from European factories to the Nairobi factory. This strategic initiative seeks to take advantage of our cost effective manufacture, world class quality standards and proximity to the destination markets, which reduces supply chain complexity.

The second phase of this program which will involve significantly larger volumes will be implemented in the course of 2004.

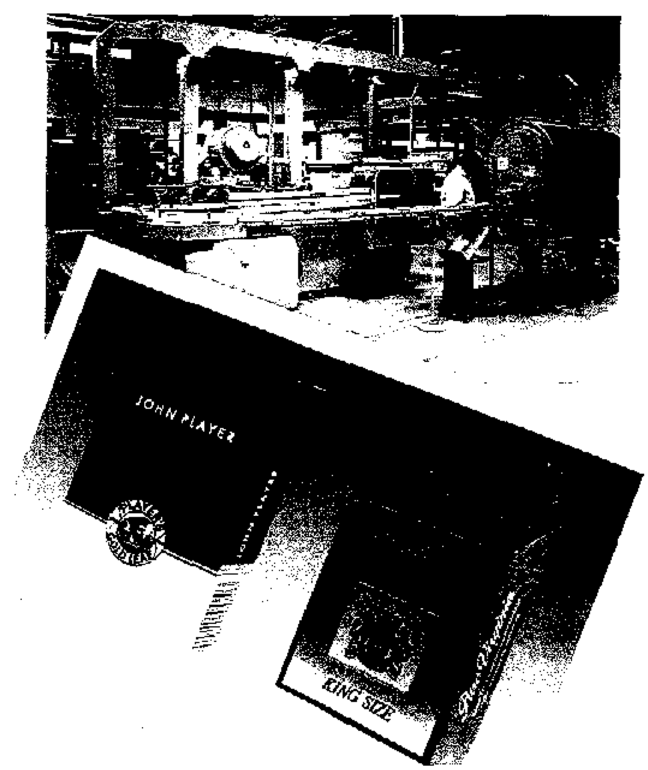
Supply Chain

Performance improvement continued to be the key focus of our Supply Chain activities. All processes were aligned to stretching performance metrics and monitored monthly. During the year, we improved service delivery to our distributors, achieved better forecast accuracy and stimulated the release of working capital through optimisation of stock holding for wrapping materials and finished goods.

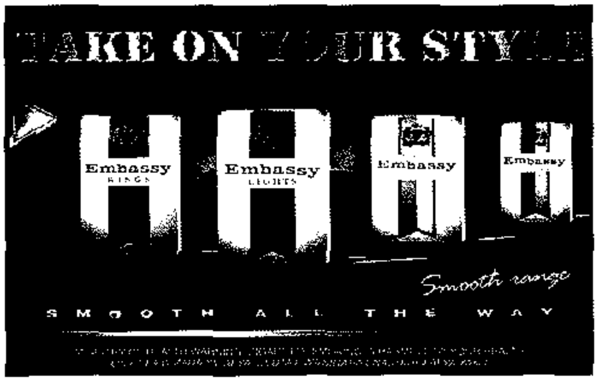
A production materials requirement planning system was connected to the British American Tobacco global material planning system to enhance the visibility by our key suppliers of our long range materials requirements. This enabled us to reduce our cost of wrapping materials.

Value adding activities including evaluation and appraisal of all key supply partners, tendering and contracts management were enhanced. There was better focus on the sourcing of indirect materials, realising significant cost savings during 2003.

Going forward, we shall continue to focus on our people and teams, benchmark our operations with other world class organisations and aim for collaboration with all the external partners to further enhance your Company's performance at every stage of the Supply Chain.



Marketing Activities



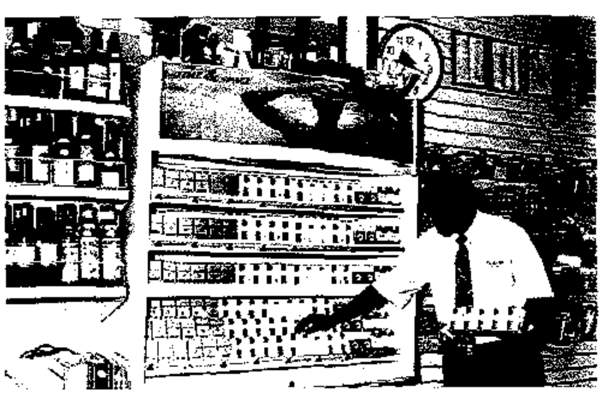
In the Marketing arena, 2003 was a turnaround year. Your Company enhanced its market leadership position by increasing its share of the total cigarette market to 73% at the close of the year.

Despite increased optimism in the growth of the economy, consumer disposable incomes remained weak throughout the year resulting in the total market for cigarettes remaining flat.

The competitive environment remained intense, with interaction between brands predominantly taking place in the very low price segments where consumers are very sensitive to price.

The change in excise policy by Government led to more realistic pricing in the market and further improved Government revenue collections. The price changes led to changes in consumer buying patterns.

Our low price drive brand, Safari, the star performer in the market, accelerated its already strong annual growth rate.



Our marketing strategy which concentrates our resources on our 'drive brands' Benson & Hedges, Embassy, Sportsman and Safari continues to yield encouraging results.

The performance of the premium brand, Benson & Hedges, over the previous years was encouraging. Notwithstanding the difficult economic environment and its top of the market price positioning, the brand has continued to show commendable year-on-year growth in its four years since launch. The brand was supported through relevant consumer engagement activities and through tightly managed expansion of its distribution.

Embassy, our high priced offer grew moderately over the previous year with the volume performance increasingly dominated by the Embassy Lights variant which is the leading Lights offer in the market.

Sportsman, the leading brand in the market played a crucial role in driving overall company performance. The brand's share of market grew month-on-month, up two share points on the previous year. This is a commendable performance given the limited disposable income in the market and the availability of cheaper competitive offers.

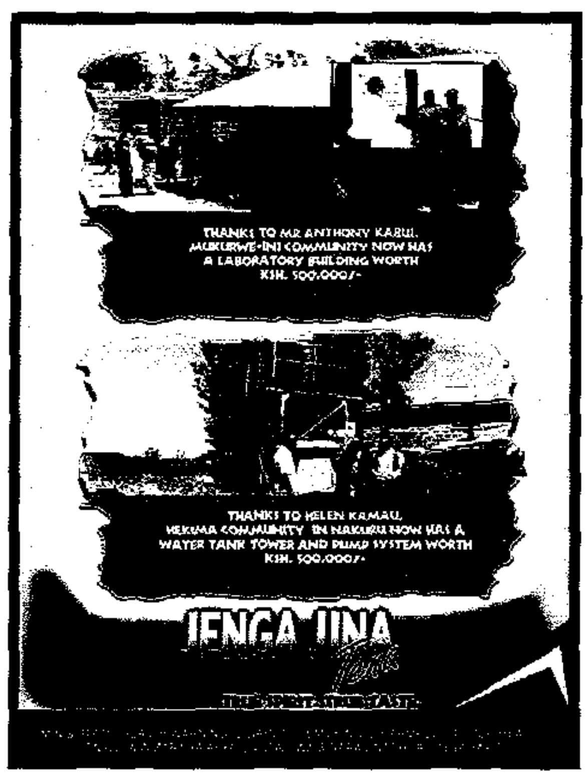
The "Jenga Jina Jenga Kenya" consumer promotion was the main promotional support to the brand in 2003 and generated record entries, clearly appealing to consumer aspirations. As in previous Jenga Jina promotions, draw winners won both individual and community prizes in this unique promotional format which blends corporate social responsibility together with brand marketing objectives. A total of 18 projects have been commissioned since the "Jenga Jina" concept was launched in 2002. Projects built have included clinics, community centers, water and electrification projects. "Jenga Jina Jenga Kenya" won the "best sales promotion" award at the 2003 Marketing Society of Kenya annual gala event.

Whilst our focus remains on driving volumes of our drive brands, secondary brands were not overlooked as sources of volume. Our lead plain cigarette, Rooster, benefited from localised promotional support in its key areas of demand.

Distribution remained the key pillar of marketing. Effective distribution of our brands in all channels and within all sections of the market remained a key priority with ongoing investment in distribution tools including vans, motorbikes and bicycles. Trade initiatives gave particular focus to the more competitive rural and lower income urban areas. These projects generated positive returns through reduced out of stock situations particularly in those regions where capital outlay restricts the amount retailers can purchase at one time. Within urban centers, focus was on ensuring that retailers, were well served and opportunities to increase listing of our brands optimised. Kiosks remain a key channel for distribution of our products as well as a primary communication medium for the Sportsman brand. We continued to invest in our distribution network, ensuring that outlets remained in good repair.

We are pleased with the performance of our brand portfolio in 2003. The leveling of the competitive playing field has been the key to growth whilst the velocity of share of market recovery in the second half of 2003 was particularly commendable. We are confident that the current focus of our marketing strategy will enable your company to fully benefit from the anticipated recovery in consumer disposable incomes in 2004.

MINISTRY OF HEALTH WARNING: CIGARETTE SMOKING IS HARMFUL TO YOUR HEALTH
ONYO LA WIZARA YA AFYA: UVUTAJI WA SIGARA UNADHURU AFYA YAKO



Corporate and Regulatory Affairs

Investing in Society
In line with the Group's Corporate Social Responsibility Principles, during 2003, your Company continued to invest in programmes and projects in support of the communities in which we operate. For the fifth year in a row, your Company, in partnership with the East African Community sponsored the East African Jua Kali exhibition which took place in Dar es Salaam, Tanzania. The exhibitions which are aimed at promoting the small and micro enterprises have given the informal sector impetus for growth.

Last year, your Company remained the lead partner in the Kerio Tradewinds programme, supporting the Government's strategy for creating employment and wealth creation. The programme has now been handed over to the community who now have the momentum to continue expanding it.

British American Tobacco Kenya continued being a prominent corporate member of the Agricultural Society of Kenya and participated as exhibitors in the four major shows of Nakuru, Kisumu, Mombasa and Nairobi. It also made various donations and sponsorship to the Agricultural Society of Kenya in form of infrastructural maintenance of the gates, pavilions and sponsoring the British American Tobacco Day at the Nairobi International Trade Fair.

Responsible Marketing
In line with your Company's belief that smoking is an informed adult choice and that children should not smoke, your Company continued with the Youth Smoking Prevention programme through sponsoring the National Drama Festivals and President's Award, in partnership with the Ministry of Education. In addition, the Company continued to work with the retailers to educate them not to sell cigarettes to minors.

Social Reporting
British American Tobacco is in an industry seen by many as controversial and since we manufacture a product that calls for responsible marketing, we endeavour to conduct our business in a manner that meets the reasonable expectations of the society in which we operate. Last year, your company went through the Social Reporting Process. The process is about listening and responding to stakeholders' concerns. It is a continuous process that enables the company to gather views about its business, ethical, environmental and social conduct in relation to its stakeholders. Management team members held four dialogue meetings with stakeholders from across Kenya, during which they gathered views about the company's operations, what we are doing right, what we need to change and how stakeholder partnerships can be strengthened for the mutual benefit of all.

Out of these dialogue meetings, the company was able to gauge the perception of its public and will make use of the criticism and praise it received to further enhance its business. The process gave stakeholders a unique opportunity to communicate with and influence the company within a framework of mutual trust and respect. A "Report to Society", which is an account of the proceedings of the dialogue sessions has been published.

Corporate Governance
British American Tobacco Kenya is committed to the highest standards of corporate governance. Its governance structure is flexible enough to adapt to changes in the internal and external environment and the company regularly reviews its processes, rules, regulations and structure with a view to ensuring the best performance of the Board, Board Committees and overall management of the business.

British American Tobacco Kenya strictly adheres to the group's global standards and practices of good corporate governance. The Board of Directors confirms that it has embraced the principles of corporate governance issued by the Capital Markets Authority.

Key aspects of our approach to corporate governance are outlined below:

The Board of Directors
The Board meets at least five times a year. The current membership of Executive and Non-Executive appears later in the report.

The Board provides overall strategic direction, reviews performance, takes material policy decisions and gives guidance on general policy. Responsibility for implementing strategy and day-to-day operations is delegated by the Board to the Managing Director and the top management team (Kenya Strategy Team). This team meets monthly.

The Board is responsible for the overall system of internal control and for reviewing the effectiveness of these controls to provide reasonable assurance of their effective and efficient operation.

Board Committees
The Audit Committee is chaired by the Non-Executive Chairman of the Board of Directors, Mr. Evanson Mwaniki. It meets three times a year with internal and external auditors, as well as management, to review the effectiveness of internal controls. Any matters raised in the regular reports to the Committee and the full year financial statements prior to the submission to the Board.

The Board Compensation Committee is also chaired by Mr. Evanson Mwaniki. It approves remuneration policy for employees, management and Non-Executive Directors.

The Nominations Committee is further chaired by Mr. Evanson Mwaniki. It recommends to the Board candidates for appointment to the Board and evaluates and recommends the composition of all Board Committees. In so doing, it monitors and ensures that appropriate independent, Non-Executive and Executive Director ratios are maintained. The Nominations Committee also evaluates and reports to the Board on an annual basis the effectiveness of the Board and the effectiveness of the Directors in the discharge of their responsibilities.

The Corporate Social Responsibility Committee chaired by the Managing Director seeks to ensure that the company's social and enviromental performance is effectively managed and is consistent with expectations of a responsible Company.

Provident Funds
The two British American Tobacco Provident Funds are under the stewardship of a joint Board of Trustees. Chaired by Non-Executive Director Mr. Michael Wanyoike, the Board of Trustees includes representatives of employees and management as well as executive and Non-Executive Directors. Both Funds are compliant with the governance 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 the group's best practice from all global operations.

The company supports numerous social responsibility initiatives in Kenya including providing support to the Jua Kali sector, The Agricultural Society of Kenya and afforestation. Total contributions to these and other worthy initiatives amounted to Shs 42 million in 2003. The Company made no donations for any political purposes.

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 equal opportunities.

Shareholding Structure

Major Shareholders

Shareholder	No. of Shares	% Holding
Molensteegh Invest VB	60,000,000	60.00
Board of Trustees National Social Security Fund	20,000,000	20.00
Barclays (Kenya) Nominees Limited A/C 1256	996,666	1.00
Old Mutual Life Assurance Company Limited A/C 0469950	980,138	0.98
Kenya Commercial Bank Nominees Ltd A/C 744	896,617	0.90
Barclays (Kenya) Nominees Limited A/c 1853	785,000	0.80
Stanbic Nominees Kenya A/C SCKPF	513,175	0.51
Old Mutual Life Assurance Company Limited	501,097	0.50
Mahendra Fulchand Gandhi & Mrs. Malvika Mahendra Gandhi	404,564	0.40
Barclays (Kenya) Nominees Limited A/C 9230	399,866	0.40
Others	14,522,877	14.51

Summary of Shareholders

Shareholders	No. of Shareholders	Shares	% Holding
Kenyans	4,733	39,912,276	39.91
Foreign	26	60,036,526	60.04
East African	22	51,198	0.05
Total	4,781	100,000,000	100.00

Distribution of Shareholders

Share Holding	No. of Shareholders	No. of Shares Held	% Share Holding
No. of Shares			
Less than 500	2,062	615,440	0.62
501 to 5,000	2,348	3,759,087	3.76
5,001 to 10,000	161	1,122,181	1.12
10,001 to 100,000	179	5,023,001	5.02
100,001 to 1,000,000	29	9,480,291	9.48
above 1,000,000	2	80,000,000	80.00
Total	4,781	100,000,000	100.00

*Based on the share register as at 12 March 2004

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

DIRECTORS' REPORT & FINANCIAL STATEMENTS 2003

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
Director

12 March 2004

Consolidated Balance Sheet

As at 31 December 2003

	Notes	2003 Shs'000	2002 Shs'000
CAPITAL EMPLOYED			
Share capital	9	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	10	769,383	829,489
Retained earnings		1,981,425	2,031,298
Proposed dividends	7	450,000	250,000

Auditors' Report

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BRITISH AMERICAN TOBACCO KENYA LIMITED

We have audited the financial statements of British American Tobacco Kenya Limited for the year ended 31 December 2003, set out on pages 22 to 38.

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 for the purposes of our audit and believe that our audit provides 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 company as at 31 December 2003 and of the profit and cash flows of the group for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act. The balance sheet of the company is in agreement with its books of accounts.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

12 March 2004

Company Balance Sheet

As at 31 December 2003

	Notes	2003 Shs'000	2002 Shs'000
CAPITAL EMPLOYED			
Share capital	9	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	10	769,383	829,489
Retained earnings		1,981,425	2,031,298
Proposed dividends	7	450,000	250,000
Shareholders' funds		4,200,831	4,110.810
Non-current liabilities			
Retirement benefits obligation	11	120,384	118,641
Deferred tax	12	485,906	515,235
		4,807,121	4,734,575
REPRESENTED BY:			
Non-current assets			
Property, plant and equipment	13	3,552,077	3,421,542
Prepaid operating lease rentals	14	219	223
Investment in subsidiaries		12,000	12,000
		3,564,296	3,433,765
Current assets			
Inventories	15	1,277,949	1,426,257
Receivables and prepayments	16	534,868	974,043
Cash and bank balances		879,134	419,705
		2,691,951	2,820,005
Current liabilities			
Payables and accrued expenses	17	1,444,243	1,360,064
Current tax		4,883	159,131
		1,449,126	1,519,195
Net current assets		1,242,825	1,300,810
		4,807,121	4,734,575

The accounts on pages 22 to 38 were approved for issue by the board of directors on 12 March 2004 and signed on its behalf by:

S A Welford — Managing Director

L C Rapparini — *Director*

	1,250,000	900,000

Consolidated Statement of Changes in Equity

	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 2002							
At start of year		1,000,000	23	817,650	2,087,030	210,000	4,114,703
Transfer of excess depreciation		-	-	(30,212)	30,212	-	-
Deferred tax on transfer		-	-	9,064	(9,064)	-	-
Revaluation surplus		-	-	47,124	-	-	47,124
Deferred tax on revaluation		-	-	(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:							
- 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
Year ended 31 December 2003							
At start of year		1,000,000	23	829,489	2,031,298	250,000	4,110,810
Transfer of excess depreciation		-	-	(36,389)	36,389	-	-
Deferred tax on transfer		-	-	10,917	(10,917)	-	-
Transfer of prior years' deferred tax		-	-	(34,634)	34,634	-	-
Net gains/(losses) not recognised in the profit and loss account		-	-	(60,106)	60,106	-	-
Net profit		-	-	-	1,140,021	-	1,140,021
Dividends:		-					
- Final for 2002		-	-	-	-	(250,000)	(250,000)
- Interim for 2003	7	-	-	-	(800,000)	-	(800,000)
- Proposed final for 2003	7	-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	769,383	1,981,425	450,000	4,200,831

Company Statement of Changes in Equity

	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 2002							
At start of year		1,000,000	23	817,650	2,087,030	210,000	4,114,703
Transfer of excess depreciation		-	-	(30,212)	30,212	-	-
Deferred tax on transfer		-	-	9,064	(9,064)	-	-
Revaluation surplus		-	-	47,124	-	-	47,124
Deferred tax on revaluation		-	-	(14,137	-	-	(14,137)
Net gains/(losses) not recognised in the profit and loss account		-	-	11,839	21,148	-	32,987
Net profit		-	-	-	813,009	-	813,009
Dividends							
- 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	2,021,187	250,000	4,100,699
Year ended 31 December 2003							
At start of year		1,000,000	23	829,489	2,021,187	250,000	4,100,699
Transfer of excess depreciation		-	-	(36,389)	36,389	-	-
Deferred tax on transfer		-	-	10,917	(10,917)	-	-
Transfer of prior years' deferred tax		-	-	(34,634)	34,634	-	-
Net gains/(losses) not recognised in the profit and loss account		-	-	(60,106)	60,106	-	-
Net profit					1,150,132	-	1,150,132
Dividends:						-	
- Final for 2002	7	-	-	-	-	(250,000)	(250,000)
- Interim for 2003	7	-	-	-	(800,000)	-	(800,000)
- Proposed final for 2003		-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	769,383	1,981,425	450,000	4,200,831

Consolidated CashFlow Statement

	Notes	2003	2002
		Shs'000	Shs'000
Operating activities			
Cash generated from operations	20	2,636,161	2,154,571
Interest received		27,889	12,311
Interest paid		(6)	(3,540)
Tax paid		(724,516)	(180,992)
Net cash from operating activities		1,939,528	1,982,350
Investing activities			
Purchase of property, plant and equipment	13	(421,342)	(279,062)
Proceeds from disposal of property, plant and equipment		37,308	12,427
Net cash used in investing activities		(384,034)	(266,635)
Financing activities			
Dividends paid		(1,050,000)	(1,090,000)
Net cash used in financing activities		(1,050,000)	(1,090,000)
Increase in cash and cash equivalents		505,494	625,715
Movement in cash and cash equivalents			
At start of year		447,848	(177,867)
Increase		505,494	625,715
At end of year	18	953,342	447,848

Accounting Policies

(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.

Notes forming part of the Financial Statements

		2003	2002
		Shs'000	Shs'000
1	**Cost of operations**		
	Raw materials and consumables	1,605,634	1,734,563
	Marketing and distribution costs	378,037	602,699
	Administrative expenses	1,365,659	1,390,384
	Depreciation of property, plant and equipment (Note 13)	225,783	227,414
		3,575,113	3,955,060
2	**Reorganisation costs**		
	Redundancy costs	66,333	93,398
	Other reorganisation expenses	-	66,990
		66,333	160,388
3	**Operating profit**		
	The following items have been charged in arriving at operating profit:		
	Depreciation of property, plant and equipment (Note 13)	225,783	227,414
	Staff costs (Note 4)	772,283	776,132
	Auditors' remuneration	5,250	4,500
4	**Staff costs**		
	The following items are included within staff costs:		
	Retirement benefit costs:		
	Defined contribution schemes (Note 11)	34,376	32,822
	Unfunded retirement benefits obligation (Note 11)	9,744	50,114
	Contributions to National Social Security Fund	1,102	1,348

The number of persons employed by the group at the year-end was 447 (2002: 449).

		2003	2002
5	**Finance income**		
	Interest income	27,889	12,311
	Net foreign currency exchange (loss)/gain	(26,758)	2,644
	Interest expense and similar charges	(6)	(3,540)
		1,125	11,415
6	**Tax**		
	Current tax	562,223	472,201
	Deferred tax (Note 12)	(9,910)	(1,783)
	Overprovision of current tax in prior years	(5,431)	-
	(Over)/underprovision of deferred tax in prior years (Note 12)	(9,308)	16,885
		537,574	487,303

6 **Tax (continued)**

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

	2003 Shs'000	2002 Shs'000
Profit before tax	1,677,595	1,310,423
Tax calculated at the statutory rate of 30 % (2002: 30%)	503,279	393,127
Tax effect of:		
Income not subject to tax	(136)	(119)
Expenses not deductible for tax purposes	49,170	77,410
Overprovision of current tax in prior years	(5,431)	-
(Over)/underprovision of deferred tax in prior years (Note 12)	(9,308)	16,885
Tax charge	537,574	487,303

7 **Dividends**

At the annual general meeting to be held on 22 April 2004, a final dividend in respect of the year ended 31 December 2003 of Shs 4.50 per share amounting to Shs 450,000,000 is to be proposed. During the year, a first interim dividend of Shs 4.50 per share amounting to Shs 450,000,000 was paid on 8 September 2003. A second interim dividend of Shs 3.50 per share amounting to Shs 350,000,000 was paid on 15 December 2003. The total dividend for the year is therefore Shs 12.50 per share (2002: Shs 9.00) amounting to a total of Shs 1,250,000,000 (2002: Shs 900,000,000).

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.

	2003	2002
Net profit attributable to shareholders (Shs'000)	1,140,021	823,120
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	11.40	8.23

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 2003 and 31 December 2003	*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

The revaluation surplus relates to the revaluation of the company's buildings and freehold land net of deferred tax. The movements in the revaluation surplus are set out in the consolidated and company statements of changes in equity.

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. 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:

	2003	2002
	Shs'000	Shs'000
At start of year	118,641	82,203
Charge to profit and loss account	9,744	50,114
Utilised in the year	(8,001)	(13,676)
At end of year	120,384	118,641

An actuarial assessment of the company's obligation to fund the "top-up" retirement benefits was carried out at 31 December 2001. A full provision for the obligation was made in the financial statements based on the results of the actuarial review. The next actuarial review will be carried out as at 31 December 2004.

The main actuarial assumptions applied were 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 Limited Staff Provident Fund - Old (which is a closed fund and no additional contributions are payable) and the BAT Kenya Limited Staff Provident Fund - 1991.

Contributions to the provident funds are determined by the rules of the scheme and amounted to Shs 34,376,000 (2002: Shs 32,822,000) in the year.

Contributions to the statutory pension scheme, National Social Security Fund (NSSF) are determined by local statute and amounted to Shs 1,102,000 (2002: Shs 1,348,000).

Notes forming part of the Financial Statements (cont.)

12 Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using the enacted tax rate of 30% (2002: 30%). The movement on the deferred tax account is as follows:

	Group		Company	
	2003 Shs'000	**2002 Shs'000**	**2003 Shs'000**	**2002 Shs'000**
At start of year	505,124	475,885	515,235	475,885
(Credit)/charge to income statement (Note 6)	(9,910)	(1,783)	(9,910)	8,328
(Over)/underprovision in prior year	(9,308)	16,885	(19,419)	16,885
Tax effect of revaluation	-	14,137	-	14,137
At end of year	485,906	505,124	485,906	515,235

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

Group	**1 January 2003 Shs'000**	***Charged/ (credited) to* P&L Shs'000**	**31 *December* 2003 Shs'000**
Deferred tax liabilities			
Property, plant and equipment			
- on historical cost basis	344,339	(37,449)	306,890
- on revaluation surplus	306,019	23,717	329,736
Unrealised exchange gains	4,450	(4,450)	-
	654,808	(18,182)	636,626
Deferred tax assets			
Other temporary differences	(149,684)	(1,036)	(150,720)
Net deferred tax liability	505,124	(19,218)	485,906

Company			
Deferred tax liabilities			
Property, plant and equipment			
- on historical cost basis	344,339	(37,449)	306,890
- on revaluation surplus	306,019	23,717	329,736
Unrealised exchange gains	4,450	(4,450)	-
	654,808	(18,182)	636,626
Deferred tax assets			
Other temporary differences	(139,573)	(11,147)	(150,720)
Net deferred tax liability	515,235	(29,329)	485,906

Deferred tax of Shs 10,917,000 (2002: Shs 9,064,000) 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	1,727,100	2,641,875	612,051	4,981,026
Additions	1,924	349,465	69,953	421,342
Disposals and assets written down	-	(73,854)	(83,280)	(157,134)
At end of year	1,729,024	2,917,486	598,724	5,245,234
Depreciation				
At start of year	84,330	1,067,943	407,211	1,559,484
Charge for the year	47,407	126,113	52,263	225,783
Disposals and assets written down	-	(19,895)	(72,215)	(92,110)
At end of year	131,737	1,174,161	387,259	1,693,157
Net book amount				
At 31 December 2003	1,597,287	1,743,325	211,465	3,552,077
Historical cost	498,168	1,743,325	211,465	2,452,958
Revaluation	1,099,119	-	-	1,099,119
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

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.

In the opinion of the directors there is no impairment of property, plant and equipment.

14 Prepaid operating lease rentals

	2003 Shs'000	2002 Shs'000
At start of year	223	227
Amortisation for the year	(4)	(4)
At end of year	219	223

Notes forming part of the Financial Statements (cont.)

15 Inventories - Group and Company

	2003 Shs'000	2002 Shs'000
Raw materials and consumables	1,118,578	1,304,071
Finished goods and work in progress	159,371	122,186
	1,277,949	1,426,257

16 Receivables and prepayments

	Group		Company	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
Trade Receivables	78,400	94,896	41,697	5,037
Prepayments and other receivables	418,503	567,146	415,390	567,146
Due from related companies (Note 21)	75,579	355,884	77,781	401,860
	572,482	1,017,926	534,868	974,043

17 Payables and accrued expenses

	Group		Company	
	2003 Shs'000	2002 Shs'000	2003 Shs'000	2002 Shs'000
Trade payables	246,710	263,956	246,710	263,956
Due to related companies (Note 21)	23,789	109,163	79,440	109,163
Other payables and accrued expenses	1,234,480	994,409	1,118,093	986,945
	1,504,979	1,367,528	1,444,243	1,360,064

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:

	2003 Shs'000	2002 Shs'000
Cash at bank and in hand	162,640	117,848
Short term bank deposits	790,702	330,000
	953,342	447,848

The weighted average effective interest rate on short-term bank deposits during the year was 3.87% (2002: 6.86%).

19 Contingent liabilities

At 31 December 2003, the group had given guarantees amounting to Shs 54 million (2002: Shs 50 million) on behalf of third parties.

20 Cash generated from operations

Reconciliation of profit before taxation to cash generated from operations:

	2003 Shs'000	2002 Shs'000
Profit before tax	1,677,595	1,310,423
Adjustments for:		
Depreciation of property, plant and equipment (Note 13)	225,783	227,414
Amortisation of prepaid operating lease rentals (Note 14)	4	4
Loss on disposal/withdrawal of property, plant and equipment	27,716	65,636
Interest income (Note 5)	(27,889)	(12,311)
Interest expense (Note 5)	6	3,540
Changes in working capital:		
- receivables and prepayments	445,444	(328,122)
- inventories	148,308	552,475
- payables and accrued expenses	137,451	299,074
Change in retirement benefit obligations	1,743	36,438
Cash generated from operations	2,636,161	2,154,571

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.

(i) Transactions with related parties

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 174,200,000 (2002: Shs 148,775,000).

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 61,859,000 (2002: Shs 61,853,000).

The company manufactures cigarettes under contract, sells cutrag (processed tobacco) and processes green leaf for related companies. Transactions with related companies are carried out on commercial terms and conditions. The income arising from these transactions in the year was Shs 248,404,000 (2002: Shs 231,969,000).

Notes forming part of the Financial Statements (cont.)

21 Related party disclosures (continued)

(i) *Transactions with related parties (continued)*

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

	2003 Shs'000	2002 Shs'000
Receivables		
Fellow subsidiaries	75,579	355,884
Payables		
Parent company	13,203	43,070
Fellow subsidiaries	10,586	66,093
	23,789	109,163

(ii) Directors' remuneration

	2003 Shs'000	2002 Shs'000
- fees	210	204
- others	46,963	47,813
	47,173	48,017

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 30000-00100
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, 22 April 2004 in the Ball Room, Hotel Intercontinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this

....

....2004

....

(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, 21 April 2004.

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.