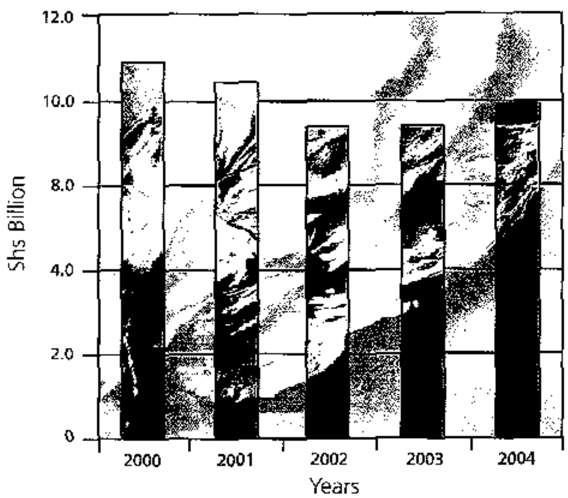
Annual Report and Financial Statements **2004**

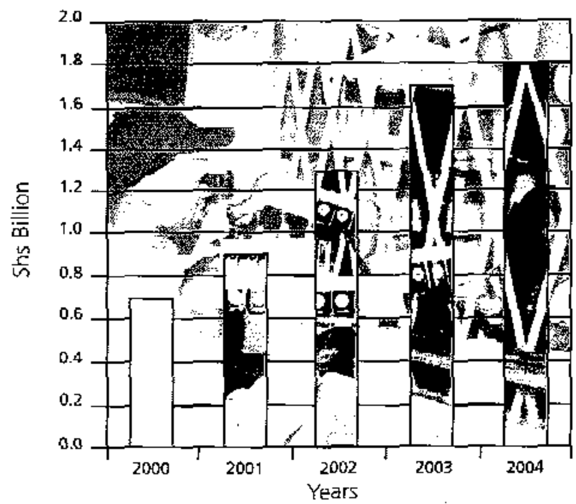
HD
9141.9
K46
758
2004
2-3

Annual Review & **Highlights 2004**

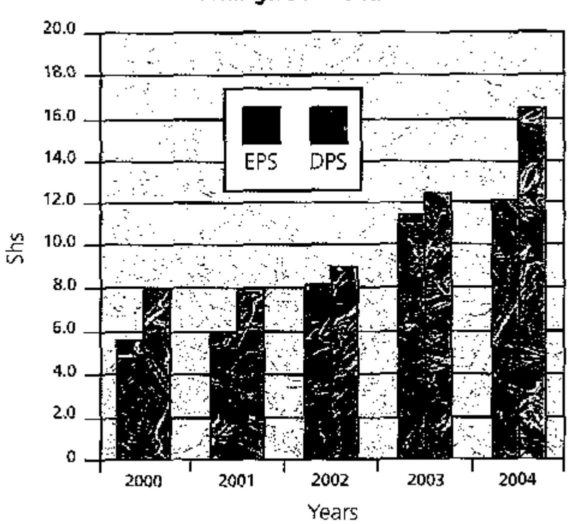
Graphical Highlights 2004



Gross turnover increased by 4% to Shs 9.9 billion

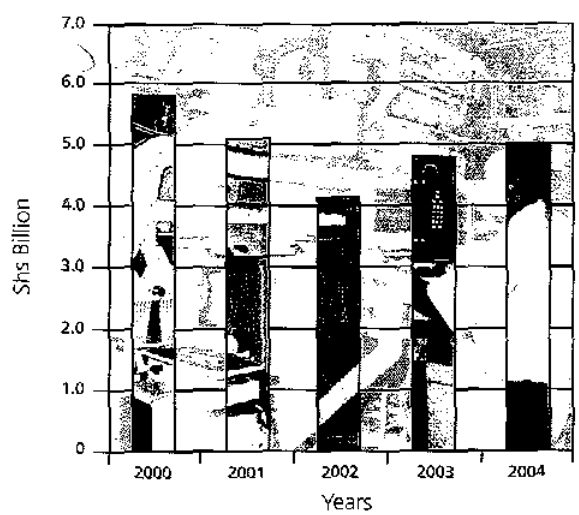


Profit before income tax increased by 4% to Shs 1.75 billion



Total dividend payout increased by 32% to Shs 1.65 billion

Basic earnings per share increased by Shs 12.10 per share



Contribution to government revenue increased by 6% to Shs 5 billion

CMA – Ke Library
AR0743

HD
9149
.K46
B758
2004
C.3

1. British American Tobacco (K) limited -- Periodicals

Board of **Directors**

from Left; **Allan Ngugi** Non - Executive Director, **Philip Lopokoiyit** Finance Director, **Michael Wanyoike** Non - Executive Director, **Leonardo Morales** Non - Executive Director*, **Keli Kiilu** Corporate & Regulatory Affairs Director, **Evanson Mwaniki** Chairman, **Ruth Ngobi** Company Secretary, **Chris Burrell** Non - Executive Director, **Harris Mule** Non - Executive Director, **Simon Welford** Managing Director, **Prof. Joseph Kimura** Non - Executive Director,

* Appointed Non - Executive Director on 11 March 2005

Notice of Annual **General Meeting 2005**

NOTICE IS HEREBY GIVEN that the Fifty-Third Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ball Room, Hotel Intercontinental, Nairobi on Tuesday, 26 April 2005 at 11.00 a.m. for the following purposes:-

ORDINARY BUSINESS

1. To receive and consider the Accounts for the year ended 31 December 2004 and the Reports of the Directors and Auditors thereon.

2. To declare a dividend.

3. To elect Directors:

(i) Mr. L Morales who was appointed by the Board on 11 March 2005 retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.

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

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

(iv) Mr. A N Ngugi 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 remuneration of the Auditors, PricewaterhouseCoopers.

18 March 2005
Likoni Road,
P. O Box 30000-00100
Nairobi

By Order of the Board
R T Ngobi (Ms.)
Company Secretary

CMA - LIBRARY

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 Monday, 25 April 2005.

Chairman's Review Taarifa ya Mwenyekiti

Evanson Mwaniki
Chairman

BUSINESS ENVIRONMENT
Kenya's economic recovery continued in 2004 supported mainly by growth in key sectors including agriculture, tourism, transport & communications. The overall annual inflation averaged 12%. A low interest environment prevailed throughout 2004 leading to expansion of credit to the private sector. Personal loans aggressively marketed by commercial banks were invested in housing, small businesses and capital goods all of which had a positive impact on the economy. According to Central Bank statistics, economic indicators show GDP expanded by an estimated 2.6% compared to 1.4% in 2003.

Economic activity increased during the first quarter of the year before slackening between May through September as a result of pro-longed drought and rising oil prices. The economy, however, picked momentum in the last quarter of 2004 following the on-set of the short rains and the rapid growth in tourism. Rural economies recorded an increase in trading boosted by the moderate revival of the agriculture sector.

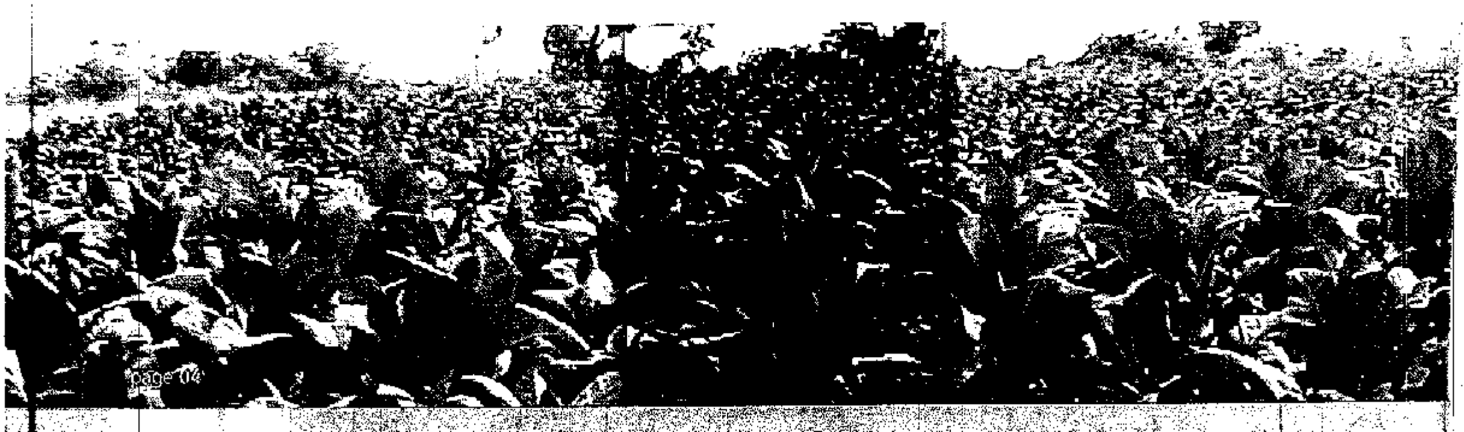
In the tobacco sector, improved enforcement of the specific excise tax regime implemented in the previous year, made it difficult for unethical players to operate. The excise system continued to yield higher tax revenues for the Exchequer while helping to level the playing field for responsible manufacturers.

MAZINGIRA YA KIBIASHARA
Kufufuka kwa uchumi wa Kenya kuliendelea kukua mwaka wa 2004, hasa kukiungwa mkono na ukuaji wa sekta muhimu za kiuchumi zikiwemo Kilimo, Utalii, Uchukuzi na Mawasiliano. Kwa ujumla kiwango cha gharama ya maisha kilifikia asilimia 12 wastani. Riba iliendelea kuwa ya kiwango cha chini kwa mwaka mzima wa 2004, hali iliyowezesha kupanuliwa kwa shughuli za utoaji mikopo kwa sekta ya kibinafsi. Mikopo ya kibinafsi iliyotolewa zaidi na benki za kibiashara ilielekezwa katika uwekezaji wa nyumba, biashara ndogo ndogo na bidhaa kubwa na kuwa umuhimu mkubwa katika kuimarisha uchumi wa nchi. Kulingana na takwimu za Benki Kuu, hali hiyo ya kiuchumi ilionyesha kuwa pato la Taifa . liliongezeka kwa asilimia 2.6 ikilinganishwa na asilimia 1.4 mwaka wa 2003.

Shughuli za kiuchumi ziliongezeka wakati wa kipindi cha robo ya kwanza ya mwaka huo kabla ya kudidimia tena kati ya mwezi Mei hadi mwezi Septemba kufuatia kipindi kirefu cha ukame na ongezeko la bei ya mafuta. Uchumi hata hivyo ulianza kuimarika tena na kuendelea kukua katika robo ya mwisho ya mwaka 2004 kufuatia kuanza kwa mvua za vuli na ukuaji wa haraka wa sekta ya utalii. Chumi za maeneo ya mashambani ziliendelea kuimarika katika biashara kutokana na ongezeko la shughuli maalum za mapato na ufufuzi wastani wa sekta ya kilimo.

Kuimarika kwa utekelezaji wa shughuli za ukusanyaji kodi maalum mwaka uliotangulia kulifanya kuwa vigumu kwa washiriki wa kibiashara wasiozingatia maadili kuendesha shughuli zao. Ukusanyaji kodi hii uliendelea kuleta mapato zaidi ya ushuru kwa wizara ya Fedha na kusaidia pia kuweka kiwango sawia cha utekelezaji shughuli katika sekta ya tumbaku.

BIASHARA
Kwa kuchochewa na ufufuzi unaoendelea wa sekta mbali mbali za kiuchumi na kuweko kwa bei thabiti, soko la tumbaku hapa nchini kwa ujumla liliendelea kuongezeka kwa asilimia 5 mwaka wa 2003. Mauzo ya kampuni yaliendelea kukua kulikowezeshwa na kubuniwa kwa bidhaa za aina mpya na kuleta ongezeko la asilimia 9 ya biashara yetu. Biashara yetu iliendelea kukua hadi kufikia asilimia 76.



Chairman's Review Taarifa ya Mwenyekiti

PERFORMANCE
Spurred by the ongoing revival of the economy and price stability, the overall domestic tobacco market stabilised following several years of decline. Company sales however, registered good growth led by our drive brands which recorded an increase of 9% in volume. Our share of market continued to grow closing at 76%.

One of the state-of-the-art hinge lid packing machines.

RESULTS
Gross turnover stood at Shs. 9.86 billion and was 4% higher than in 2003. Likewise, pre-tax income increased by 4% to Shs 1.75 billion reflecting the impact of higher volume sales.

STRATEGY
In marketing, the key strategy was "Going for Growth". Promotional activities were carried out to drive both our volume and value share of the market. Sportsman sustained the community based brand promotion, dubbed "Jenga Jina" in which part of the prize money went towards the development of a community project chosen by the winner. Motorcycles, trolleys and other distribution tools were deployed as the company focused on distribution of its brands nationwide.

In Leaf growing, partnership with Stancom Kenya realised higher volumes as the company opened up growing in new areas. Contract manufacture of export brands will increase volumes at the Nairobi factory by 40% boosting volumes and increasing revenue for the business.

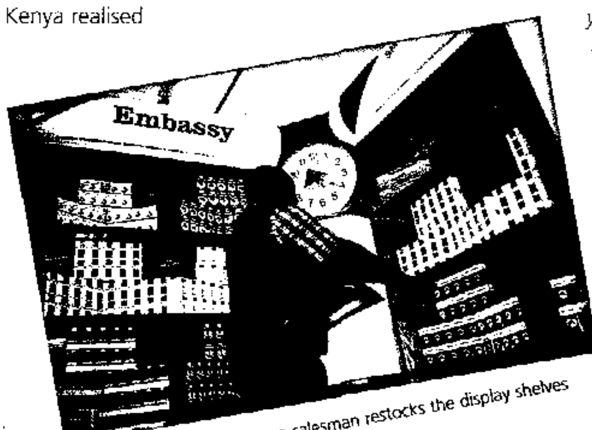
BUSINESS PRINCIPLES
Our objective is to build long-term shareholder value by meeting consumers' preferences for high quality tobacco products. However, we believe that by absorbing and balancing a wider range of expectations, we are best placed to continue building a sustainable tobacco business. The ever increasing socio-economic expectations of a responsible company calls for us to demonstrate high standards of corporate conduct. To help meet these challenges, we developed the Statement of Business

MATOKEO
Pato letu lilifikia shilingi bilioni 9.86 na liliongezeka kwa asilimia 4 zaidi kuliko mwaka wa 2003. Vile vile, mapato kabla ya kutozwa kodi yaliongezeka kwa asilimia 4 hadi kufikia shillingi bilioni 1.75 na kudhihirisha ongezeko la juu la mauzo na kuimarika kwa biashara.

MBINU
Katika uuzaji, mbinu muhimu ilikuwa "Kufikia Ukuaji". Shughuli za kutangaza bidhaa zetu zilitekelezwa kwa kuzingatia thamani na uuzaji wa kiwango kikubwa. Matangazo ya sigara aina ya Sportsman hasa yalinuiwa jamii na yaliitwa "Jenga Jina" ambapo sehemu ya pesa hizo zilisaidia kustawisha mradi wa jamii ambao mshindi aliuchagua. Pikipiki, viberenge na vifaa vingine vilitolewa huku kampuni ikizingatia ugawaji wa bidhaa zenye thamani na za kiwango kikubwa. Matangazo mengine yalifanywa kote nchini kuimarisha mauzo ya kibiashara na kuunga mkono baadhi ya aina mbali mbali za bidhaa zetu - Embassy na Benson & Hedges.

Katika ukuzaji tumbaku, ushirikiano na kampuni ya Stancom Kenya uliongeza kiasi cha mavuno ya tumbaku iliyokuzwa sehemu mpya. Sigara zinazotengenezwa kuuzwa masoko ya nje, zitaongezeka kwa asilima 40, na kuleta mapato zaidi kwa kampuni.

MALENGO YA KIBIASHARA
Lengo letu ni kuimarisha thamani ya wenye hisa wetu kwa muda mrefu kwa kutimiza mahitaji ya wanunuzi kwa kupata bidhaa za tumbaku za hali ya juu. Hata hivyo, tunaamini kwamba kwa kuchukua na kuwianisha viwango vikubwa vya matarajio yetu, tuko pahala bora zaidi pa kuendelea kujenga na kuidumisha biashara ya tumbaku. Ongezeko lililoko la matarajio ya kijamii na kiuchumi la kampuni iliyowajibika lahitaji sisi sote kuonyesha viwango vya juu vya hadhi yetu kama kampuni.
Ili kusaidia kutimiza majukumu haya tulianzisha taarifa hii ya malengo ya kibiashara kwa ushauri wa Mameneja wa biashara zetu na vile vile washirika dau wetu wa nje. Malengo ya kibiashara na imani yetu yanahusu maswala muhimu ambayo tunaamini yanagusia jukumu la kijamii la kampuni. Kuna malengo matatu ya kibiashara, manufaa ya pande zote mbili, huduma muhimu ya bidhaa na hadhi bora ya kampuni, ambapo kila moja inaungwa mkono na imani fulani inayoelezea kile tunachofikiria kuwa hatua kuu kwa undani zaidi. Kwa pamoja, haya yote yanabuni msingi



At a distributors shop, a salesman restocks the display shelves

Chairman's Review **Taarifa ya Mwenyekiti**

Principles in consultation with managers from our businesses, as well as with external stakeholders. The Business Principles and Core Beliefs cover the key issues that we believe underpin Corporate Social Responsibility (CSR).

There are three Business Principles, **Mutual Benefit, Responsible Product Stewardship** and **Good Corporate Conduct,** each of which is supported by a number of Core Beliefs, which explain what we think the Principles mean in more detail. Together, these form the basis on which we expect our businesses to be run in terms of responsibility. The Principles were cascaded to all staff and are part and parcel of our corporate culture.

SOCIAL RESPONSIBILITY

The highlight of the Social Reporting process was the launch of the "Report to Society", making us pioneers in Kenya. The Report reflected views from stakeholders regarding the way we do business, our ethical, social and environmental performance. The process entailed dialogue meetings with suppliers, farmers, NGO's Government, employees, trade partners and consumers. The historic launch of the report in June 2004 was attended by representatives of a cross section of your company's stakeholders who took part in the dialogue sessions. Through this process, British American Tobacco Kenya seeks to engage constructively with its stakeholders in collectively addressing the various issues raised about our business, environmental and social performance.

CORPORATE GOVERNANCE

As part of the British American Tobacco family, we subscribe to the Group's corporate governance policies and in tandem with this we have continued to espouse the guidelines of the Capital Markets Authority.

DIVIDEND

We are pleased to report that our company maintained a strong financial position in the year 2004. The Board of Directors recommends a final dividend of Shs 4.50 per Shs. 10 ordinary share. When added to the interim dividends paid in the course of 2004, this brings the total to Shs. 16.50 per share, a record dividend per share. The dividend payment is subject to withholding tax and will be paid on 26 April 2005 to the shareholders on the share register at the close of business on 12 April 2005.

tunaotarajia kuwa biashara yetu inaendeshwa kwa kuzingatia wajibu tulio nao. Malengo haya yalitolewa kuzingatiwa kwa bidii na wafanyikazi wetu na kama sehemu ya jukumu letu kuu kama kampuni.

WAJIBU WA KIJAMII

Maagazio ya mpango wa kufahamisha jamii yalikuwa kuzinduliwa kwa taarifa iliyojulikana kama "Fahamisha Jamii", iliyotuwezesha kuwa wa kwanza hapa Kenya. Taarifa hiyo ilielezea maoni kutoka kwa washirika dau wetu kuhusiana na jinsi tunavyoendesha biashara yetu, shughuli zetu za kimaadili, kijamii na kimazingira. Mpango huu ulihusisha mikutano ya mashauri na wagawaji bidhaa, wakulima, mashirika yasio ya serikali, wafanyikazi, washirika wa kibiashara na wanunuzi. Shughuli ya uzinduzi huu wa kihistoria wa taarifa hii mwezi Juni mwaka wa 2004 ilihudhuriwa na waakilishi wa washirika dau mbali mbali wa kampuni ambao walishiriki katika vikao vya mashauri. Kupitia mpango huu, Kampuni ya British American Tobacco Kenya inataka kuwahusisha kikamilifu washirika dau katika kushughulikia maswala mbali mbali yaliyogusiwa kuhusu biashara yetu na shughuli zetu za kijamii na mazingira yetu.

USIMAMIZI WA KAMPUNI

Kama sehemu ya familia ya kampuni ya British American Tobacco, tunahusishwa kwenye maongozi ya usimamizi wa kampuni na kuambatana na maongozi haya tumeendelea kuunga mkono maongozi ya Halmashauri ya Masoko ya Hisa.

MGAO WA FAIDA

Tunafuraha kuripoti kwamba kampuni yetu iliendelea kudumisha mtiririko wenye nguvu wa kifedha katika mwaka wa 2004. Halmashauri ya wakurugenzi ilipendekeza mgao wa mwisho wa faida wa shilingi 4.50 kwa kila hisa ya shilingi 10. Ukiongezewa mgao wa muda wa faida uliolipwa katika mwaka wa 2004, hii inafikisha jumla ya shilingi 16.50 ambayo ni juu mno kuwahi kulipwa. Mgao wa faida uliolipwa utatozwa kodi na utalipwa tarehe 26 aprili 2005 kwa wenye hisa na walioko kwenye sajili ya hisa wakati wa kufunga biashara tarehe 12 Aprili 2005.

Chairman's Review **Taarifa ya Mwenyekiti**

OUTLOOK
Future prospects for our business look promising given the level playing field prevailing in the industry, the anticipated growth of agriculture, manufacturing, construction and the revival of co-operative societies. Improvement of infrastructure and addressing insecurity should contribute significantly to a better operating environment. The ongoing socio – economic integration of the partner states in the East African Region presents great opportunities for the business especially with the commencement of the Customs Union.

Owing to increased demand for quality products in the region, export and contract manufacture sales are expected to continue the upward trend as more brands are moved into production in Kenya for regional markets.

Tobacco regulation has featured in the public forum since it was tabled in Parliament in October 2004. We have made our submissions to the relevant authorities and remain optimistic that through dialogue, a common approach to the issues will be the solution to regulation of the tobacco industry. We support the enactment of a realistic, workable and enforceable regulation that addresses health concerns whilst taking into account Kenya's socio- economic realities.

NEW DIRECTOR
I welcome to the board of British American Tobacco Kenya a new member, Mr. Leonardo Morales who joined as of March 2005. Leonardo joins the Board as a non-executive director. He replaces Luis Rapparini who resigned and leaves to take up another role in the Group. I wish to thank Luis for his contribution to the Board and success of our business.

The excellent results in 2004 would not have been achieved without the dedicated contribution of various stakeholders, in particular our employees who worked tirelessly as a team, our distributors and the government for creating a favourable environment. We are grateful to all stakeholders for their contribution and support. Thank You.

Evanson Mwaniki
Chairman

Permanent Secretary Ministry of Foreign Affairs Amb. Peter Ole Nkuraiya admires a Maasai belt during the 2004 E.A. Jua Kali Exhibition held in Mombasa.

MTAZAMO:
Matarajio ya biashara yetu siku zijazo ni ya kutia moyo hasa ikizingatiwa kodi nafuu inayotozwa, matarajio ya kukua kwa sekta ya kilimo, utengenezaji bidhaa, ujenzi na ufufuzi wa vyama vya ushirika. Kuimarishwa kwa miundo msingi na kushughulikia maswala ya usalama kunapaswa kuchangia pakubwa ili kuwa na mazingira bora ya uendeshaji biashara. Muungano wa kijamii na kiuchumi unaoendelea wa mataifa washirika katika eneo la Afrika mashariki unatoa nafasi kubwa ya biashara hasa kufuatia kubuniwa kwa Muungano wa Forodha wa eneo hili.

Kufuatia ongezeko la mahitaji ya bidhaa bora katika eneo hili, uuzaji unatarajiwa kuendelea kukua huku aina mpya zaidi ya bidhaa zikitolewa hapa Kenya kwa nchi za eneo la upembe wa Afrika.

Sheria ya tumbaku imezungumziwa katika mihadhara ya umma tangu ilipowasilishwa bungeni kati kati ya mwaka 2004. Tumewasilisha maoni yetu kwa maafisa wanaohusika na tunaendelea kuwa na matumaini kwamba kupitia mashauri, hatua ya pamoja kwa maswala haya italeta suluhisho kwa sheria ya sekta ya tumbaku. Tunaunga mkono kubuniwa kwa sheria wazi ifaayo ambayo itazingatia mahitaji ya kiafya huku pia ikitilia mkazo manufaa ya kijamii na kiuchumi ya Kenya.

MKURUGENZI MPYA
Ninamkrabisha Bw. Leonardo Morales katika halmashauri ya kampuni ya British American Tobacco Kenya ambaye alijiunga nasi mnamo Machi mwaka wa 2005. Leonardo anajiunga kama mkurugenzi asiyendesha shughulli maalum za kampuni. Anachukua mahali pa Luis Rapparini ambaye amestaafu na anaondoka kuchukua wadhifa mwingine ng'ambo. Ningependa kumshukuru Luis kwa kuchangia kwake ufanisi wa biashara yetu.

Ningetaka kusema kwamba mafanikio yaliyopatikana hayangekuwepo bila ya mchango mkubwa wa wafanyikazi ambao juhudi zao na ushirikiano zimechangia pakubwa mno mafanikio yaliyogusiwa hapo juu. Walijitolea kuihudumia kampuni ya British American Tobacco Kenya na bidii yao kazini, kujitolea na hamu ya kukua na kufanya vizuri zaidi kazini imechangia pakubwa mafanikio haya. Nina washukuru nyote.

Evanson Mwaniki
Mwenyekiti

Managing Director's Report

Simon Welford
Managing Director

2004 Overview

2004 was a year of good progress for British American Tobacco Kenya. Turnover increased by 4% in a cigarette and tobacco products market that remained flat. Profit before tax increased by a similar 4% built upon stronger domestic volumes, increased productivity throughout the organisation and the continued expansion of contract manufacture.

We remain encouraged that the efforts undertaken by the Kenya Revenue Authority to enforce legislation on excise tax and enhance controls on exporting procedures are working. These efforts, which have seen some less reputable manufacturers cease business in Kenya in 2004, have levelled the playing field in the tobacco industry considerably.

With untaxed products in reduced supply and with fairer pricing between competitive brands, legitimate operators have benefited from stronger sales. Government revenues from the tobacco industry increased considerably compared to previous years due to these stronger enforcement measures.

Company share of the market continued to show very encouraging growth during the year, gaining three share points to close at 76% in December. All of our four drive brands; Benson & Hedges, Embassy, Sportsman and Safari showed encouraging performances and on a combined basis increased in volume by 9%. This is an important measure as these brands are the future source of profitability for our business in Kenya and have consistently been the focus for our marketing support over recent years. Our low price 'fighter' brand, Safari, continues to show very strong growth and has rapidly established itself as the cigarette of choice for the lower priced end of the market. Exports, principally to the Horn of Africa, remained strong during 2004.

Our strategy of moving new brands into contract manufacture in our Nairobi factory continued to progress well. Rothmans Royals and Benson & Hedges, leading brands in the markets of Somalia and Djibouti, entered into manufacture late in the year, under a contract manufacturing agreement with the trade mark owners. This followed the commissioning of a Shs 500m investment in new cigarette making and packing machinery that has enhanced our capacity for high quality manufacture.

The introduction of these new contract manufacture brands, together with brands migrated in 2003, will raise your company's total production by nearly 40% to an annual volume of over 7 billion sticks. This is a realisation of our objective of establishing our factory as a centre of manufacturing excellence for East and Central Africa. The selection of our Nairobi factory as the location to produce these brands is a complement to the quality and cost competitiveness of your business.

Our partnership with Stancom Tobacco Kenya, our long term partners, continued to evolve well in 2004. The total volume processed at our Thika Green Leaf Processing plant reached a record 22 million tonnes supported by an expansion of the total crop grown in Kenya under both British American Tobacco Kenya and

Stancom sponsorship. Our prices to farmers increased driven by the delivery of good quality tobaccos justifying our absolute focus on quality production in recent years. These grades of tobacco are used entirely for Kenya production to consistently improve the quality of locally manufactured brands.

A retailer re-stocks a branded cigarette dispenser.

The debate on tobacco control elicited diverse views after a Bill was tabled in the National Assembly late in 2004. We expect the Bill to be debated by Parliament in 2005. We are optimistic that the Government will give hearing to both sides of the debate as we continue to support balanced regulation of the industry. We will work together with the authorities with a view to delivering regulation that takes into account the views of all stakeholders. There is need to regulate the industry and we believe that an all inclusive approach would result in collective ownership of what will ultimately be good, workable legislation.

Your company's credit rating went a notch higher when Global Credit Rating Company ("GCR") upgraded British American Tobacco Kenya's domestic long term credit rating to AA+ (double A plus), from AA (double A) previously.

The rationale for this improvement is the sustained strong financial position of your company, improved working capital management and strong cash generation. Your company remains the highest independently credit rated corporate in Kenya.

In June 2004, your company achieved yet another key milestone after being the first company in Kenya to publish a Social Report based upon stakeholder dialogue. The Social Reporting process entailed wide stakeholder consultations to gather their views about our socio - economic, environmental and ethical performance. The objective was to understand our stakeholder concerns and address their expectations in a mànner consistent with British American Tobacco's social responsibility initiatives. In our 'Report to Society', we made commitments to respond creatively to a number of the issues raised by our stakeholders; we look forward to doing so.

Global Chief Operating Officer, Antonio Monteiro de Castro unveils a new production line at the Nairobi factory.

The good performance by your company in 2004 has enabled your Board of Directors to recommend a final Dividend of Shs. 4.50 per Shs 10 ordinary share. Together with interim dividends already paid, the total dividend per share for 2004 is Shs 16.50. This represents a 32 % increase above last year's dividend.

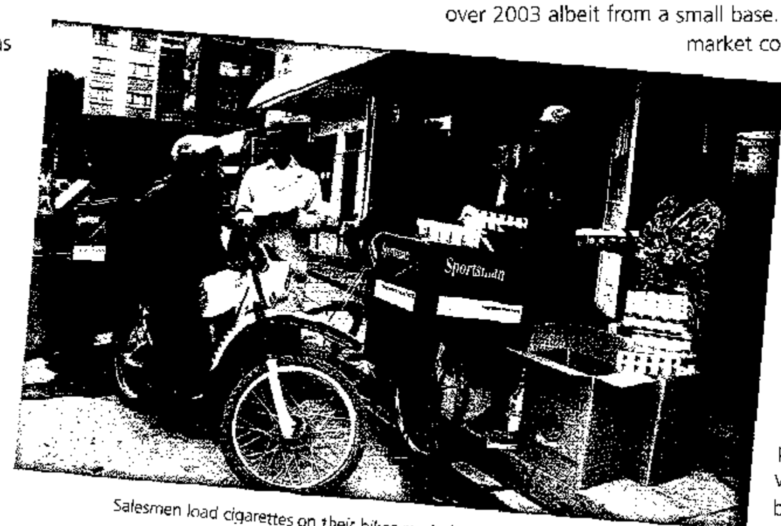
In a year of good results, I would like to thank the employees of your company for their hard work and continued dedication. I would also like to express our sincere gratitude to all our partners, stakeholders and shareholders for your continued support during 2004.

I am confident that with your continued encouragement and cooperation, your company will face the future with confidence and will remain on course to deliver its growth strategy in 2005.

Marketing **Activities**

GOING FOR GROWTH

Our marketing theme in 2004 was "Going for Growth" and without a doubt, it proved to be a year of good growth for British American Tobacco Kenya building on the solid gains achieved last year. We grew our share of market month on month closing the year at 76%, up 3 points from that achieved in December 2003. Sales were up by 6% over 2003 exceeding the 4 billion sticks mark for the first time since 2001. This was an encouraging achievement in a year of modest but welcome economic growth, where pressure on consumer disposable income still remained high.



Salesmen load cigarettes on their bikes ready for distribution to retailers.

DRIVERS OF GROWTH

Our drive brands grew by a combined 9%, faster than the total market, highlighting the success of our focused marketing efforts behind these brands. We saw fastest growth at the bottom end of the market where our portfolio of affordable offers drew benefit from a more level playing field.

The enhanced effectiveness of the tax enforcement agencies in the country who increased their vigilance and actions against the illegal sale of non tax compliant products in the market were key in delivering this. Not only did such actions contribute to growth in sales of legal tax compliant products in Kenya, it also allowed our brands to compete on a level playing field vis a vis quality and price. Our consumers have demonstrated their informed preferred brand choice in your superior quality brands demonstrated by the sales growth we have seen.

OUR DRIVE BRANDS

Benson & Hedges

The Premium drive brand in our portfolio performed extremely well in 2004 achieving double digit growth over 2003 albeit from a small base. Targeted at top end market consumers, sales success was secured by focusing distribution in the key urban centres of the country as well as brand building and consumer engagement activities during the peak sales periods of the year. B&H sales in the end year festive period were particularly buoyant which leads us to believe that with continued focus and an expected improvement in the economic environment, the brand will continue to grow.

Embassy

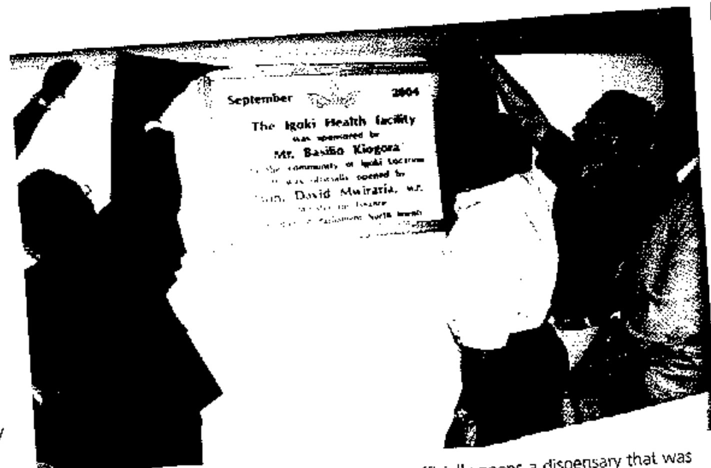
Embassy Lights, the lead variant in the Embassy brand family, also recorded commendable growth during the year, supporting a global trend evident in premium and high priced brands, towards a shift to lighter variants.

Sportsman

The lead brand in the Kenya cigarette market achieved highly commendable performance, maintaining volume

despite extreme pressure from low priced competing offers. Key factors in this achievement are attributed to intense distribution initiatives, particularly in rural markets as well as the successful implementation of the 'Jenga Jina' consumer promotion. The promotion continues to grow in appeal and acclaim with well over 6 million entries being received in the 2004.

'Jenga Jina' combines both individual winners and community prizes in a unique promotional format which blends corporate social responsibility with brand marketing objectives. To date, the 'Jenga Jina' community development approach has seen 25 projects initiated with 19 already commissioned. The projects include the building of community health centres, cattle dips and communal water supply facilities.



Hon. David Mwiraria, Minister for Finance officially opens a dispensary that was sponsored by Mr. Basilio Kiogora, a Sportsman Jenga Jina Promotion winner. The dispensary is located in South Imenti Constituency.

The promotional concept itself continues to win awards, most recently being awarded the 2nd best overall consumer sales promotion in 2004 by the Marketing Society of Kenya.

Safari

Our 'fighter' brand Safari recorded remarkable growth in 2004, linked to more realistic market prices in the low priced segments. The brand continues to perform its role of being a credible offer to price sensitive consumers at the bottom end of the market.

DISTRIBUTION

In 2004, we continued our drive towards excellence in our trade marketing and distribution capabilities benchmarking world class standards elsewhere in the Group. We strengthened the team in highly competitive zones, and ensured that training & staff development programmes were conducted strategically within the year.

Out in the field, our express objective was to ensure distribution superiority, as well as an improved quality in our coverage and service levels. Investments were made in vans, motorcycles & sales staff to augment existing distribution tools.

Recognising the key role of our valued trade partners, we implemented during the year, bonus schemes for our distributors and stockists ensuring that they were additionally rewarded on attainment of agreed targets.

A customer buys cigarettes from a kiosk.

LOOKING AHEAD

As earlier stated, 2004 was a year of good progress in your company's sales performance. Our goal is to build on this momentum and to drive quality growth in 2005, particulary of our higher priced brands.

Our brand strategy is working, our distribution effectiveness is good and getting better and we continue to invest in promotional and trade activities.

Behind this, we continue to upskill our people, employing the best and providing training to deliver the best. We have felt the benefits of a tax compliant market place and will continue to support enforcement initiatives towards creating a level playing field.

All this leads to optimism that with continued improvement in the economy as a whole, and consumer disposable incomes in particular, we will confidently deliver our 2005 marketing objectives.

Corporate & **Regulatory Affairs**

SOCIAL REPORTING

In 2004, your company became the first in Kenya to publish a "Corporate Social Report".This stakeholder engagement initiative provided a platform for direct dialogue with stakeholders on various issues. Tobacco farmers, suppliers, Government representatives, legislators, special interest groups, NGO's, consumers, distributors and employees attended various dialogue sessions to give their views on the Company's socio-economic and environmental performance.

Simon Welford (Managing Director) unveils the 'Report to Society' last year. Looking on from left are; Dr. Kipkirui Lang'at (the - then Chief Executive, Agricultural Society of Kenya), Dr. P.L.O Lumumba (Facilitator, Social Reporting Process) and Keli Kiilu Corporate Affairs Director.

The process offered invaluable insight on what your company is doing right, what needs to change and how to partner with our stakeholders to effectively address their concerns on a wide range of issues including, community support initiatives, smoking and health, environmental performance and employee relations. The "Report to Society" capturing the dialogue process and the company's responses was launched mid-year and dispatched to all our stakeholders.

The company will sustain our social reporting initiative as it seeks to continuously address stakeholder concerns on various issues regarding our business.

CORPORATE SOCIAL INVESTMENT

As part of the company's contribution to socio-economic development and community development initiatives, in conjunction with the East African Community, your company sponsored the 6th East African Jua Kali exhibition which was held at the Tononoka grounds in Mombasa. The event attracted over 400 exhibitors from Kenya, Uganda, Tanzania and for the first time fifty participants from Rwanda.

Your company also sponsored a Jua Kali exhibition held alongside the Kenya 2004 International Investment Conference. The role of the Exhibition was to recognise and incorporate the Jua Kali Sector in the main stream economic planning and development of Kenya.

British American Tobacco Kenya continued being a prominent member of the agricultural fraternity and participated in the four Agricultural Society of Kenya shows in Nakuru, Kisumu, Mombasa and Nairobi. The agricultural shows provide a forum for members in the sector to exchange ideas and best practice in addition to sharing knowledge with the public.

Your company continued to support the ASK by providing VIP gates in Nakuru, Kisumu and Nairobi show grounds and refurbishment of the VIP dias at the Mombasa show ground.

As a new initiative, the company established Botanical Gardens at the Nakuru, Kisumu and Nairobi Show grounds which are covered with a variety of indeginous trees.

"the Company believes that the most important form of corporate governance comes from within, with external guides and codes being overlays to the standards that we as a Group set ourselves."

CMA-LIBRARY

Shareholding Structure

Major Shareholders

Shareholder	No. of Shares	% Holding
Molensteegh Invest BV	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
Barclays (Kenya) Nominees Limited A/C 1853	885,000	0.88
Old Mutual Life Assurance Company Limited	836,880	0.84
Kenya Commercial Bank Nominees Ltd A/C 744	806,617	0.81
Kenya Commercial Bank Nominees Ltd A/C 769G	440,187	0.44
Baloobhai Chhotabhai Patel	402,430	0.40
Apollo Insurance Company Limited	386,949	0.39
Insurance Co. of East Africa Ltd	336,737	0.34
Others	14,908,534	14.90
Total	**100,000,000**	**100.00**

Summary of Shareholders

Shareholder	No. of Shareholders	Shares	% Holding
Kenyans	4807	39,917,686	39.92
Foreign	25	60,034,446	60.03
East African	21	47,868	0.05
Total	**4,853**	**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	2084	621,301	0.62
501 to 5,000	2364	3,836,226	3.84
5.001 to 10,000	186	1,345,240	1.34
10,001 to 100,000	186	5,015,626	5.02
100,001 to 1,000,000	31	9,181,607	9.18
Above 1,000,000	2	80,000,000	80.00
Total	**4,853**	**100,000,000**	**100.00**

Based on the Share Register as at 18 March 2005

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

Directors Report & **Financial Statements 2004**

Financial statements:

CMA

Directors & Advisors

Board of Directors

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

Audit Committee

Mr. E Mwaniki (Chairman)
Mr. C M Burrell
Mr. P R Lopokoiyit
Mr. S Mugwe
Mr. L C Rapparini**
Mr. S A Welford
Prof. J H Kimura
Mr. H M Mule
Mr. D Okumu
Mr. E Irungu (Secretary)

Nominations Committee

Mr. E Mwaniki (Chairman)
Mr. A N Ngugi
Mr. C M Burrell
Mr. S A Welford

Remuneration Committee

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

Corporate Social Responsibility Committee

Mr. S A Welford (Chairman)
Mr. K Nguru
Mr. D Kiambi
Mr. S Mugwe
Mr. E Irungu
Mr. J Kiberu
Mr. M M Wanyoike
Mr. K Kiilu (Secretary)

* Non-executive Directors
** Resigned on 11 March 2005

Auditors

PricewaterhouseCoopers,
Rahimtulla Tower, Upper Hill Road,
P.O. Box 43963-00100,
NAIROBI.

Transfer Agents

Barclays Bank Advisory & Registrar Services Limited,
Bank House, Moi Avenue,
P.O. Box 30120-00100,
NAIROBI.

Advocates

Kaplan & Stratton,
Williamson House,
4th Ngong Avenue,
P.O. Box 40111-00100,
NAIROBI.

Bankers

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

Secretary and Registered Office

R T Ngobi (Ms.),
Likoni Road,
P.O. Box 30000-00100,
NAIROBI.
Telephone: 69042000.

Directors Report Ripoti ya Wakurugenzi

The directors submit their report together with the audited financial statements for the year ended 31 December 2004 which disclose the state of affairs of the company and the group.

Wakurugenzi wanatoa Ripoti yao na hesabu za fedha zilizokaguliwa kwa mwaka uliomalizika Desemba 31 2004.

PRINCIPAL ACTIVITIES:
The principal activities of the group are the manufacture and sale of cigarettes and tobacco.

SHUGHULI MUHIMU ZA KUNDI LA MAKAMPUNI
Shughuli muhimu za kundi la makampuni ni utengenezaji na uuzaji wa sigara na tumbaku.

Results and dividend	**Shs'000**
Net profit for the year	1,210,194
Dividend:	
Interim dividend of Shs 12.00 per share	1,200,000
Proposed final dividend of Shs 4.50 per share	450,000
	1,650,000

Faida iliyopatikana	***Shs.'000***
Faida iliyopatikana katika mwaka huo baada ya kodi ilikuwa	*1,210,194*
Iligawanywa ifuatavyo:	
Migawo ya faida kwa wenyehisa:	
Mgawo wa muda wa Shs.12.00 kwa kila hisa	*1,200,000*
Mgawo wa mwisho unaopendekezwa wa Shs. 4.50 kwa kila hisa	*450,000*
	1,650,000

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

Mr. Luis Rapparini resigned from the Board on 11 March 2005. Mr Leonardo Morales was appointed to the Board on 11 March 2005 in accordance with Article 95 of the Articles of Association.

In accordance with Article 89 of the Articles of Association Messrs H M Mule, Prof. J H Kimura, and A N Ngugi 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 Mr. Leonardo Morales retires from the Board at the Annual General Meeting and, being eligible, offers himself for re-election.

HALMASHAURI YA WAKURUGENZI
Tangu Mkutano Mkuu wa mwaka jana mabadiliko yafuatayo yametokea katika Halmashauri ya Wakurugenzi:

Bw. Luis Rapparini alijiuzulu tarehe 11 March 2005. Bw. Leonardo Morales aliteuliwa tarehe 11 March 2005.

Kwa mujibu wa kifungu 89 cha Katiba ya Kampuni Mabw. H M Mule, Prof. J H Kimura, and A N Ngugi wastaafu kwa zamu katika mkutano Mkuu wa Mwaka na, kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kwa mujibu wa kifungu 95 cha Katiba ya Kampuni Bw. Leonardo Morales atastaafu katika Mkutano Mkuu wa Mwaka na, kwa vile anastahili, anajitolea kuchaguliwa tena

AUDITORS
The Company's auditors, Messrs PricewaterhouseCoopers continue in office in accordance with section 159(2) of the Companies Act.

WAKAGUZI WA HESABU
PricewaterhouseCoopers wataendelea na ukaguzi wa vitabu kwa mujibu wa kifungu 159(2) cha Sheria za Makampuni.

By Order of the Board

R T Ngobi (Ms.)
Company Secretary
18 March 2005

Kwa Amri ya Halmashauri

R T Ngobi (Ms.)
Katibu wa Kampuni
18 March 2005

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

P R Lopokoiyit
Finance Director

18 March 2005

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 2004, set out on pages 22 to 38.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as described 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 we believe 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 financial affairs of the Group and the company as at 31 December 2004, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act. The company's balance sheet is in agreement with the books of accounts.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

18 March 2005

CMA - LIBRARY

Consolidated Profit & Loss Account

for the year ended 31 December 2004

	Notes	2004 Shs'000	2003 Shs'000
Gross turnover		9,865,047	9,446,056
Excise duty and value added tax		(4,398,721)	(4,128,140)
Net turnover		5,466,326	5,317,916
Cost of operations	3	(3,710,551)	(3,575,113)
Reorganisation costs	4	(17,922)	(66,333)
Operating profit	5	1,737,853	1,676,470
Finance income	7	12,749	1,125
Profit before income tax		1,750,602	1,677,595
Income tax expense	8	(540,408)	(537,574)
Profit for the year		1,210,194	1,140,021
Earnings per share			
Basic and diluted earnings per share (Shs)	10	12.10	11.40
Dividend			
Interim dividend – paid in the year	9	1,200,000	800,000
Proposed final dividend for the year	9	450,000	450,000
		1,650,000	1,250,000

Consolidated **Balance Sheet**

As at 31 December 2004

	Notes		2003 Shs'000
CAPITAL EMPLOYED			
Share capital	11	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	12	746,073	769,383
Retained earnings		1,564,929	1,981,425
Proposed dividends	9	450,000	450,000
Shareholders' funds		3,761,025	4,200,831
Non-current liabilities			
Retirement benefits obligation	13	92,908	120,384
Deferred income tax	14	514,580	485,906
		4,368,513	4,807,121
REPRESENTED BY:			
Non-current assets			
Property, plant and equipment	16	3,520,605	3,552,077
Prepaid operating lease rentals	17	215	219
		3,520,820	3,552,296
Current assets			
Inventories	18	1,437,122	1,277,949
Receivables and prepayments	19	891,531	572,482
Current income tax		108,272	-
Cash and bank balances	22	164,142	953,342
		2,601,067	2,803,773
Current liabilities			
Payables and accrued expenses	20	1,560,854	1,504,979
Current income tax		-	43,969
Borrowing	21	192,520	-
		1,753,374	1,548,948
Net current assets		847,693	1,254,825
		4,368,513	4,807,121

The accounts on pages 22 to 38 were approved for issue by the board of directors on 18 March 2005 and signed on its behalf by:

S A Welford
Managing Director

P R Lopokoiyit
Finance Director

Company Balance Sheet

As at 31 December 2004

	Notes	2004 Shs'000	2003 Shs'000
CAPITAL EMPLOYED			
Share capital	11	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	12	746,073	769,383
Retained earnings		1,564,929	1,981,425
Proposed dividends	9	450,000	450,000
Shareholders' funds		3,761,025	4,200,831
Non-current liabilities			
Retirement benefits obligation	13	92,908	120,384
Deferred income tax	14	514,580	485,906
		4,368,513	4,807,121
REPRESENTED BY:			
Non-current assets			
Property, plant and equipment	16	3,520,605	3,552,077
Prepaid operating lease rentals	17	215	219
Investment in subsidiaries	15	12,000	12,000
		3,532,820	3,564,296
Current assets			
Inventories	18	1,437,122	1,277,949
Receivables and prepayments	19	923,957	534,868
Current income tax		10,919	-
Cash and bank balances		112,379	879,134
		2,484,377	2,691,951
Current liabilities			
Payables and accrued expenses	20	1,490,584	1,444,243
Current income tax		-	4,883
Borrowing	21	158,100	-
		1,648,684	1,449,126
Net current assets		835,693	1,242,825
		4,368,513	4,807,121

The financial statements on pages 22 to 38 were approved for issue by the board of directors on 18 March 2005 and signed on its behalf by:

S A Welford
Managing Director

P R Lopokoiyit
Finance Director

Consolidated Statement of **Changes in Equity**

for the year ended 31 December 2004

	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 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 year deferred tax		-	-	(34,634)	34,634	-	-
Net gains/(losses) recognised directly in equity		-	-	(60,106)	60,106	-	-
Profit for the year		-	-	-	1,140,021	-	1,140,021
Total recognised income for 2003		-	-	(60,106)	1,200,127	-	1,140,021
Dividend:				-			
- Final for 2003		-	-	-	-	(250,000)	(250,000)
- Interim for 2003		-	-	-	(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
Year ended 31 December 2004							
At start of year		1,000,000	23	769,383	1,981,425	450,000	4,200,831
Transfer of excess depreciation		-	-	(33,300)	33,300	-	-
Deferred tax on transfer		-	-	9,990	(9,990)	-	-
Net gains/(losses) recognised directly in equity		-	-	(23,310)	23,310	-	-
Profit for the year		-	-	-	1,210,194	-	1,210,194
Total recognised income for 2004		-	-	(23,310)	1,233,504	-	1,210,194
Dividend:							
- Final for 2003		-	-	-	-	(450,000)	(450,000)
- Interim for 2004	9	-	-	-	(1,200,000)	-	(1,200,000)
- Proposed final for 2004	9	-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	746,073	1,564,929	450,000	3,761,025

Company Statement of **Changes in Equity**

For the year ended 31 December 2004

	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 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 year deferred tax		-	-	(34,634)	34,634	-	-
Net gains/(losses) recognised directly in equity		-	-	(60,106)	60,106	-	-
Profit for the year		-	-	-	1,150,132	-	1,150,132
Total recognised income for 2003		-	-	(60,106)	1,210,238	-	1,150,132
Dividend:				-			
- Final for 2002		-	-	-	-	(250,000)	(250,000)
- Interim for 2003		-	-	-	(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
Year ended 31 December 2004							
At start of year		1,000,000	23	769,383	1,981,425	450,000	4,200,831
Transfer of excess depreciation		-	-	(33,300)	33,300	-	-
Deferred tax on transfer		-	-	9,990	(9,990)	-	-
Net gains/(losses) recognised directly in equity		-	-	(23,310)	23,310	-	-
Profit for the year		-	-	-	1,210,194	-	1,210,194
Total recognised income for 2004		-	-	(23,310)	1,233,504	-	1,210,194
Dividend:							
- Final for 2003	9	-	-	-	-	(450,000)	(450,000)
- Interim for 2004	9	-	-	-	(1,200,000)	-	(1,200,000)
- Proposed final for 2004		-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	746,073	1,564,929	450,000	3,761,025

Consolidated Cash **Flow Statement**

For the year ended 31 December 2004

	Notes	2004 Shs'000	2003 Shs'000
Operating activities			
Cash generated from operations	24	1,520,598	2,636,161
Interest received		8,464	27,889
Interest paid		-	(6)
Income tax paid		(663,975)	(724,516)
Net cash from operating activities		865,087	1,939,528
Investing activities			
Purchase of property, plant and equipment	16	(210,311)	(421,342)
Proceeds from disposal of property, plant and equipment		13,504	37,308
Net cash used in investing activities		(196,807)	(384,034)
Financing activities			
Dividends paid		(1,650,000)	(1,050,000)
Net cash used in financing activities		(1,650,000)	(1,050,000)
Increase in cash and cash equivalents		(981,720)	505,494
Movement in cash and cash equivalents			
At start of year		953,342	447,848
Increase		(981,720)	505,494
At end of year	22	(28,378)	953,342

LIBRARY

Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and are prepared under the historical cost convention as modified by the revaluation of certain property.

The preparation of financial statements in conformity with IFRS 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 2004. 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 of goods are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts.

Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

(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 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:

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 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) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of 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 present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(i) Income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income 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.

Accounting Policies (continued)

(j) Employee benefits

a) Retirement benefit obligations

The company operates two defined contribution retirement benefit schemes for all its employees. The assets of both schemes are held in separate funds which are 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.

b) Other entitlements

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

(k) Dividend

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

(l) Investments in subsidiaries

Investments in subsidiaries are carried in the company's balance sheet at cost less provision for impairment losses. Where, in the opinion of the directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

(n) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes

1 General information

British American Tobacco Kenya Limited is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya. The company's shares are listed on the Nairobi Stock Exchange. The address of its registered office is:

Likoni Road
PO Box 30000-00100
NAIROBI

2 Financial risk management objectives and policies

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

Financial risk management is carried out by the Treasury Committee under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks. The Treasury Committee provides written principles for overall risk management, as well as those covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

3 Cost of operations

	[illegible]	2003 Shs'000
Raw materials and consumables	1,813,493	1,605,634
Marketing and distribution costs	347,733	378,037
Administrative expenses	1,314,750	1,365,659
Depreciation of property, plant and equipment	234,571	225,779
Amortisation of operating prepaid lease rentals (Note 17)	4	4
	3,710,551	3,575,113

4 Reorganisation costs

Redundancy costs	17,922	66,333

5 Operating profit

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

Depreciation of property, plant and equipment (Note 16)	234,571	225,779
Amortisation of prepaid operating lease rentals (Note 17)	4	4
Staff costs (Note 6)	845,447	772,283
Auditors' remuneration	5,550	5,250

Notes (continued)

6 Staff costs

	2004 Shs'000	2003 Shs'000
The following items are included within staff costs:		
Retirement benefit costs:		
- Defined contribution schemes (Note 13)	34,714	34,376
- Unfunded retirement benefits obligation (Note 13)	(7,749)	9,744
- Contributions to National Social Security Fund	1,066	1,102

The average number of persons employed by the group during the year was 420 (2003: 430).

7 Finance income

Interest income	8,464	27,889
Net foreign currency exchange gains/(loss)	4,719	(26,758)
Interest expense and similar charges	(434)	(6)
	12,749	1,125

8 Income tax expense

Current income tax	511,734	562,223
Deferred income tax (Note 14)	28,674	(19,218)
Over-provision of current tax in prior years	-	(5,431)
Income tax expense	540,408	537,574

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

Profit before income tax	1,750,602	1,677,595
Tax calculated at the statutory income tax rate of 30 % (2003: 30%)	525,181	503,279
Tax effect of:		
Income not subject to tax	(8,873)	(136)
Expenses not deductible for tax purposes	24,100	34,431
Income tax expense	540,408	537,574

9 Dividends

At the Annual General Meeting to be held on 26 April 2005, *a final dividend in respect of the year ended* 31 December 2004 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 13 August 2004.
A second interim dividend of Shs 4.00 per share amounting to Shs 400,000,000 was paid on 29 October 2004.
A *third interim dividend of* Shs *3.50 per share amounting to* Shs *350,000,000 was paid on 20 December* 2004.
The total dividend for the year is therefore Shs 16.50 per share (2003: Shs 12.50) amounting to a total of Shs 1,650,000,000 (2003: Shs 1,250,000,000).

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

10 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.

	2004	2003
Net profit attributable to shareholders (Shs'000)	1,210,194	1,140,021
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	12.10	11.40

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

11 Share capital

	Number of shares (Thousands)	Ordinary Shares Shs'000
At 1 January 2004 and at 31 December 2004	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.

12 Revaluation surplus

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

13 Retirement benefits obligation

(a) 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. An actuarial valuation of the company's obligation to fund the "top-up" retirement benefits was carried out at 31 December 2004 using the following actuarial assumptions:

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

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 2007. The movement in the provision during the year was as follows:

	2004 Shs'000	2003 Shs'000
At start of year	120,384	118,641
(Credit)/charge to profit and loss account	(7,749)	9,744
Utilised in the year	(19,727)	(8,001)
At end of year	92,908	120,384

(b) 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.

Notes (continued)

13 Retirement benefits obligation (continued)

Contributions to the provident funds are determined by the rules of the scheme and amounted to Shs 34,714,000 (2003: Shs 34,376,000) in the year.

Contributions to the statutory pension scheme, National Social Security Fund (NSSF) are determined by local statute and amounted to Shs 1,066,000 (2003: Shs 1,102,000).

14 Deferred tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2003: 30%).
The movement on the deferred income tax account is as follows:

	Group		Company	
	2004	2003	2004	2003
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	485,906	505,124	485,906	515,235
Charge/(credit) to income statement (Note 8)	28,674	(19,218)	28,674	(29,329)
At end of year	514,580	485,906	514,580	485,906

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

Group	1 January 2004 Shs'000	Charged/ (credited) to P&L Shs'000	31 December 2004 Shs'000
Deferred income tax liabilities			
Property, plant and equipment			
- on historical cost basis	306,890	17,076	323,966
- on revaluation surplus	329,736	(9,990)	319,746
	636,626	7,086	643,712
Deferred income tax assets			
Other temporary differences	(150,720)	21,588	(129,132)
Net deferred income tax liability	485,906	28,674	514,580
Company			
Deferred income tax liabilities			
Property, plant and equipment			
- on historical cost basis	306,890	17,076	323,966
- on revaluation surplus	329,736	(9,990)	319,746
	636,626	7,086	643,712
Deferred income tax assets			
Other temporary differences	(150,720)	21,588	(129,132)
Net deferred income tax liability	485,906	28,674	514,580

Deferred income tax of Shs 9,990,000 (2003: Shs 10,917,000) was transferred within shareholders' equity from revaluation surplus to retained earnings. This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of the building.

		2004 Shs'000	2003 Shs'000
15	**Investment in subsidiaries**		
	Shares at cost	12,000	12,000

The details of the subsidiary companies, all of which are incorporated in Kenya are as follows:

Name of subsidiary	% 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)

16 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	1,729,024	2,917,486	598,724	5,245,234
Additions	70,260	44,103	95,948	210,311
Disposals	-	(34,742)	(37,429)	(72,171)
At end of year	1,799,284	2,926,847	657,243	5,383,374
Depreciation				
At start of year	131,737	1,174,161	387,259	1,693,157
Charge for the year	47,033	131,298	56,240	234,571
Disposals	-	(30,119)	(34,840)	(64,959)
At end of year	178,770	1,275,340	408,659	1,862,769
Net book amount				
At 31 December 2004	1,620,514	1,651,507	248,584	3,520,605
At 31 December 2003	1,597,287	1,743,325	211,465	3,552,077

Freehold land and buildings were revalued 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.

If the buildings and freehold land were stated on the historical cost basis, the amounts would be as follows:

	2004 Shs'000	2003 Shs'000
Cost	606,893	536,633
Accumulated depreciation	(62,199)	(38,465)
Net book value	554,694	498,168

Notes(continued)

17 Prepaid operating lease rentals

	2004 Shs'000	2003 Shs'000
At start of year	219	223
Amortisation for the year	(4)	(4)
At end of year	215	219

18 Inventories – Group and Company

Raw materials and consumables	1,283,846	1,118,578
Finished goods and work in progress	153,276	159,371
	1,437,122	1,277,949

19 Receivables and prepayments

	Group		Company	
	2004 Shs'000	2003 Shs'000	2004 Shs'000	2003 Shs'000
Trade receivables	20,747	78,400	-	41,697
Due from related companies (Note 25)	363,584	75,579	418,853	77,781
Prepayments and other receivables	507,200	418,503	505,104	415,390
	891,531	572,482	923,957	534,868

20 Payables and accrued expenses

Trade payables	342,763	246,710	335,072	246,710
Due to related companies (Note 25)	258,025	23,789	250,023	79,440
Other payables and accrued expenses	960,066	1,234,480	905,489	1,118,093
	1,560,854	1,504,979	1,490,584	1,444,243

21 Borrowings

Borrowings comprise the following:

Bank overdraft	192,520	-	158,100	-

The weighted average effective interest rate on bank borrowings was 6.5% at the year end. Bank borrowings are unsecured.

In the opinion of the directors, the carrying amounts of short-term borrowings approximate to their fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the company at the balance sheet date.

Borrowing facilities

The company has the following undrawn committed borrowing facilities:

	2004 Shs'000	2003 Shs'000
Floating rate		
- expiring within one year	3,353,000	2,765,000

The facilities are subject to renewal review at various dates during the year.

22 Cash and cash equivalents

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

	2004 Shs'000	2003 Shs'000
Cash at bank and in hand	145,249	162,640
Short term bank deposits	18,893	790,702
	164,142	953,342
Bank overdraft (Note 21)	(192,520)	-
	(28,378)	953,342

The weighted average effective interest rate on short-term bank deposits during the year was 2.13% (2003: 3.87%).

23 Contingent liabilities

As at 31 December 2004, the group had given guarantees amounting to Shs 41 million (2003: Shs 54 million) on behalf of third parties.

24 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

Profit before income tax	1,750,602	1,677,595
Adjustments for:		
Depreciation of property, plant and equipment (Note 16)	234,571	225,783
Amortisation of prepaid operating lease rentals (Note 17)	4	4
(Profit)/loss on disposal of property, plant and equipment	(6,292)	27,716
Interest income (Note 7)	(8,464)	(27,889)
Interest expense (Note 7)	-	6
Changes in working capital:		
- receivables and prepayments	(319,049)	445,444
- inventories	(159,173)	148,308
- payables and accrued expenses	55,875	137,451
Change in retirement benefit obligations	(27,476)	1,743
Cash generated from operations	1,520,598	2,636,161

Notes (continued)

25 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 204,107,000 (2003: Shs 174,200,000).

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 59,187,000 (2003: Shs 61,859,000).

The company manufactures cigarettes under contract, sells processed tobacco and processes green leaf for related companies. Transactions with related companies are carried out on commercial terms and conditions. The revenue arising from these transactions in the year was Shs 306,608,000 (2003: Shs 248,404,000).

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

	2004 Shs'000	2003 Shs'000
Receivables		
Fellow subsidiaries	363,584	75,579
Payables		
Parent company	231,963	13,203
Fellow subsidiaries	26,062	10,586
	258,025	23,789

(ii) Directors' remuneration

- for services as director	6,622	6,033
- other emoluments	67,416	47,438
	74,038	53,471

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 Tuesday 26 April 2005 at 11.00 a.m in the Ball Room, Hotel Intercontinental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this

....

....2005

....

(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 Monday 25 April 2005

2. A person appointed to act as a proxy need not be a member of the company.

3. If the appointed 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.