BRITISH AMERICAN TOBACCO
KENYA

Annual Review & Financial Statements 2005

Annual Review and Financial Statements

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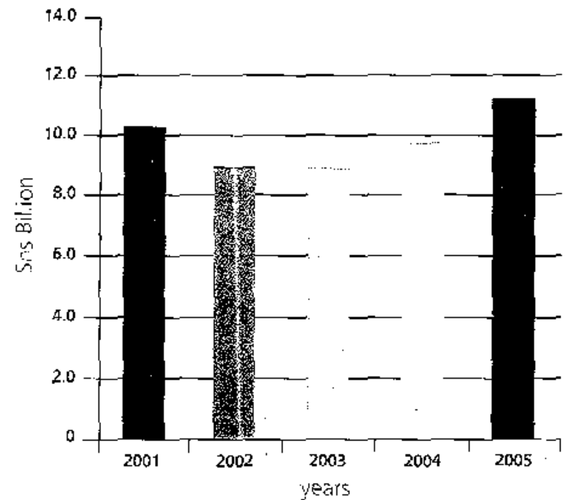
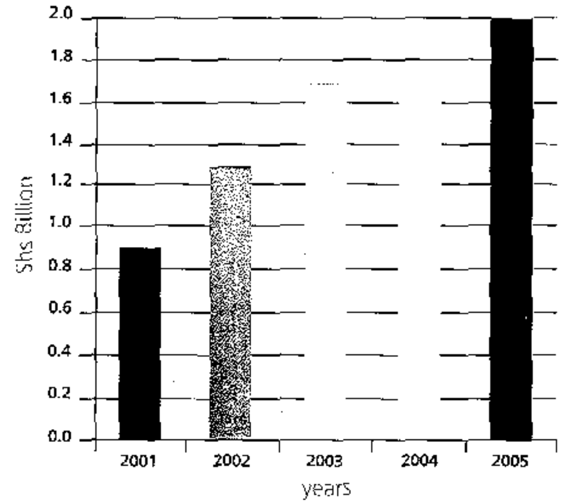
Financial Highlights

Gross turnover



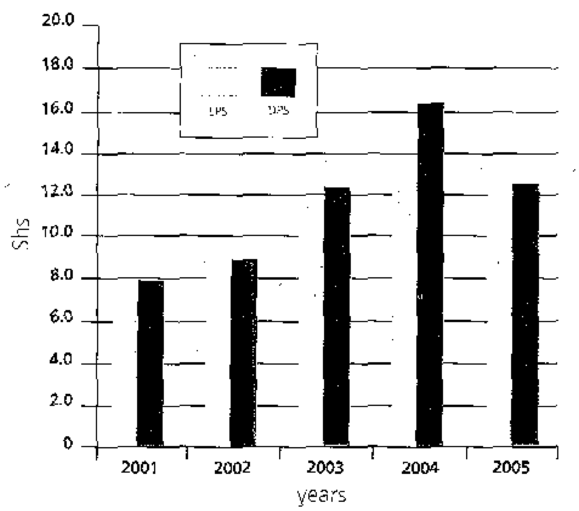
Gross turnover increased by 13% to Shs 11.2 billion

Profit before income tax



Profit before income tax increased by 15% to Shs 2.0 billion

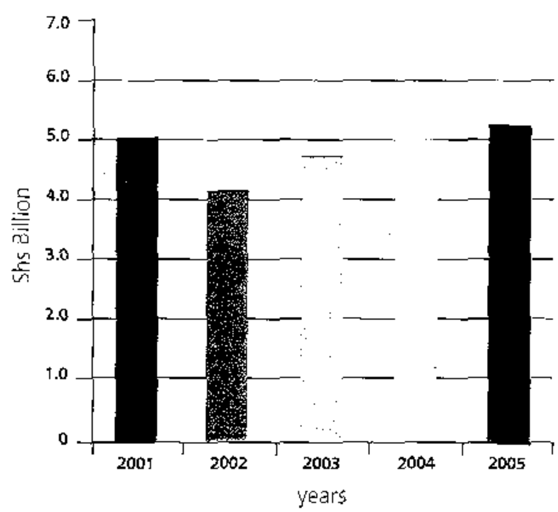
Earnings/Dividend per share



Basic earnings per share increased by 14% to Shs 13.82

On a 'like for like' basis, dividend per share was maintained at Shs 12.50 as the 2004 dividend at Shs 16.50 included a special interim dividend of Shs 4.00 per share

Contribution to government revenue



Contribution to government revenue increased by 8% to Shs 5.3 billion

The Board of Directors

First row from left; **Jeremy Pike** Non-Executive Director, **Allan Ngugi** Non-Executive Director, **Jane Michuki** Non-Executive Director, **Evanson Mwaniki** Chairman, **Simon Welford** Managing Director.

Second row from left: **Michael Wanyoike** Non-Executive Director, **Keli Kiilu** Corporate & Regulatory Affairs Director, **Philip Lopokoiyit** Finance Director, **Leonardo Morales** Non-Executive Director.

Third row from left: **Harris Mule** Non-Executive Director, **Ruth Ngobi** Company Secretary, **Gayling May** Non-Executive Director, **Prof. Joseph Kimura** Non-Executive Director.

Notice of the 2006 Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Fourth Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ball Room, Hotel Inter-Continental, Nairobi, on Tuesday 25 April 2006 at 11.00 a.m. for the following purposes:-

Ordinary Business

1. To receive and consider the Accounts for the year ended 31 December 2005 and the Reports of the Directors and Auditors thereon.

2. To declare a dividend.

3. To elect Directors:

   (i) Mr. Jeremy David Pike who was appointed by the Board on 4 November 2005 retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.
   (ii) Ms. Jane Wanjiru Michuki who was appointed by the Board on 8 July 2005 retires in accordance with Article 95 of the Articles of Association and being eligible, offers herself for re-election.
   (iii) Mr. Gayling Richard May who was appointed by the Board on 1 September 2005 retires in accordance with Article 95 of the Articles of Association and being eligible, offers himself for re-election.
   (iv) Mr. Keli Kiilu retires by rotation and being eligible offers himself for re-election in accordance with Article 89 of the Articles of Association.
   (v) Messrs. Evanson Mwaniki, Allan Ngugi and Harris Mule, retire in accordance with Article 98 (b) and being eligible offer themselves for re-election.

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

By Order of the Board

R T Ngobi (Ms.)
Company Secretary
P.O. Box 30000-00100
Likoni Road
Nairobi

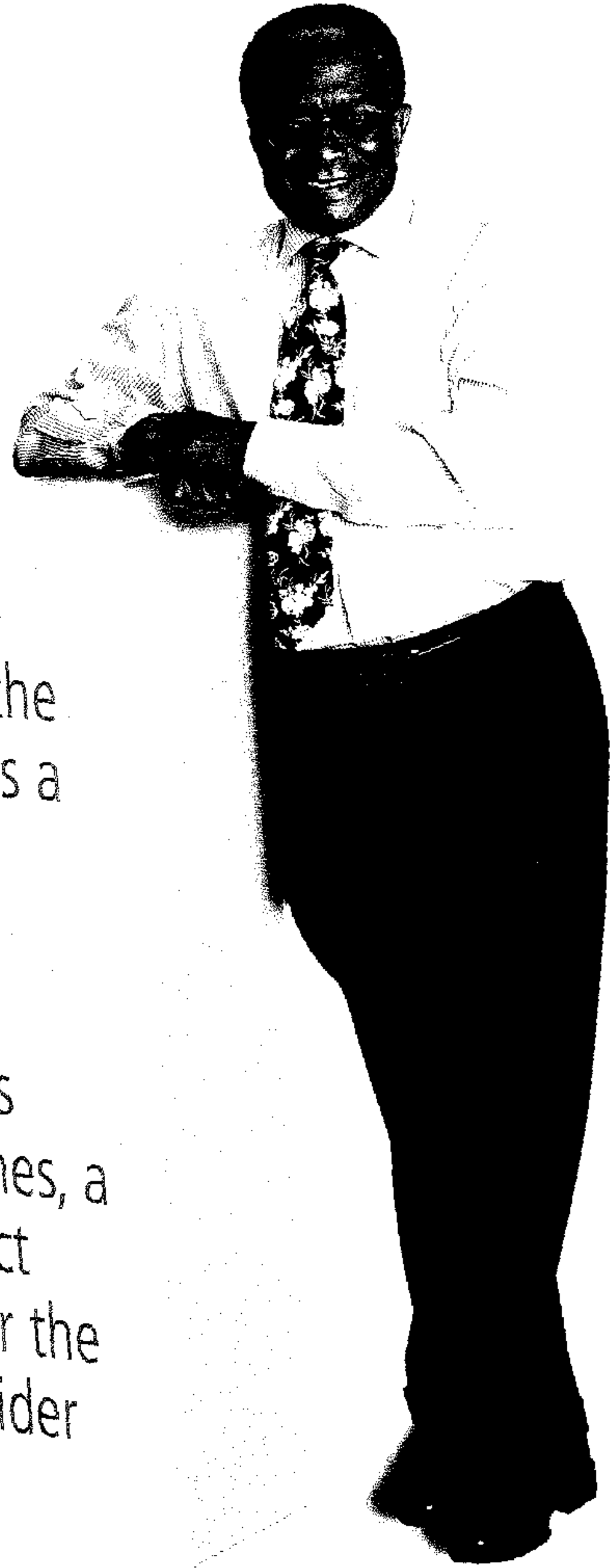
21 March 2006

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 24 April 2006.

Chairman's Review/Taarifa ya Mwenyekiti



Owing to the development of the Nairobi factory as a centre of manufacturing excellence, the business expects increased volumes, a result of contract manufacture for the EAC and the wider region

Chairman's Review/Taarifa ya Mwenyekiti

The Group's operations are being restructured to build long term shareholder value whilst creating a truly winning organisation.

Operating Environment

The Kenyan economy in 2005 continued to grow, despite the rising political temperature in the second half of the year. The rate of growth is expected to exceed 5%, underpinned by a stable macro-economic environment and improved performance of key sectors. Tourism in particular, recorded robust growth with arrivals increasing by about 30% over the previous year. The construction industry remained vibrant as evidenced by the increase of nearly 8% in cement consumption. Demand for residential houses, mainly in the urban centres remained exceptionally strong, supported by improved availability of mortgage finance. The transport and communications sector performed well with new vehicle registrations increasing by 15% over 2004 and with continuing growth of mobile telephony.

The manufacturing sector grew at a lower rate owing to the higher costs of electricity and petroleum fuels, poor road infrastructure and low disposable incomes in the population. Growth in the agriculture sector was hampered by unfavourable weather conditions, poor commodity prices and the appreciation of the Kenyan Shilling against the major international currencies.

During the year, the Shilling appreciated by 8.3% against the US Dollar, 19.1% against the Euro and 16.9% against the Sterling Pound. Whilst the strong Shilling hurt the exporters especially those of agricultural products, it mitigated the cost increase of key imports such as petroleum, machinery, fertilizer and also capital and intermediate goods. Interest rates remained relatively stable throughout 2005. The average overall annual inflation exhibited a declining trend for most of the year, but rose in the last two months reaching 7.6% in December 2005. However, underlying inflation remained below 5%.

Tobacco Industry

In the tobacco sector, the Government increased cigarette excise tax by 10% necessitating an increase in consumer prices post the June 2005 budget. There were incidents of duty not paid export cigarettes being offered in the domestic market, but such products whenever found, were seized by the authorities. Improved enforcement of the excise tax system also contributed to higher tax revenues for the Exchequer.

Performance

Our Company's domestic volume sales in 2005 grew by 2%, realising an improved market share. This growth was delivered by the drive brands Benson & Hedges, Embassy, Sportsman and Safari which grew by 4% over 2004.

Results

Gross Turnover at Shs 11.2 billion was 13% higher than in 2004. Pre tax profit increased by 15 % to a record high of Shs 2 billion, reflecting the impact of increased contract and domestic manufacture volumes, as well as benefits from overheads and indirect costs reduction. Profit after tax stood at Shs 1.3 billion, whilst contribution to the exchequer in the form of excise duty, VAT and company tax increased in 2005, by 8% to stand at Shs 5.3 billion.

Strategy

The group has aligned its focus on developing international brands, as well as developing a segmented and differentiated brand portfolio with concentration on premium brands that offer opportunities for growth. Our aim is to offer our consumers great choice, within their preferred brands, by innovating and expanding the range.

Last year, we launched Dunhill, to cater for the discerning smokers, providing them with a taste of the internationally acclaimed cigarette brand.

The Nairobi factory is also envisaged to play a bigger role as a regional manufacturing centre of excellence. In order to support this, the Company commenced a Shs 1 billion machinery investment programme in 2005. This is expected to be complete by mid 2006 and will result in additional manufacturing capacity as well as state-of-the-art machinery installation in the Nairobi factory.

Social Responsibility

Responsibility is an important component of our business which is influenced by our commitment to our stakeholders. One of our business principles - Mutual Benefit - shapes our response to the stakeholders, to ensure direct benefits from our operations in the areas we conduct our business. The Company continued to support the Small and Micro Enterprise - Jua Kali - sector in conjunction with the East African Community. Last year, the exhibition was held in Uganda. The annual exhibitions are held on a rotational basis in Kenya, Uganda

Mazingira ya Utendakazi

Uchumi wa Kenya mnamo mwaka wa 2005 uliendelea kukua, licha ya ongezeko la heka heka za kisiasa kwenye nusu ya pili ya mwaka huo. Kiwango cha ukuaji kinatarajiwa kupita asilimia 5 kutokana na kuweko kwa uthabiti wa mazingira ya shughuli kuu za kiuchumi na kuimarika kwa matokeo ya sekta muhimu. Hasa shughuli za utalii ziliendelea kukua, huku idadi ya watalii wanaowasili humu nchini kila mwaka ikiongezeka kwa karibu asilimia 30 ikilinganishwa na mwaka uliotangulia. Sekta ya ujenzi iliendelea kuimarika kama inavyodhihirishwa na ongezeko la karibu asilimia 8 katika matumizi ya saruji. [illegible]

[illegible]

[illegible]

Sekta ya Tumbaku

[illegible]

Chairman's Review/Taarifa ya Mwenyekiti

and Tanzania. We partnered with the Agricultural Society of Kenya (ASK) to promote best practice in the Agricultural fraternity, promoting afforestation and environmental conservation initiatives in the country.

Social Reporting

The first phase of the stakeholder engagement initiative otherwise referred to as Social Reporting, was concluded in 2005 during which we addressed the issues raised by the stakeholders at the dialogue sessions held the previous year. This feedback from stakeholders on regulation, tobacco growing, marketing and social responsibility, made it possible for the Company to be independently audited on its performance and conduct as a corporate citizen. This process enabled us to respond creatively to stakeholder concerns and uphold high standards of social responsibility and accountability.

Corporate Governance

The British American Tobacco Group's Corporate Governance framework, enhances the Group's performance to the benefit of our stakeholders and is the basis upon which we rate ourselves. High standards of Corporate Governance and adherence to Capital Markets Authority guidelines, have enabled us to achieve our business objectives in a responsible, transparent and accountable manner.

Dividend

The excellent performance by your company and actualisation of the long term strategic plans, has yielded excellent results. Notwithstanding the significant capital investment programme, the Board of Directors recommends a final dividend of shs 4.50 per Shs 10 ordinary share. Added to the two interim dividends already paid out, brings the total dividend to Shs 12.50 per share. The dividend payment is subject to withholding tax and will be paid on 25 April 2006, to the shareholders on the share register at the close of business on 20 March 2006.

Outlook

The momentum of economic growth experienced in 2005 is likely to face challenges in 2006. Drought, if it persists, will lead to water rationing and increased cost of power, as the country resorts to the more costly diesel generation to meet supply shortfalls. Famine will also retard economic growth as available resources are diverted from development activities to famine relief. The strong Shilling, whilst mitigating the rise in the cost of imports, could seriously damage exports especially of horticultural products and tea. The high and rising cost of petroleum remains a major threat to economic growth.

However, despite the current hardships, the future prospects for the economy remain

bei za wanunuzi kuanzia kati kati ya mwaka huo. Kulikuwa na visa vya kutolipwa kwa ushuru wa sigara zilizonuiwa kuuzwa katika nchi za nje na kuuzwa katika soko la humu nchini, lakini bidhaa kama hizo zilipopatikana zilinaswa na maafisa wanaohusika. Kuimarisha kwa hatua za ukusanyaji ushuru wa bidhaa hizo pia kulichangia kupatikana kwa ongezeko la mapato ya ushuru kwa serikali.

Mauzo

Mauzo ya bidhaa za kampuni yetu mnamo mwaka wa 2005 yaliongezeka kwa asilimia 2 hadi shilingi bilioni 4,080 na kufikia asilimia 76.8 ya biashara hiyo. Ukuaji huo ulitokana na uuzaji wa sigara aina ya Benson & Hedges, Embassy, Sportsman na Safari, ulioongezeka kwa asilimia 4.

Matokeo

Pato la jumla la shilingi bilioni 11.2 lilikuwa asilimia 13 juu kuliko ilivyokuwa mwaka wa 2004. Faida kabla ya kutozwa kodi iliongezeka kwa asilimia 15 na kufikia shilingi bilioni 2, hivyo kudhihirisha umuhimu wa ongezeko la viwango vya utengenezaji bidhaa humu nchini na pia kandarasi, na vile vile faida iliyotokana na kupungua kwa gharama za jumla na zile zisizo za moja kwa moja. Faida baada ya kodi ilikuwa shilingi bilioni 1.3 ilhali mchango wa kampuni kwa serikali kwa njia ya kodi uliongezeka mnamo mwaka wa 2005 kwa asilimia 8 na kufikisha shilingi bilioni 5.3.

Mbinu

Kampuni inaelekeza juhudi zake katika kustawisha aina ya bidhaa za kimataifa na vile vile kustawisha aina tofauti tofauti ya bidhaa kwa kuzingatia aina ya bidhaa zinazopendwa, zinazotoa nafasi ya ukuaji. Lengo letu ni kuwapa wanunuzi chaguo kubwa kwa aina tofauti-tofauti ya bidhaa wanazopenda kwa kubuni na kupanua kiwango cha bidhaa hizo.

Mwaka uliopita, tulizindua sigara aina ya Dunhill kuwahudumia wavutaji sigara wenye hamu ya aina hiyo ya sigara, na kuwapa ladha ya sigara inayopendwa sana Duniani.

Katika moyo kama huo, kama sehemu ya juhudi zinazoendelea za kampuni ya British American Tobacco, kutumia kikamilifu shughuli za biashara yake kuhakikisha kudumishwa kwa biashara hiyo siku zijazo, utendaji kazi wa kampuni yetu katika Afrika Mashariki umerekebishwa ili kujenga thamani ya muda mrefu ya wenye hisa huku tukibuni kampuni thabiti inayoongoza. Kwa kuzingatia kubuniwa kwa soko la pamoja la mataifa ya Jumuiya ya Afrika mashariki, kampuni ilianza kurekebisha shughuli za utenda kazi wake ili kubuni kituo cha pamoja cha shughuli za biashara katika Afrika Mashariki. Utengenezaji wa sigara kwa Jumuiya ya Afrika Mashariki 'EAC' na eneo zima la mashariki mwa Afrika utahamishwa hadi kiwanda cha Nairobi, ambacho tayari hugawa baadhi ya bidhaa zake zilizoko.

Wajibu wa Jamii

Wajibu ni chombo muhimu cha biashara yetu kinacho-shinikizwa na kujitolea kwetu kwa wenye hisa wetu. Moja ya lengo letu kuu la kibiashara – Manufaa kwa wote (pande zote mbili) - hutupa mwelekeo bora wa kuhudumia wenye hisa wetu, ili kuhakikisha manufaa ya moja kwa moja yanayotokana na utenda kazi wetu katika sehemu tunakofanyia biashara. Kampuni iliendelea kuunga mkono shughuli ndogo ndogo za kibiashara - Sekta ya Jua Kali ikishirikiana na Jumuiya ya Afrika Mashariki.
Mwaka uliopita maonyesho ya bidhaa yalifanyiwa nchini Uganda. Maonyesho hayo ya kila mwaka hufanywa kwa kuzingatia sekta zinazoangaziwa kuambatana na umuhimu uliopo katika nchi za Kenya, Uganda na Tanzania.

Tulishirikiana na Chama cha Maonyesho ya Kilimo nchini 'ASK' ili kutangaza shughuli bora zaidi katika sekta ya kilimo, kuangazia juhudi za ustawishaji misitu na uhifadhi wa mazingira humu nchini.

Utoaji Habari za Jamii

Awamu ya kwanza ya juhudi za kuwahusisha wenye hisa zinazofahamika kama 'Utoaji habari za Jamii' ilikamilishwa mnamo mwaka wa 2005 wakati ambapo tulishughulikia maswala yaliyoulizwa na wenye hisa wakati wa vikao vya mazungumzo vilivyofanywa mwaka uliotangulia. Maoni ya wenye hisa kuhusu sheria, ukuzaji tumbaku, uuzaji na wajibu wa Jamii yaliwezesha kampuni kufanyiwa ukaguzi huru wa uhasibu kuhusu mauzo yake na hali ya uendeshaji shughuli zake kama kampuni ya wananchi. Mpango huu ulituwezesha kushughulikia kwa busara malalamishi ya wenye hisa na kudumisha viwango vya wajibu wake kwa kijamii na uwajibikaji.

Usimamizi wa Kampuni

Utaratibu wa usimamizi wa kampuni ya British American Tobacco unaimarisha mauzo ya kampuni ili kuwanufaisha wenye hisa wetu na ndio msingi tunaojipimia kiwango chetu. Viwango vya juu vya usimamizi wa kampuni na uzingatiaji wa mwongozo wa Halmashauri ya Masoko ya Hisa vimetuwezesha kufikia malengo ya biashara yetu kwa njia bora, ya uwazi na uwajibikaji.

Mgao wa Faida

Matokeo bora ya mauzo ya kampuni yetu na utekelezaji wa mipango ya muda mrefu, yameleta matokeo bora. Hata hivyo kwa kuzingatia mpango wa uwekezaji, halmashauri ya Wakurugenzi inapendekeza mgao wa mwisho wa faida wa shilingi 4.50 kwa hisa ya kawaida ya shilingi 10. Mgao huo ukiongezewa migao miwili ya muda iliyolipwa tayari, italeta jumla ya mgao kuwa shilingi 12.50 kwa hisa. Mgao utakaolipwa utatozwa kodi ya uwekaji na utalipwa tarehe 25, April, 2006 kwa wenye hisa kwenye sajili ya hisa wakati wa kufunga biashara hiyo tarehe 20, Machi, 2006.

Chairman's Review/Taarifa ya Mwenyekiti

generally brighter than the past provided that Government continues to maintain a favourable macro economic environment, *step up efforts to improve infrastructure and* security and effectively address the political concerns that tend to shift focus from economic and social development.

Although impacted by the general state of the domestic economy, the prospects for our company in 2006 remain promising. With the investment of Shs 1 billion in capacity *expansion and provision of ultra modern* manufacturing lines, our Nairobi factory has become the centre of manufacturing, supplying vastly increased volumes of quality international cigarette brands within the region. This will greatly boost our export earnings in 2006 and beyond, whilst creating *20%* more jobs in our company. Furthermore, continued growth of the Kenya *economy and effective enforcement of the* excise tax regime will enhance our domestic business.

Balancing our commercial objectives with the vast expectations of a wide range of stakeholders, will continue to take priority in our operations and Standards of Business Conduct. We will continue to proactively *engage with Government and other* stakeholders, to promote enactment of a balanced tobacco regulation that takes cognisance of diverse interests of society.

New Directors

I would like to welcome to the Board of British American Tobacco Kenya three new members. Mr. Jeremy Pike, who joined on *4 November 2005 to replace Mr. Chris Burrell* who resigned from the Board on 1 October 2005, Ms Jane Michuki who joined on 8 July 2005 and Mr. Gayling May who was appointed on 1 September 2005. Jeremy rejoins the Board after a 5 year tour of duty which took him to the Group headquarters and more recently, British American Tobacco Pakistan.

The sterling performance and continued achievement of key milestones in the business, can be attributed to the vision and dedicated service by the Board and the unwavering commitment and resilience of our staff, who have worked tirelessly *throughout the year to achieve the successes* that I have enumerated. On behalf of the Board, I wish to thank our staff, shareholders, farmers, suppliers, distributors, the Government and all other stakeholders for their support.

Thank you.

Evanson Mwaniki
Chairman

Mtazamo

Msukumo wa ukuaji wa kiuchumi ulioshuhudiwa mwaka wa 2005 huenda *ukadumishwa mwaka wa 2006. Ikiwa ukame* utaendelea kukithiri, utasababisha maji kusambazwa kwa vipimo na kuongezeka kwa gharama ya umeme huku nchi hii ikitafuta njia za kupata umeme kwa njia ya mvuke wa ardhini ili kutimiza mahitaji ya usambazaji na hivyo kuongeza gharama zaidi ya bidhaa hiyo. Baa la njaa pia limezorotesha ukuaji wa kiuchumi kwa vile rasilimali zilizoko *hazielekezwi kwa shughuli za maendeleo* lakini badala yako zimeelekezwa kwenye juhudi za kutoa misaada ya kukabiliana na baa la njaa. Shilingi ya Kenya iliyoimarika ambayo ilipunguza gharama ya kuagiza bidhaa kutoka nje huenda ikaharibu biashara ya uuzaji bidhaa katika nchi za nje hasa zile za mboga, matunda na majani chai. Ongezeko linaloendelea la gharama ya *mafuta bado ni tisho kubwa kwa ukuaji wa* kiuchumi.

Hata hivyo licha ya hali ngumu zilizoko sasa, kuna matarajio mema zaidi ya siku zijazo ya kiuchumi kuliko wakati uliopita ikiwa serikali itaendelea kudumisha mazingira bora ya *shughuli kubwa za kiuchumi, kuimarisha* juhudi za kuboresha miundo msingi na usalama *na kushughulikia ipasavyo maswala* ya kisiasa yaliyobadili mwelekeo wake kutoka ule wa kuzingatia maendeleo ya kijamii na kiuchumi. Ingawa athari za hali ya uchumi wa nchi zimeonekana, tuna matarajio makubwa kwa kampuni yetu mwaka wa 2006. Kwa uwekezaji wa shilingi bilioni 1 *katika upanuzi wa kiwanda chetu na uwekaji* wa vifaa vya kisasa vya utengenezaji bidhaa, *kiwanda chetu cha Nairobi kimekuwa kituo* cha utengenezaji bidhaa, huku usambazaji bidhaa zetu ukiongezeka kwa kiwango kikubwa kwa kudumisha ubora wa viwango vya kimataifa vya aina mbali mbali ya sigara katika eneo la Mashariki. Hali hii itaimarisha mauzo yetu mwaka wa 2006 na kuendelea, *huku kukibuniwa asilimia 20 zaidi ya nafasi* za kazi katika kampuni yetu. Kadhalika kuendelea kwa ukuaji wa uchumi wa nchi hii na kukusanywa kwa ushuru kwa njia ifaayo kutaimarisha biashara yetu hapa nchini.

Kuwianisha malengo yetu ya kibiashara na matarajio yetu makubwa kwa idadi ya wenye hisa wetu, kutaendelea kuwa lengo kuu la utenda kazi wetu na kudumisha viwango vya biashara yetu. Tutaendelea kushirikiana na serikali na washirika dau wengine ili kuimarisha sheria inayowianisha biashara ya tumbaku inayoshughulikia *maslahi* mbali mbali ya jamii.

Wakurugenzi Wapya

Ningependa kuwakaribisha kwa Halmashauri ya kampuni ya British American Tobacco Kenya wanachama watatu wapya. Bwana Jeremy Pike aliyejiunga mnamo tarehe 4 Novemba, 2005 kuchukua mahala pa *Bwana Chris Burrell ambaye alijiuzulu katika* Halmashauri hii mnamo tarehe 1 Oktoba, 2005, Bi. Jane Michuki *ambaye alijiunga* mnamo tarehe 8 Julai, 2005 na Bwana Gayling May ambaye aliteuliwa mnamo tarehe 1 Septemba, 2005. Jeremy anajiunga tena na Halmashauri hii baada ya ziara ya miaka 5 ya kikazi ambapo alihudumu katika makao makuu ya kampuni na hivi majuzi *zaidi katika kampuni ya BAT, Pakistan.*

Matokeo hayo mema ya mauzo na kuendelea kufikiwa kwa malengo muhimu katika biashara hii yanatokana na maono na huduma ya kujitolea ya Halmashauri hii na kujitolea mhanga kwa wafanyikazi wa kampuni ya British American Tobacco Kenya ambao wamefanya kazi bila kuchoka kwa mwaka mzima ili kufikia ufanisi ambao nimeutaja. Kwa niaba ya halmashauri *tunawashukuru nyinyi nyote kwa mchango* wenu.

Asanteni.

Evanson Mwaniki
Mwenyekiti

President Mwai Kibaki, who is also the Patron of the Agricultural Society of Kenya (ASK) is conducted round the Company stand by [illegible], Corporate & Regulatory Affairs Director

Management Review - Overview

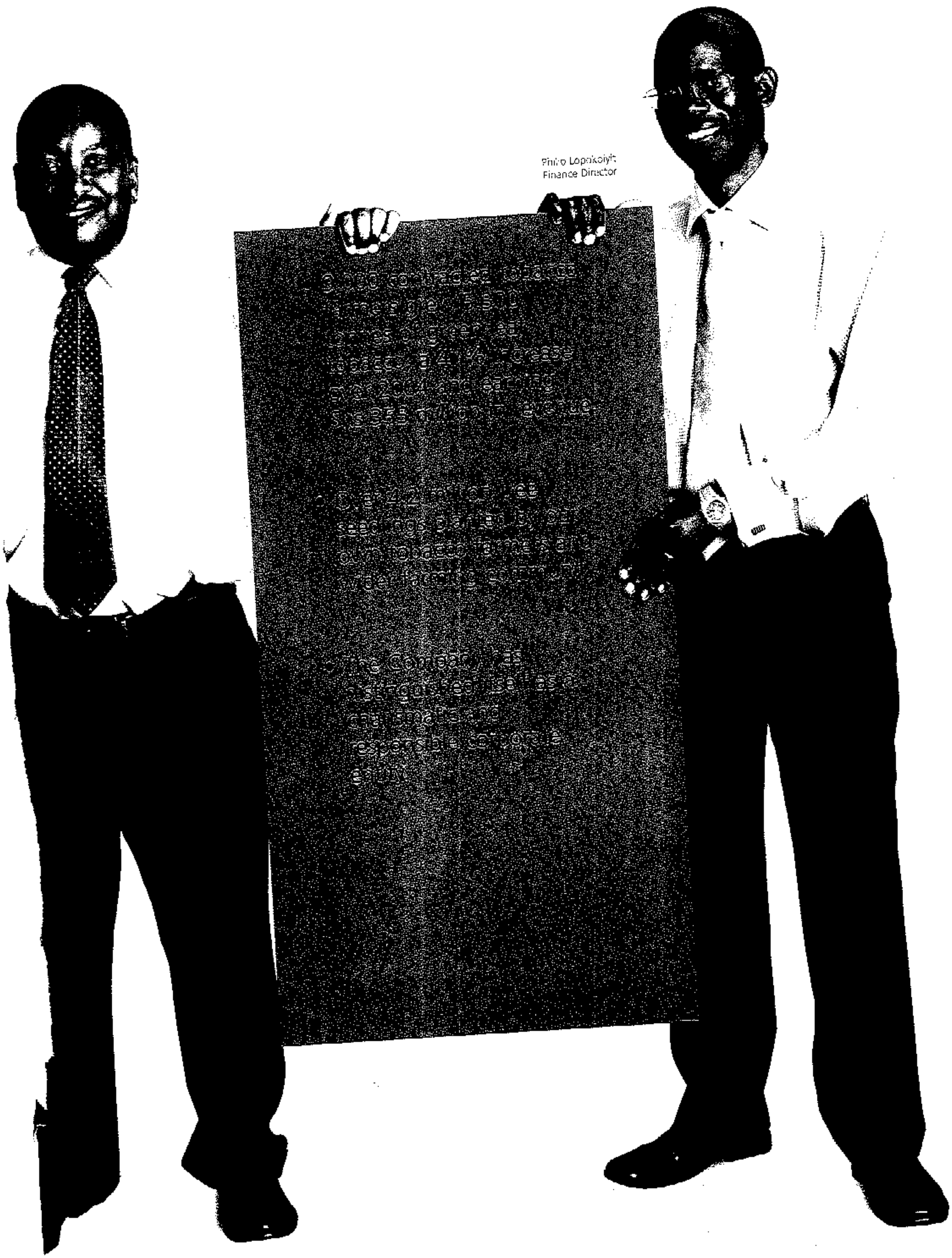
Unit cost of manufacturing reduced by 16%, whilst manpower productivity as measured in cigarettes per man-hour, improved by 20%.

Simon Welford
Managing Director

Keli Kiiru
Corporate & Regulatory Affairs Director

- Nairobi factory enhanced as a centre of manufacturing excellence with impressive growth in export volumes supplied to East and Central Africa, the Horn of Africa and the Indian Ocean Islands.
- On-going drive to optimise operational processes to ensure sustainability into the future and to build long term shareholder value.
- Excellent credit rating maintained thus retaining British American Tobacco Kenya as the highest independently credit rated company in Kenya.
- Domestic volumes were up by 2% over 2004.
- Key productivity measures up including a 16% reduction in unit cost of manufacturing and 20% improvement in cigarettes per man hour.
- Productivity programme focus on smart cost management leading to reduction in overheads and indirect costs.
- Over $500,000 savings derived from our sourcing strategy and additional savings of $250,000 from innovation of wrapping materials and manufacturing inputs.

Management Review - Overview



Philip Lopokoiyit
Finance Director

Strategy

It is essential that we maintain our balanced approach to achieving growth, improving productivity, managing our business in a responsible manner and developing a winning organisation. We will continue to drive all four elements of our strategy, in order to build a sustainable business and strengthen Industry leadership in Kenya.

Management Review - Overview

Whilst operating in a challenging environment, we prudently managed the business to maintain our lead role as a key player in the economy.

Introduction
Our strategy for growth continues to ensure that British American Tobacco Kenya makes sustained progress, despite the ever more challenging operating environment. 2005 was a year in which our plans to drive growth and improve productivity really started to make a significant impact on our performance. We summarise some of the work that helped drive a 13% increase in turnover and a 15% increase in profit before tax, which surpassed Shs 2 billion for the first time ever.

Centre of Manufacturing Excellence
Back in 2004, we announced the expansion of our Nairobi factory as a centre of manufacturing excellence, supplying cigarettes to markets in East and Central Africa, the Horn of Africa and the Indian Ocean Islands. Further factory investments were made in 2005, totalling Shs 370 million, to enhance the factory's productivity, quality and capacity for this new contract manufacture business.
This was the initial part of a Shs 1 billion expansion program that will be completed by mid 2006.

This new contract manufacture business came fully on stream last year when we began manufacturing for the markets of Djibouti, Somaliland, Mauritius and the Comoros and at the same time dispatching our first shipments to Malawi and Ethiopia.

The British American Tobacco Group has an ongoing drive to optimise its operational processes, to ensure sustainability for all of our businesses into the future and restructuring the organization to build long term shareholder value.

In December 2005, the Group announced that British American Tobacco Uganda was restructuring its business operations. Going forward, the Company will concentrate on its core business which is tobacco leaf growing and processing for export, for which it is identified as a global source to the Group. Hence, British American Tobacco Uganda's cigarette factory will be closed with effect from April 2006. Consequently, cigarettes for the Ugandan market will be transferred to the Nairobi factory, which already supplies some of Uganda's cigarette brands under a contract manufacturing agreement.

The successful migration of new brands into Nairobi for manufacture, our excellent product quality and our cost competitiveness are a reflection of the Group's conviction, that Kenya is an excellent base from which to do business. Our strong performance in 2005 is a good validation that the British American Tobacco Group has made a good decision in relocating manufacturing into Kenya.

Anti-Illicit Trade Initiatives
The dumping of cigarettes meant for export into the domestic market by unethical players in the industry and the presence of "duty not paid" products was an impediment to fair competition. This continues to be a threat to Government tax revenues as well as our own sales. Anti-illicit trade workshops held in Nairobi and Western Kenya were successful in sensitising stakeholders on the impact of the problem and charting a way forward in addressing the issue. Government representatives, Revenue Authorities and manufacturers from Kenya, Uganda, Rwanda and Congo, participated in these meetings. This elicited positive action leading to frequent seizures of illicit products in the capital and border points, a demonstration of the commitment by the Government to create a level playing field.

Balanced Regulation
The debate on tobacco control continues to elicit diverse views and opinions amongst the public and legislators. With a Tobacco Control Bill likely to be tabled during the 2006 Parliamentary session, we remain optimistic that the position of the industry which has been submitted to regulatory authorities will be taken account of in the formulation of balanced and workable legislation.

Credit Rating
One of the hallmarks of success in the year 2005 was the recognition of the Company's sound financial base. Global Credit Rating Company ("GCR") last year scored British American Tobacco Kenya's domestic long term credit rating at AA+ (double A plus).

The Credit rating agency attributed the feat to the Company's solid financial position, exemplified by strong operating performance and cash flow generation, over the review period. The tobacco company's short term rating was reaffirmed at A1+ (A one plus), the highest short term rating possible. This retains British American Tobacco Kenya as the highest independently credit rated company in the country.

Management Review - Leaf Operations

Changes to the business model of Leaf operations have led to an encouraging performance by this part of our business.

Tobacco Growing and Processing
There was a significant improvement in total tobacco crop yields in 2005, supported by revamped extension services and increased farmer sensitisation on best practice.

Our 9,000 contracted tobacco farmers grew 5,300 tonnes of green leaf tobacco. This was a 47% increase above the 2004 season and earned the farmers over Shs 355 million in revenue. The key drivers to increased production and farmer income were mainly relatively good weather and improved quality, as a result of the initiatives started two years ago focusing on quality improvement. Tobacco remains a very stable cash crop with assured returns to the farmer.

The business continued to collaborate with tobacco buyers, Alliance One. In their second year of growing Flue Cured tobacco in Kenya, Alliance One recorded a significant increase in production, which was all processed through the Thika Green Leaf Threshing Plant, thus enhancing full capacity utilisation of the facility.

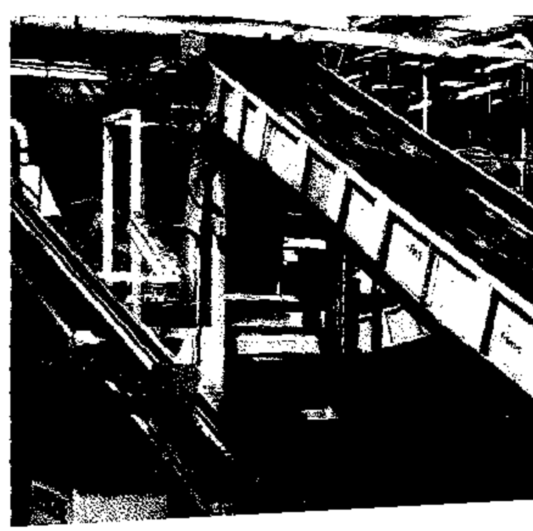
In 2004, we reported a novel initiative that engaged farmers to develop tree seedlings to support afforestation initiatives in tobacco growing areas. Contracted tree farmers raised and distributed a total of 4.2 million seedlings to our own tobacco farmers and the wider farming community.

As a result of our sustained efforts in afforestation and environmental conservation, the Company received the Total Eco - Challenge Gold Award in recognition of its role in promoting tree planting.

The Thika Green Leaf Threshing Plant (GLT) processed over 23,800 tonnes of tobacco comprising 15,800 metric tonnes from Kenya and a further 8,000 metric tonnes from Congo. A number of process improvements were carried out in the factory, in order to improve on product yield and enhance quality. These included enhancements to the non-tobacco related material removal system and the off-loading areas.

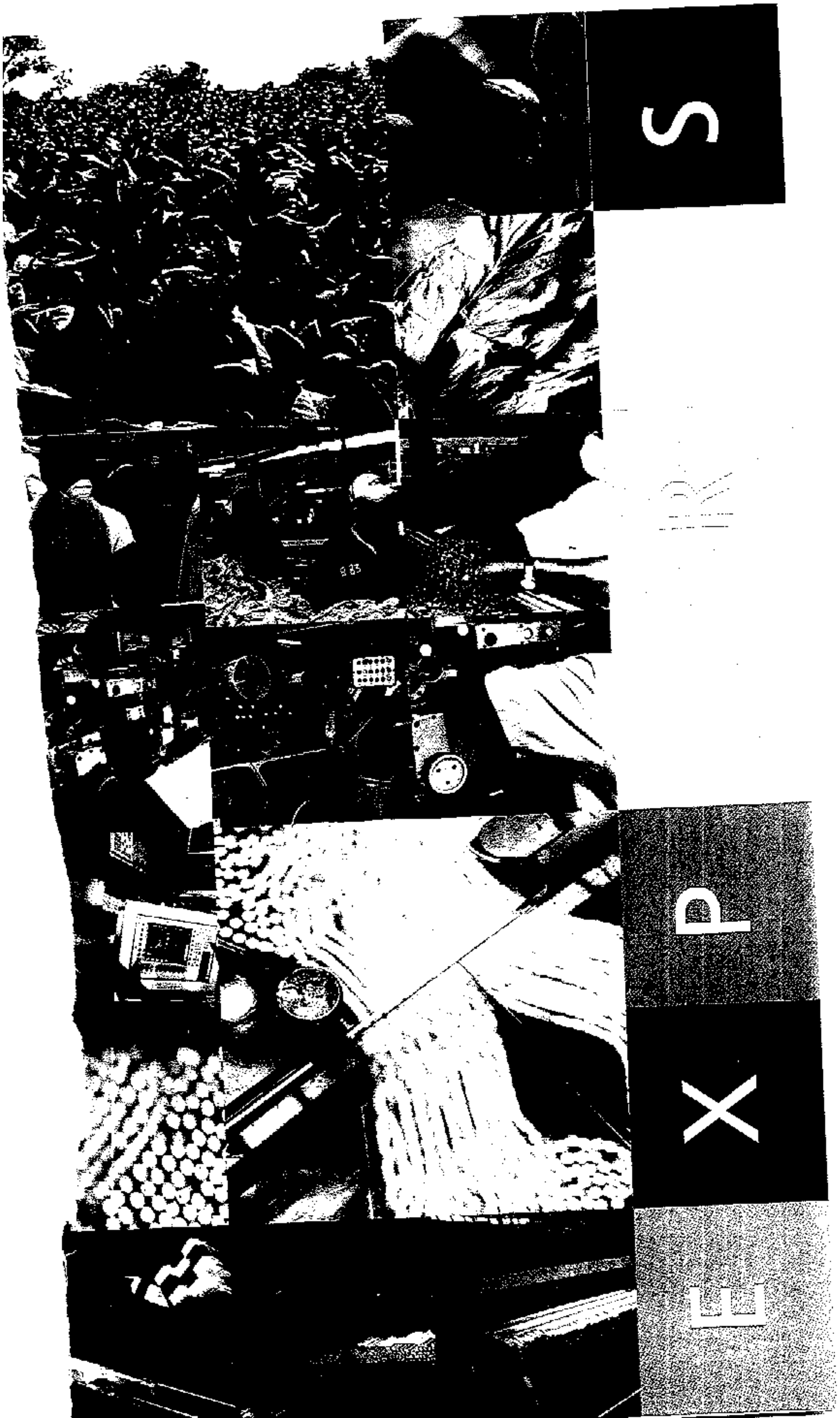
The processing plant continued to be a major source of seasonal employment within Thika town, providing up to 2,000 seasonal jobs during peak times.

Efficient operations continued to deliver good quality tobacco, excellent service to its customers and emphasis on productivity and cost control. The plant has installed capacity to cope with the increased demand for contract manufacture and export volumes and is well equipped to sustain process requirements for sister companies across the East African Community (EAC).



The Thika Green Leaf Threshing Plant (GLT) processed over 23,800 tonnes. The Company supports over 9,000 contracted farmers in Western, Eastern and Nyanza Provinces.

Special Feature - Exports



Special Feature - Exports

British American Tobacco Kenya will have invested Shs 1.5 billion in upgrading and expanding its facilities for contract manufacturing and export.

Exports make impressive growth
Historically, our exports have comprised of famed traditional trademarks reputed for their quality and regional acclaim. For British American Tobacco Kenya, our number one export market has been Somalia, where Sportsman has been the lead brand over the past decade.

We also export relatively small volumes of our premium brands to Tanzania, Democratic Republic of Congo and Uganda.

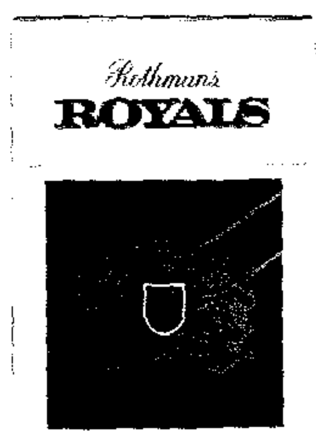
In 2004, British American Tobacco Kenya invested Shs 500 million in upgrading and expanding its facilities, to manufacture additional volumes under contract for the British American Tobacco Group. Our objective was to become a centre of manufacturing excellence for the East and Central African Region.

This new business stream started in late 2004 and came fully on board last year, with the inaugural brands of Benson & Hedges, Royals, John Player Gold Leaf and Burrus destined for markets in Djibouti and Somaliland. These brands are not new to the British American Tobacco Group. Previously, they were manufactured in Europe and have simply been transferred to Nairobi, which is closer to their destination markets.

Further investments were made in 2005 worth Shs 370 million that were geared towards increasing the factory's productivity, quality and capacity, and to support the Nairobi factory.

This is part of a Shs 1 billion investment programme in the factory. The Likoni Road factory is now a match for any similar size installation within the British American Tobacco Group, in terms of its productivity and quality assurance measures.

23%
[2003]



Export/contract manufacture volumes have recorded impressive growth over the last three years, as a result of migration of International brands to the Nairobi factory.

Special Feature - Exports

During 2005, we dispatched our first consignments to the regional markets of Ethiopia, Malawi, Mauritius and Comoros.

There are several benefits accruing in having Kenya as a manufacturing hub.

Firstly, British American Tobacco Kenya benefits by having the fuller utilisation of its installed capacity. As a consequence, production overheads are spread across a larger volume base thus bringing down the unit cost of manufacturing, from which the domestic business benefits.

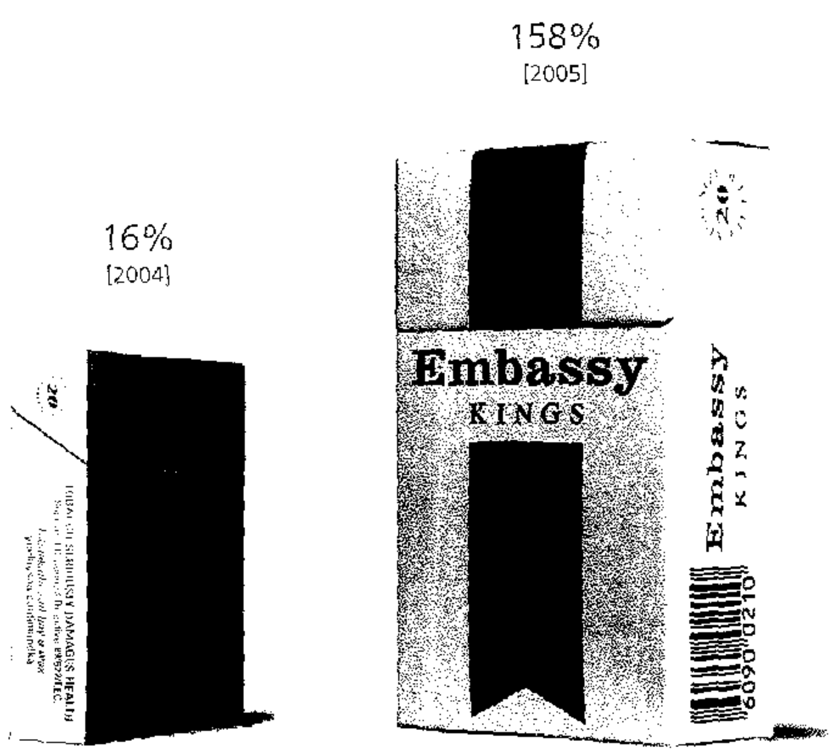
Secondly, exports give British American Tobacco Kenya a manufacturers margin. This positively impacts financial performance.

Thirdly, Kenya's proximity to the markets makes us better placed to service them from Nairobi as opposed to Europe.

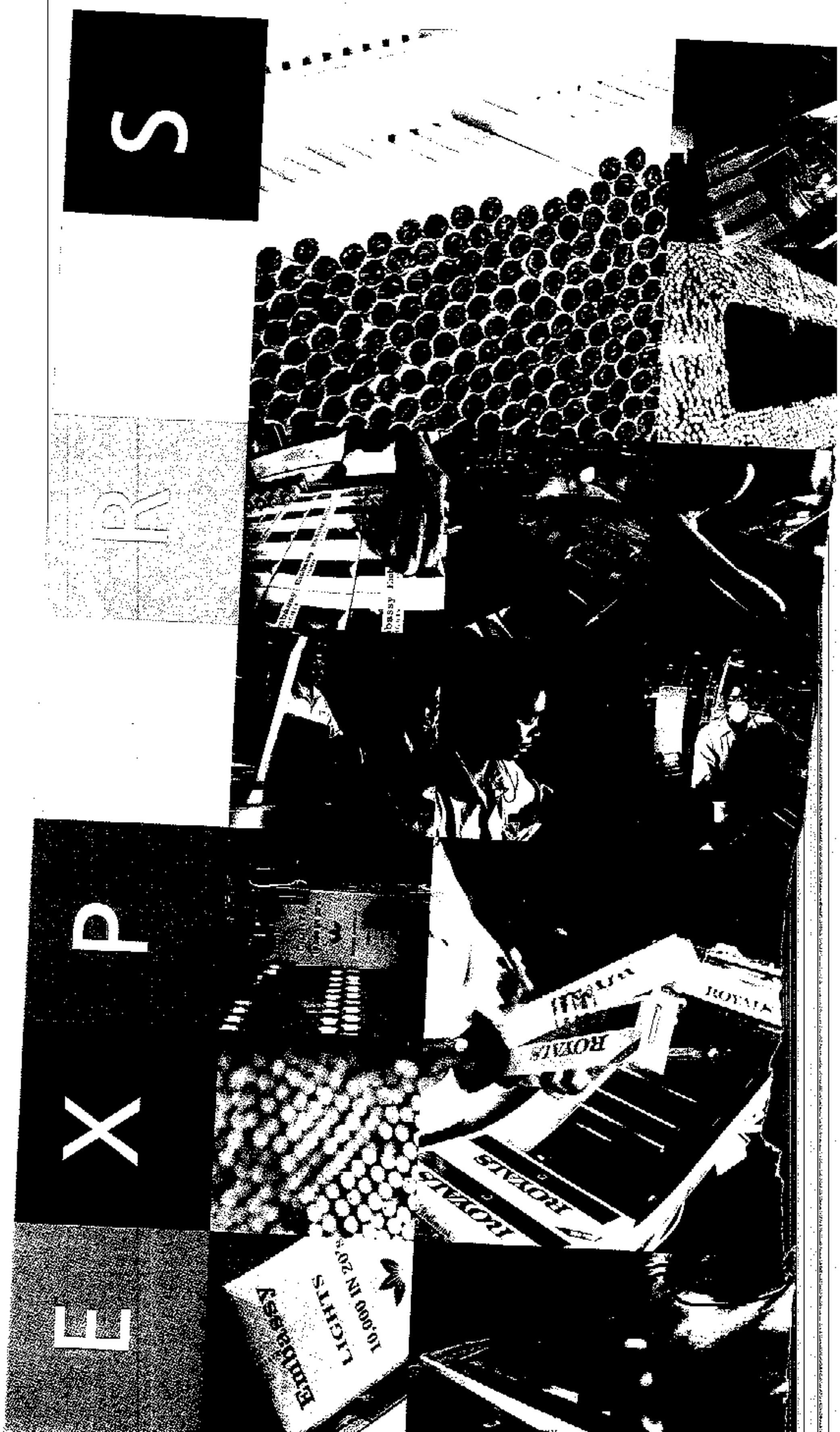
Due to the short time it takes for the products to get to the market, our products are fresh, adding to the fact that we are better placed to manage disruptions to the supply chain in these markets.

Lastly, Kenya as a whole benefits from increased forex earnings emanating from these sales. It's inspiring to note that our business now extends from Port Louis (Mauritius) to Kinshasa and from Djibouti to Blantyre.

This successful migration of brands into Nairobi, coupled with our excellent product quality and cost competitiveness, is a reflection of the Group's conviction that Kenya is an excellent base from which to do business.



Special Feature - Exports



Management Review - Manufacturing & Supply Chain

Our overall approach to productivity is about using our resources to increase profits and generate funds for re-investing in our business.

Productivity
Our overall approach to productivity is about using our resources to increase profits and generate funds for re-investing in our business.

We continue to seek all opportunities to reduce complexity and optimise costs of our products through standardisation of processes, wrapping materials and blends. These plans to minimise production costs and wastage crystallised in 2005. Our unit cost of production recorded a 16% reduction, whilst manpower productivity improved by 20% as measured in cigarettes per man-hour. These excellent outcomes were driven by an increase in output and efficiency, principally from the expansion of contract manufacture and innovations in manufacturing processes.

Manufacture for exports, requires that we be innovative and hence we embarked on a campaign to focus our employees on the rigorous export requirements. We were successful in achieving the flexibility to respond to changing demands of our export customers and to handle short production runs, whilst maintaining international quality standards at all times.

The significant volume increment, necessitated a thorough review of our current and future manpower requirements. We recruited over 70 new operatives to run the new production lines and service export customers in 2005.

Supply Chain
The main challenge for the supply chain process was to ensure security of supply to our export customers. The 158% growth in exports and contract manufacture resulted in greatly increased complexities within our supply chain. The fully integrated supply chain approach of planning, sourcing, making and moving provided an effective linkage between customers and suppliers.

Our productivity programme also focuses on smart cost management, hence reductions to our overheads and indirects - (indirects being defined as anything we spend money on other than tobacco leaf, wrapping materials and permanent labour) through appropriate sourcing strategies.

The sourcing strategy delivered positive results and realised savings in excess of $500,000 from the purchase of support goods and services. An additional saving of $250,000 was realised through innovations in wrapping materials for production inputs. Some of these savings were re-invested into the business to support future growth.

Overall, the exceptional performance of supply chain was accomplished through a highly motivated and skilled team and continuous reviews of our business operating models in conjunction with the regional and global teams.

Our key challenge in 2006 is to re-align processes in line with the regional platform, determine clear and stretch measures of performance with a view to having full orientation to export markets whilst sustaining the robust performance on the domestic front.

Management Review - Marketing Activities

Managing the progress of our drive brands remains a key component of our strategy, appreciating the need to offer our consumers greater choice.

Brands
In 2005 we built upon the marketing theme of 'Going for Quality Growth'. During the year, our marketing focus was on continuing to drive absolute volume growth, whilst also driving improvements in the brand mix and share of market.

Domestic volumes increased by 2% over 2004. This growth was generated despite a mid-year excise driven price increase on some of our key brands. This encouraging performance was also supported by nationwide consumer engagement activities.

Managing the progress of our drive brands remains a key component of our strategy, appreciating the need to offer our consumers greater choice, whilst expanding the range and introducing innovative brand offers.

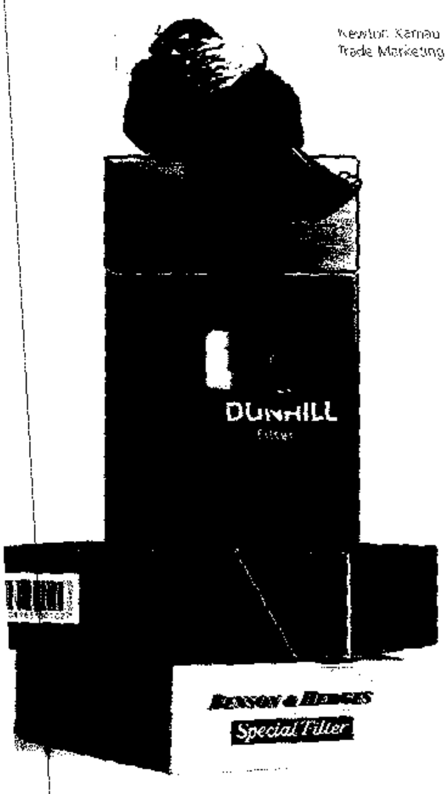
Dunhill
In December 2005, we launched Dunhill, our premium global drive brand. Dunhill is currently sold in over 120 countries and has provided consumers with one of the finest cigarettes in the world. We believe that it has real potential in Kenya.

Initial consumer acceptance was very encouraging and early indications are that Dunhill will fill a hitherto missing consumer niche. Distribution is focussed in urban centres primarily in premium retail outlets.

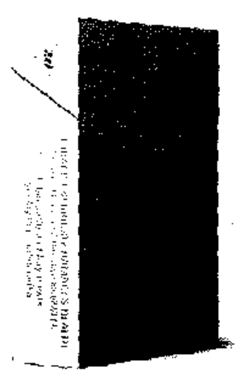
Benson & Hedges
Our premium drive brand registered impressive double digit growth over 2004. Benson & Hedges responded positively to targeted distribution expansion in urban areas, further bolstered by the rollout of a new marketing campaign that reinforced the brand's heritage and premium quality positioning.

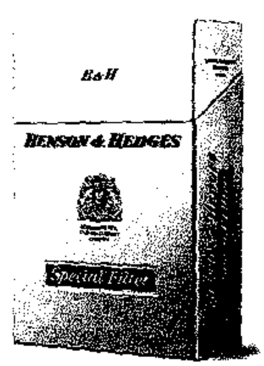
Consumer activities were carried out during the peak selling festive seasons to sustain brand loyalty and bolster sales. We expect that the brand will continue to register significant growth as disposable incomes improve.

Embassy
Embassy had an exceptional year in 2005 occasioned by up-trading from lower priced brands. Embassy Lights continued to be the fastest growing variant and the key source of the brand's growth. Distribution initiatives guaranteed the brand's availability nationwide.



Newton Kamau
Trade Marketing Representative





Jigna Bhatt
Area Group Brand Manager

Management Review - Marketing Activities

Sportsman
Sportsman, our premier brand, successfully endured competition from low priced competitive offers in 2005. Volumes sustained well following an increase in the brand's price in mid-year.

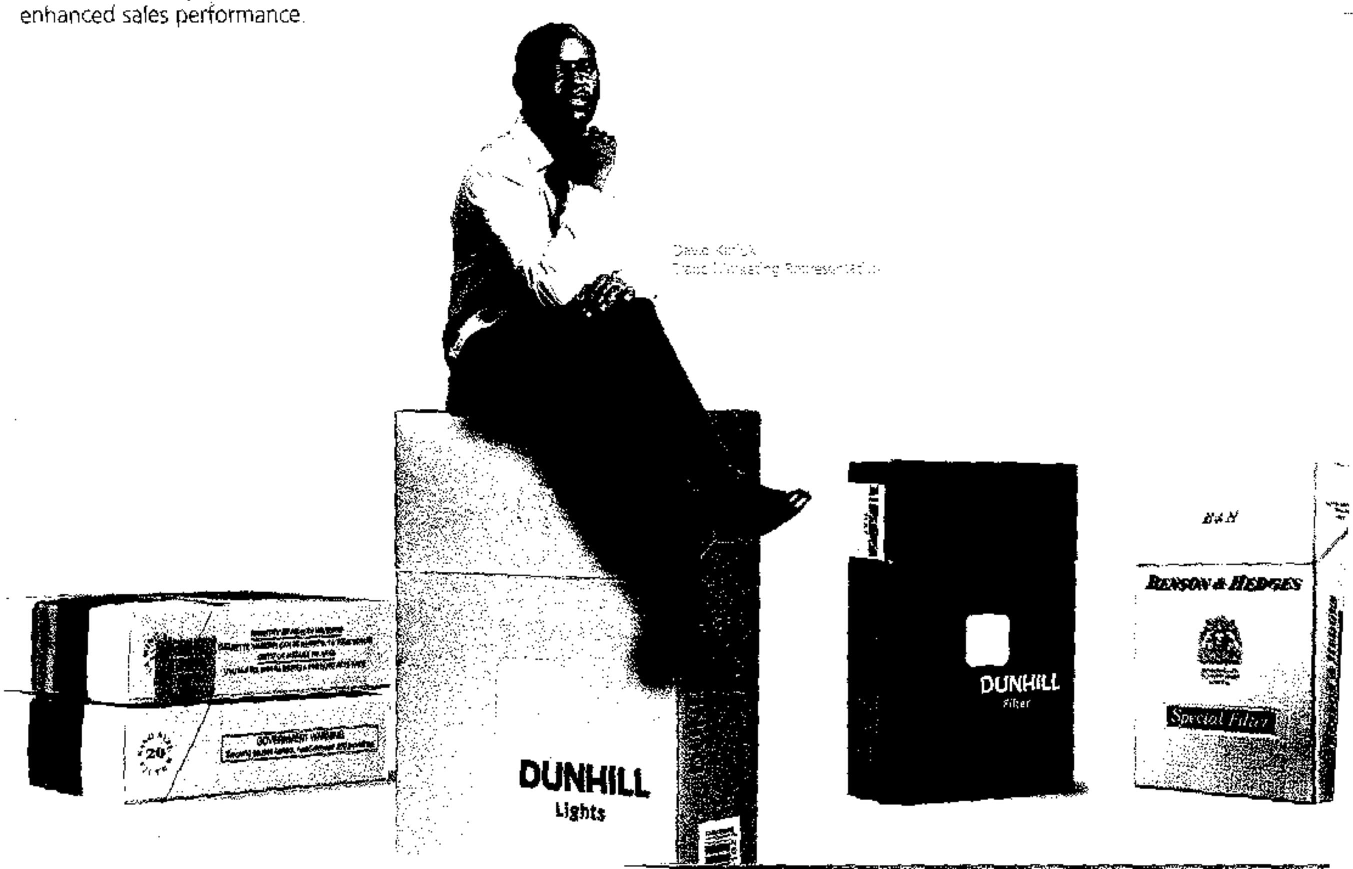
The popular Sportsman "Jenga Jina" promotion attracted nearly 6 million entries and contributed significantly to the brand's performance. This promotion rewarded winners with cash prizes and contributed to community assistance projects of their choice.

Safari
Safari registered a double digit growth against 2004. Safari is our low price fighter brand and has been successfully positioned as a value for money option within our brand portfolio. Within six years of launch, the brand continues to generate impressive year-on-year growth.

Distribution Excellence
To augment product availability, we made key investments in 2005, as a fundamental mover of sales. We devoted time and resources to training and developing our field force and our distributors, to help propel sales. Innovative bonus schemes aimed at supporting our distributors and key stockists were key contributors to enhanced sales performance.

Market Outlook
In 2006, our brand portfolio will be enhanced further to fully occupy the high value segment in the market. The rollout of new brands, will offer only the best to consumers.

The fundamental driver of our marketing performance will continue to be the level of consumer disposable incomes and the level of enhanced enforcement on illicit trade. With anticipated continued growth in the economy and heightened awareness by the authorities on illicit trade, we are optimistic that we will continue to register growth in our performance and thus achieve our 2006 marketing plans.



[illegible]
Trade Marketing Representative

Management Review - Corporate & Regulatory Affairs

The British American Tobacco Group, has distinguished itself as a dynamic and responsible corporate citizen.

Social Responsibility
Reputation, Regulation and Communication initiatives, defined the Company's socio-economic initiatives in 2005, as the three pillars that create an enabling environment for the business to operate in.

The Company continued to invest in programmes underpinned by the Group's Corporate Social Responsibility principles, which engender investment and giving back to the communities in which we operate. Measuring up to societal expectations whilst addressing business needs, remained a vast challenge for us, but the Company aptly managed to retain its lead status as a responsible Corporate citizen.

Last year the Company continued to support the Small and Micro Enterprises (Jua Kali) sector, sponsoring the 7th East African Jua Kali exhibition, in conjunction with the East African Community, held in Kampala, Uganda.

This event marked nearly a decade of steady growth in the Jua Kali sector and British American Tobacco's consistent involvement in the success story recorded in the informal sector, across the East African Community. The annual exhibitions promote Small and Micro Enterprises availing a platform for sharing technology, innovative ideas and business contacts.

As an agro-based Company, British American Tobacco played an integral part in the promotion of agriculture as a prominent corporate member of the Agricultural Society of Kenya. The Company participated as exhibitor in the four major shows of Nakuru, Kisumu, Mombasa and Nairobi as well as making various donations and sponsorships to the Society in form of infrastructural maintenance of the gates, pavillions and sponsoring the British American Tobacco Day at the Nairobi International Trade Fair.

Revamping the Corporate brand
The British American Tobacco Group, has distinguished itself as a dynamic and responsible corporate entity, with a brand name and logo that has symbolised stability, success and responsibility.

Consistent with the dynamic nature of the organisation, the Group has given a fresh new approach to its visual identifiers, providing a consistent platform of communication, whilst enabling each member of the Group to express the corporate brand attributes in locally relevant and individual ways.

British American Tobacco Kenya adopted the new look which has been applied in the offices, corporate signage, stationery and corporate communication material as appears throughout this report.

The signature colour scheme has the corporate bright yellow as its core. The four colours in the schemes that help express the brand attributes are Purple inspired by winning, Orange representing our enterprising spirit, Green inspired by our attribute – responsible, while bright Blue is inspired by open mindedness.

A reputable brand helps stakeholders identify with our business and gives assurance of its sustainability and leadership in pleasing our consumers, engaging our employees, working with regulators and adding value to our investors.

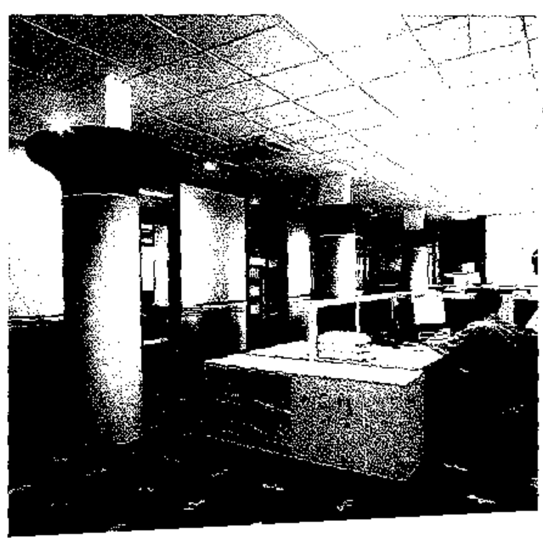
Summary
All the achievements enumerated in the management review, would not have been possible without the dedicated service, team work and commitment of our employees who immersed their energies and resourcefulness towards delivering these key milestones.
In addition, we would like to thank our business partners for their support in achieving our plans.

We are all excited to be part of these outstanding achievements and are confident that British American Tobacco will grow from strength to strength whilst building long term shareholder value.

Simon Welford
Managing Director

Philip Lopokoiyit
Finance Director

Keli Kiilu
Corporate & Regulatory Affairs Director



The new look Corporate colours which have been applied in the offices and other corporate communication materials

Corporate Governance

We place a great deal of importance on robust corporate governance practices and are committed to applying the highest standards of business integrity and professionalism in all our activities.

Corporate Governance
Corporate governance is defined as the system by which an organisation is directed and controlled from within its senior-most levels, to enable it to achieve its business objectives in a manner which is responsible and in accordance with high standards of probity, transparency and accountability.

At British American Tobacco Kenya, we place a great deal of importance on robust corporate governance practices and are committed to applying the highest standards of business integrity and professionalism in all our activities. In addition to governance principles stipulated by the local regulators, we as a member of the Group apply the British American Tobacco Group's internal corporate governance guidelines which are directed towards enhancing the performance of the Company's business, to the benefit of its shareholders, employees, business partners and other stakeholders.

While we acknowledge the importance and adhere to external governance codes, in guiding corporate practice, they are overlays to the standards that we as a Group set ourselves. Those are codified in our own Standards of Business Conduct, which are kept under continual review in order to ensure that they remain at the forefront of best practice in business. Every British American Tobacco Group company and every employee worldwide is expected to live up to them. In addition, we also adhere to our Statement of Business Principles which are designed to help meet the expectations placed on us by our various stakeholders.

Outlined below are the key aspects of our approach to corporate governance:

The Board of Directors
The Board meets at least five times a year. The Directors are given appropriate and timely information so that they can provide effective strategic direction and decide major corporate actions to be taken by the Company. The Board also reviews performance, takes material policy decisions and gives guidance on general policy.

The Board is also responsible for the overall system of internal control for the Company thereby managing risks that may impede the achievement of the Company's business objectives. Responsibility for implementing strategy and day-to-day operations has been delegated by the Board to the Managing Director and the top management team – the Kenya Strategy Team.

The Board's current membership consists of nine Non-Executive Directors and three Executive Directors.

Committees of the Board
The Board has four standing committees, which meet regularly under the terms of reference set by the Board.

Nominations Committee
This committee is chaired by the Chairman and recommends candidates for appointment to the Board. It evaluates and makes recommendations with regard to 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 is also charged with the responsibility of evaluating and reporting 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 Audit Committee
The audit committee meets three times a year with internal and external auditors, as well as with management, to review the effectiveness of internal controls, any matters raised in regular reports to the Committee and the full and half year financial statements prior to their submission to the Board. It is chaired by Prof. Joseph Kimura.

The Company has in its standards of Business Conduct a whistle blowing procedure; this is a formal procedure by which staff can, in confidence, raise concerns about possible improprieties in financial and other matters. The procedure incorporates arrangements for the proportionate and independent investigation of matters raised and for appropriate follow-up action.

Corporate Social Responsibility Committee
This Committee is charged with the responsibility of identifying and assessing the risks that might impair the Company's strategic objective of being recognised as a responsible company in a controversial industry. It is chaired by the Managing Director, Mr. Simon Welford.

Remuneration Committee
This committee determines the Company's remuneration policy for employees, management and Non-Executive Directors. It is chaired by the Chairman, Mr. Evanson Mwaniki.

Non-Executive Directors' terms of appointment
The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment.

The terms of appointment provide that a new Director is appointed for a specified term, being an initial period to the next AGM after appointment and subject to re-appointment at that meeting, for a further term period not later than the AGM held two years thereafter. Subsequent re-appointment is subject to endorsement by the Board and the approval of shareholders at an AGM in the usual manner.

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.

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 technical and managerial support to the Jua Kali sector, The Agricultural Society of Kenya and environmental conservation initiatives.

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 is an equal opportunity employer and recruits people on the basis of their ability without any discrimination.

Shareholding Structure

Major Shareholders

Shareholder	No. of Shares	%Holding
Molensteegh Invest BV	60,000,000	60.00
Board of Trustees National Social Security Fund	15,000,000	15.00
Board of Trustees National Social Security Fund	4,004,386	4.00
Barclays (Kenya) Nominees Limited A/C 1256	897,000	0.89
Barclays (Kenya) Nominees Limited A/C 1853	885,000	0.88
Old Mutual Life Assurance Company Limited	782,880	0.78
Kenya Commercial Bank Nominees Ltd A/C 744	699,206	0.69
Apollo Insurance Company Limited	577,416	0.57
The Jubilee Insurance Company Limited	544,136	0.54
Insurance Company of East Africa Ltd - Pooled	409,738	0.40
Others	16,200,238	16.25
Total	**100,000,000**	**100.00**

Summary of Shareholders

Shareholder	No. of Shareholders	Shares	% Holding
Kenyans	4,800	39,809,332	39.81
Foreign	44	60,141,400	60.14
East African	22	49,268	0.05
Total	**4,866**	**100,000,000**	**100.00**

Distribution of Shareholders

Shareholding	No.of Shareholders	Shares Held	% Share Holding
No. of Shares			
Less than 500	2,085	603,259	0.60
501 to 5,000	2,357	3,835,611	3.84
5.001 to 10,000	180	1,294,138	1.29
10,001 to 100,000	210	5,914,686	5.92
100,001 to 1,000,000	31	9,119,013	9.12
Above 1,000,000	3	79,233,293	79.23
Total	**4,866**	**100,000,000**	**100.00**

Based on the Share Register as at 21 March 2006

Corporate Information

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. J D Pike*
Mr. L Morales*
Mr. M M Wanyoike*
Mr. A N Ngugi*
Prof. J H Kimura*
Mr. H M Mule*
Mr. G R May*
Ms. J Michuki*

Audit Committee
Prof. J H Kimura* (Chairman)
Mr. J D Pike*
Mr. L Morales*
Mr. H M Mule*
Mr. G R May*
Mr. E Villarreal (Secretary)

Nominations Committee
Mr. E Mwaniki* (Chairman)
Mr. A N Ngugi*
Mr. J D Pike*
Mr. S A Welford

Remuneration Committee
Mr. E Mwaniki* (Chairman)
Mr. J D Pike*
Mr. S A Welford
Mr. L Morales*
Mr. M M Wanyoike*
Mr. T O'Callaghan (Secretary)

Corporate Social Responsibility Committee
Mr. S A Welford (Chairman)
Mr. K Kiilu (Secretary)
Mr. C Achola
Mr. S Mugwe
Mr. E Villarreal
Mr. M M Wanyoike*
Ms. J Michuki*

* Non-Executive Directors

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

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

Secretary and Registered Office
Ms. R T Ngobi,
Likoni Road,
P.O. Box 30000-00100,
Nairobi.
Telephone: 6942000

Directors' Report & Financial Statements

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Directors' Report/ Ripoti ya Wakurugenzi

The Directors submit their report together with the audited financial statements for the year ended 31 December 2005 which disclose the state of affairs of the Company and the Group.

Principal activities
The principal activities of the Group are the manufacture and sale of cigarettes and tobacco.

Results and dividends
The net profit for the year of Shs 1,382,038,000 has been added to retained earnings. During the year, two interim dividends totalling Shs 800,000,000 (2004: Shs 1,200,000,000) were paid. The Directors recommend a final dividend of Shs 450,000,000 (2004: shs 450,000,000).

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

Mr. C M Burrell resigned from the Board on 1 October 2005. Mr. J D Pike was appointed to the Board on 4 November 2005 in accordance with Article 95 of the Articles of Association.

Ms. J W Michuki and Mr. G R May were appointed as additional Directors to the Board in accordance with Article 95 of the Articles of Association on 8 July 2005 and 1 September 2005 respectively.

In accordance with Article 95 of the Articles of Association Mr. J D Pike, Ms. J W Michuki and Mr. G R May retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 89 of the Articles of Association Mr. K Kiilu retires from the Board by rotation at the Annual General Meeting and being eligible, offers himself for re-election.

Messrs E Mwaniki, A Ngugi and H M Mule resign in accordance to Article 98(d) of the Articles of Association and being eligible, offer themselves for re-election.

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

By Order of the Board

R T Ngobi (Ms.)
Company Secretary
21 March 2006

Wakurugenzi wanaloa Ripoti yao na hesabu za fedha zilizokaguliwa kwa mwaka uliomalizika 31 Desemba 2005.

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

Faida iliyopatikana
Faida ya mwaka kiasi cha Shs 1,382,038,000 imeongezewa *ili kuendeleza mapato. Katika mwaka tunaozungumzia jumla ya mgawo wa muda uliolipwa ni Shs 800,000,000 (2004: Shs 1,200,000,000). Wakurugenzi wanapendekeza kupitishwa kwa mgawo wa mwisho wa Shs 450,000,000 (2004: Shs 450,000,000).*

Halmashauri ya Wakurugenzi
Tangu Mkutano Mkuu wa mwaka jana mabadiliko yafuatayo yametokea katika Halmashauri ya Wakurugenzi;

Kwa mujibu wa kifungu 95 cha Katiba ya Kampuni Bw. C M Burrell alijiuzulu tarehe 1 Octoba 2005 naye Bw. J D Pike aliteuliwa tarehe 4 Novemba 2005.

Kwa mujibu wa kifungu 95 cha Katiba ya Kampuni Bi. J W Michuki na Bw. G R May walichaguliwa kama wakurugenzi wa kampuni tarehe 8 Julai 2005 na tarehe 1 Septemba 2005.

Kwa mujibu wa kifungu 95 cha Katiba ya Kampuni Bi. J W Michuki na Bw. G R May wastaafu kwa zamu katika mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kwa mujibu wa kifungu 89 cha Katiba ya Kampuni Bw. K Kiilu astaafu kwa zamu katika mkutano Mkuu wa Mwaka na, kwa vile anastahili, anajitolea kuchaguliwa tena.

Kwa mujibu wa kifungu 98(d) cha Katiba ya Kampuni Mabw. E Mwaniki na H M Mule wastaafu kwa zamu katika mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

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

Kwa Amri ya Halmashauri

R T Ngobi (Ms.)
Katibu wa Kampuni
21 Machi 2006

Consolidated Profit & Loss Account

for the year ended 31 December 2005

	Notes	2005 Shs'000	2004 Shs'000
Gross turnover		11,192,080	9,865,047
Excise duty and value added tax		(4,696,644)	(4,398,721)
Revenue from goods and services	5	6,495,436	5,466,326
Cost of operations	6	(4,583,649)	(3,847,697)
Other operating income		147,079	119,224
Operating profit	7	2,058,866	1,737,853
Net finance (cost)/ income	9	(49,895)	12,749
Profit before income tax		2,008,971	1,750,602
Income tax expense	10	(626,933)	(540,408)
Profit for the year		1,382,038	1,210,194
Earnings per share			
Basic and diluted earnings per share (Shs)	12	13.82	12.10
Dividends			
Interim dividends – paid in the year	11	800,000	1,200,000
Proposed final dividend for the year	11	450,000	450,000
Total dividends		1,250,000	1,650,000

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 Shs'000	2004 Shs'000
Capital and reserves attributable to the company's equity holders			
Share capital	13	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	14	756,515	746,073
Retained earnings		1,686,525	1,564,929
Proposed dividends	11	450,000	450,000
Total equity		3,893,063	3,761,025
Non-current liabilities			
Retirement benefits obligation	15	100,122	92,908
Deferred income tax liabilities	16	561,327	514,580
Total equity and non-current liabilities		4,554,512	4,368,513
Non-current assets			
Property, plant and equipment	18	3,698,385	3,520,605
Pre-paid operating lease rentals	19	211	215
		3,698,596	3,520,820
Current assets			
Inventories	20	1,474,067	1,437,122
Receivables and pre-payments	21	819,525	891,531
Current income tax		-	108,272
Cash and bank balances	24	254,253	164,142
		2,547,845	2,601,067
Current liabilities			
Payables and accrued expenses	22	1,393,954	1,560,854
Current income tax		90,205	-
Borrowing	23	207,770	192,520
		1,691,929	1,753,374
Net current assets		855,916	847,693
Total assets		4,554,512	4,368,513

The accounts on pages 26 to 45 were approved for issue by the Board of Directors on 21 March 2006 and signed on its behalf by:

S A Welford
Managing Director

P R Lopokoiyit
Finance Director

Company Balance Sheet

As at 31 December 2005

	Notes	2005 Shs'000	2004 Shs'000
Equity			
Share capital	13	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	14	756,515	746,073
Retained earnings		1,686,525	1,564,929
Proposed dividends	11	450,000	450,000
Total equity		3,893,063	3,761,025
Non-current liabilities			
Retirement benefits obligation	15	100,122	92,908
Deferred income tax liabilities	16	561,327	514,580
Total equity and non-current liabilities		4,554,512	4,368,513
Non-current assets			
Property, plant and equipment	18	3,698,385	3,520,605
Pre-paid operating lease rentals	19	211	215
Investment in subsidiaries	17	12,000	12,000
		3,710,596	3,532,820
Current assets			
Inventories	20	1,474,067	1,437,122
Receivables and pre-payments	21	778,652	923,957
Current income tax		-	10,919
Cash and bank balances		66,476	112,379
		2,319,195	2,484,377
Current liabilities			
Payables and accrued expenses	22	1,169,421	1,490,584
Current income tax		98,088	-
Borrowing	23	207,770	158,100
		1,475,279	1,648,684
Net current assets		843,916	835,693
Total assets		4,554,512	4,368,513

The financial statements on pages 26 to 45 were approved for issue by the Board of Directors on 21 March 2006 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 2005

	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 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
Dividends:							
- Final for 2003		-	-	-	-	(450,000)	(450,000)
- Interim for 2004		-	-	-	(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
Year ended 31 December 2005							
At start of year		1,000,000	23	746,073	1,564,929	450,000	3,761,025
Adjustment for prior years depreciation		-	-	48,216	(48,216)	-	-
Deferred tax on adjustment		-	-	(14,464)	14,464	-	-
Transfer of excess depreciation		-	-	(33,300)	33,300	-	-
Deferred tax on transfer		-	-	9,990	(9,990)	-	-
Net gains/(losses) recognised directly in equity		-	-	10,442	(10,442)	-	-
Profit for the year		-	-	-	1,382,038	-	1,382,038
Total recognised income for 2005		-	-	10,442	1,371,596	-	1,382,038
Dividends:							
- Final for 2004		-	-	-	-	(450,000)	(450,000)
- Interim for 2005	11	-	-	-	(800,000)	-	(800,000)
- Proposed final for 2005	11	-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	756,515	1,686,525	450,000	3,893,063

Company Statement of Changes in Equity

for the year ended 31 December 2005

	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 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
Dividends:							
- Final for 2003		-	-	-	-	(450,000)	(450,000)
- Interim for 2004		-	-	-	(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
Year ended 31 December 2005							
At start of year		1,000,000	23	746,073	1,564,929	450,000	3,761,025
Adjustment for prior years depreciation		-	-	48,216	(48,216)	-	-
Deferred tax on adjustment		-	-	(14,464)	14,464	-	-
Transfer of excess depreciation		-	-	(33,300)	33,300	-	-
Deferred tax on transfer		-	-	9,990	(9,990)	-	-
Net gains/(losses) recognised directly in equity		-	-	10,442	(10,442)	-	-
Profit for the year		-	-	-	1,382,038	-	1,382,038
Total recognised income for 2005		-	-	10,442	1,371,596	-	1,382,038
Dividends:							
- Final for 2004		-	-	-	-	(450,000)	(450,000)
- Interim for 2005	11	-	-	-	(800,000)	-	(800,000)
- Proposed final for 2005	11	-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	756,515	1,686,525	450,000	3,893,063

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 Shs'000	2004 Shs'000
Operating activities			
Cash generated from operations	26	2,280,031	1,520,598
Interest received		2,451	8,464
Interest paid		(15,996)	-
Income tax paid		(381,709)	(663,975)
Net cash from operating activities		1,884,777	865,087
Investing activities			
Purchase of property, plant and equipment	18	(583,098)	(210,311)
Proceeds from disposal of property, plant and equipment		23,182	13,504
Net cash used in investing activities		(559,916)	(196,807)
Financing activities			
Dividends paid		(1,250,000)	(1,650,000)
Net cash used in financing activities		(1,250,000)	(1,650,000)
Increase/ (decrease) in cash and cash equivalents		74,861	(981,720)
Movement in cash and cash equivalents			
At start of year		(28,378)	953,342
Increase/ (decrease)		74,861	(981,720)
At end of year	24	46,483	(28,378)

Accounting Policies and Notes to the Financial Statements

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 address of its registered office is:

Likoni Road
P.O. Box 30000 - 00100
Nairobi

The Company's shares are listed on the Nairobi Stock Exchange.

2 Summary of significant 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 prepared 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 prepared under the historical cost convention as modified by the revaluation of certain property at fair values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Adoption of new and revised standards:

In 2005, new and revised IFRS became effective for the first time and have been adopted by the Group where relevant to its operations. The comparative figures have been restated, in accordance with the relevant requirements.

(b) Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. These are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Accounting Policies (continued)

(c) Revenue recognition

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of excise duty, value-added tax (VAT), rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) 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.

(ii) 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.

(iii) 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) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Group's functional and presentation currency.

(ii) Transactions and balances in Group entities

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(e) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost and are carried at historical cost less depreciation. Buildings and freehold land are subsequently shown at valuation, less subsequent depreciation. Valuation of land and buildings is carried out by external independent valuers at least once every five years.
All other plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is *directly attributable to the acquisition of the items.*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

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

Accounting Policies (continued)

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.

Freehold land is not depreciated. Depreciation on other assets is calculated on the straight-line basis to write down the cost of each asset, or the revalued amount, to zero 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.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated 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.

(g) Accounting for leases

Leases in which 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.

(h) 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.

(i) 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.

(j) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable 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.

Accounting Policies (continued)

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.

(k) Employee benefits

(i) Retirement benefit obligations
The Group 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. The Group's contributions to the schemes are charged to the profit and loss account in the year to which they relate.

The Group 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 at least once every three years.

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

(l) Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which they are declared.

(m) Investment 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.

(n) 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Restructuring provisions

Restructuring provisions mainly comprise employee termination payments and are recognised in the period in which the Group 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 Group are not provided in advance.

Notes to the Financial Statements

3 Financial risk management

The Group's activities expose it to a variety of financial risks, including credit risk, foreign currency exchange rates and interest rates. The Group'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.

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

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

In the process of applying the Group's accounting policies, management has made judgements in determining:

- the classification of financial assets and liabilities.
- whether assets are impaired.
- provisions and contingent liabilities

Notes to the Financial Statements (continued)

5 Segment reporting

There is only one business segment (manufacture and sale of cigarettes and tobacco) and one geographical segment based on the location of manufacturing site (Kenya); hence no segment information is presented.

The Group's revenues by destination are as follows:

	2005 Shs'000	2004 Shs'000
Local sales	4,540,187	4,307,185
Exports and contract manufacture sales	1,955,249	1,159,141
	6,495,436	5,466,326

6 Cost of operations

	2005 Shs'000	2004 Shs'000
Raw materials and consumables	2,363,783	1,813,493
Marketing and distribution costs	500,526	347,733
Administrative and other expenses	1,361,467	1,433,974
Depreciation of property, plant and equipment (Note 18)	311,783	234,571
Amortisation of pre-paid operating lease rentals (Note 19)	4	4
Restructuring costs	46,086	17,922
	4,583,649	3,847,697

7 Operating profit

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

	2005 Shs'000	2004 Shs'000
Depreciation of property, plant and equipment (Note 18)	311,783	234,571
Amortisation of pre-paid operating lease rentals (Note 19)	4	4
Employee benefits expense (Note 8)	966,199	845,447
Auditors' remuneration	6,100	5,550

8 Employee benefits expense

The following items are included within employee benefits expense:

	2005 Shs'000	2004 Shs'000
Retirement benefit costs:		
- Defined contribution schemes	34,859	34,714
- Unfunded retirement benefits obligation (Note 15)	9,007	(7,749)
- Contributions to National Social Security Fund	1,288	1,066

Contributions to the National Social Security Fund are determined by local statute.

The number of persons employed by the Group at the year end was 460 (2004: 413).

Notes to the Financial Statements (continued)

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

	2005 Shs'000	2004 Shs'000
Cost	648,418	606,893
Accumulated depreciation	(123,932)	(62,199)
Net book amount	524,486	544,694

19 Pre-paid operating lease rentals – Group and Company

	2005 Shs'000	2004 Shs'000
At start of year	215	219
Amortisation for the year	(4)	(4)
At end of year	211	215

20 Inventories – Group and Company

	2005 Shs'000	2004 Shs'000
Raw materials and consumables	1,356,921	1,319,520
Finished goods	108,092	111,200
Work in progress	9,054	6,402
	1,474,067	1,437,122

21 Receivables and prepayments

	Group		Company	
	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
Trade receivables	42,516	20,747	-	-
Pre-payments and other receivables	362,546	507,200	364,747	505,104
Due from related companies (Note 27)	414,463	363,584	413,905	418,853
	819,525	891,531	778,652	923,957

22 Payables and accrued expenses

	Group		Company	
	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
Trade payables	126,575	342,763	126,575	335,072
Due to related companies (Note 27)	279,120	258,025	265,617	250,023
Other payables and accrued expenses	988,259	960,066	777,229	905,489
	1,393,954	1,560,854	1,169,421	1,490,584

Notes to the Financial Statements (continued)

12 Earnings per share

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

Notes to the Financial Statements (continued)

5 Segment reporting

There is only one business segment (manufacture and sale of cigarettes and tobacco) and one geographical segment based on the location of manufacturing site (Kenya); hence no segment information is presented.

The Group's revenues by destination are as follows:

	2005 Shs'000	2004 Shs'000
Local sales	4,540,187	4,307,185
Exports and contract manufacture sales	1,955,249	1,159,141
	6,495,436	5,466,326

6 Cost of operations

	2005 Shs'000	2004 Shs'000
Raw materials and consumables	2,363,783	1,813,493
Marketing and distribution costs	500,526	347,733
Administrative and other expenses	1,361,467	1,433,974
Depreciation of property, plant and equipment (Note 18)	311,783	234,571
Amortisation of pre-paid operating lease rentals (Note 19)	4	4
Restructuring costs	46,086	17,922
	4,583,649	3,847,697

7 Operating profit

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

	2005 Shs'000	2004 Shs'000
Depreciation of property, plant and equipment (Note 18)	311,783	234,571
Amortisation of pre-paid operating lease rentals (Note 19)	4	4
Employee benefits expense (Note 8)	966,199	845,447
Auditors' remuneration	6,100	5,550

8 Employee benefits expense

The following items are included within employee benefits expense:

	2005 Shs'000	2004 Shs'000
Retirement benefit costs:		
- Defined contribution schemes	34,859	34,714
- Unfunded retirement benefits obligation (Note 15)	9,007	(7,749)
- Contributions to National Social Security Fund	1,288	1,066

Contributions to the National Social Security Fund are determined by local statute.

The number of persons employed by the Group at the year end was 460 (2004: 413).

Notes to the Financial Statements (continued)

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

	2005 Shs'000	2004 Shs'000
Cost	648,418	606,893
Accumulated depreciation	(123,932)	(62,199)
Net book amount	524,486	544,694

19 Pre-paid operating lease rentals – Group and Company

	2005 Shs'000	2004 Shs'000
At start of year	215	219
Amortisation for the year	(4)	(4)
At end of year	211	215

20 Inventories – Group and Company

	2005 Shs'000	2004 Shs'000
Raw materials and consumables	1,356,921	1,319,520
Finished goods	108,092	111,200
Work in progress	9,054	6,402
	1,474,067	1,437,122

21 Receivables and prepayments

	Group		Company	
	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
Trade receivables	42,516	20,747	-	-
Pre-payments and other receivables	362,546	507,200	364,747	505,104
Due from related companies (Note 27)	414,463	363,584	413,905	418,853
	819,525	891,531	778,652	923,957

22 Payables and accrued expenses

	Group		Company	
	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
Trade payables	126,575	342,763	126,575	335,072
Due to related companies (Note 27)	279,120	258,025	265,617	250,023
Other payables and accrued expenses	988,259	960,066	777,229	905,489
	1,393,954	1,560,854	1,169,421	1,490,584

Notes to the Financial Statements (continued)

23 Borrowing

	Group		Company	
	2005	2004	2005	2004
	Shs'000	Shs'000	Shs'000	Shs'000
Bank overdraft	207,770	192,520	207,770	158,100

The weighted average effective interest rate on bank borrowings was 8.9% 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 Group has the following undrawn committed borrowing facilities:

	2005	2004
	Shs'000	Shs'000
Floating rate, expiring within one year	3,130,000	3,353,000

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

24 Cash and cash equivalents

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.

	2005	2004
	Shs'000	Shs'000
Cash at bank and in hand	254,253	145,249
Short term bank deposits	-	18,893
	254,253	164,142
Bank overdraft (Note 23)	(207,770)	(192,520)
	46,483	(28,378)

The weighted average effective interest rate on short-term bank deposits during the year was 7.6% (2004: 2.13%).

25 Contingent liabilities

At 31 December 2005, the Group had given guarantees amounting to Shs 148 million (2004: Shs 41 million) on behalf of third parties. It is not anticipated that any material liability will arise from these guarantees.

The Group is a defendant in various legal actions. In the opinion of the Directors, the resolution of these legal proceedings would not likely have a material effect on its operations.

Notes to the Financial Statements (continued)

26 Cash generated from operations

	2005 Shs'000	2004 Shs'000
Reconciliation of profit before taxation to cash generated from operations:		
Profit before tax	2,008,971	1,750,602
Adjustments for:		
Depreciation of property, plant and equipment (Note 18)	311,783	234,571
Amortisation of pre-paid operating lease rentals (Note 19)	4	4
Profit on disposal of property, plant and equipment	(15,412)	(6,292)
Asset write down	85,765	-
Interest income (Note 9)	(2,451)	(8,464)
Interest expense (Note 9)	15,996	-
Changes in working capital:		
- receivables and pre-payments	72,006	(319,049)
inventories	(36,945)	(159,173)
- payables and accrued expenses	(166,900)	55,875
Change in retirement benefit obligations	7,214	(27,476)
Cash generated from operations	2,280,031	1,520,598

27 Related party disclosures

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

The following transactions were carried out with related parties:

(i) Purchase of technical services

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 185,485,000 (2004: Shs 204,107,000).

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 64,340,000 (2004: Shs 59,187,000).

(ii) Sale of goods and services

The Company manufactures cigarettes under contract, sells processed tobacco and processes green leaf for related companies. The revenue arising from these transactions in the year was Shs 1,279,000,000 (2004: Shs 306,608,000).

Notes to the Financial Statements (continued)

12 Earnings per share

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

	2005	2004
Net profit attributable to shareholders (Shs'000)	1,382,038	1,210,194
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	13.82	12.10

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

13 Share capital

	Number of shares (Thousands)	Ordinary Shares Shs'000
At 1 January 2004, 1 January 2005 and at 31 December 2005	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.

14 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.

15 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%

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

	2005 Shs'000	2004 Shs'000
At start of year	92,908	120,384
Charge/(credit) to profit and loss account	9,007	(7,749)
Utilised in the year	(1,793)	(19,727)
At end of year	100,122	92,908

Notes to the Financial Statements (continued)

16 Deferred income tax (Group and Company)

Deferred income tax is calculated using the enacted income tax rate of 30% (2004: 30%).
The movement on the deferred income tax account is as follows:

	2005 Shs'000	2004 Shs'000
At start of year	514,580	485,906
Charge to income statement (Note 10)	46,747	28,674
At end of year	561,327	514,580

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

	1 January 2005 Shs'000	Charged to P&L Shs'000	31 December 2005 Shs'000
Deferred income tax liabilities			
Property, plant and equipment			
- on historical cost basis	323,966	19,878	343,844
- on revaluation surplus	319,746	4,474	324,220
	643,712	24,352	668,064
Deferred income tax assets			
Other temporary differences	(129,132)	22,395	(106,737)
Net deferred income tax liability	514,580	46,747	561,327

Deferred income tax of Shs 9,990,000 (2004: Shs 9,990,000) was transferred within shareholders' equity from revaluation surplus to retained earnings. This represents deferred income tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of the building. Deferred income tax of Shs 14,500,000 was also transferred from retained earnings to revaluation surplus as a result of an adjustment to prior years depreciation.

17 Investment in subsidiaries

	2005 Shs'000	2004 Shs'000
Shares at cost	12,000	12,000

The details of the subsidiary companies, all of which are incorporated in Kenya, are unlisted, have the same year end as the Company and are wholly-owned by the Company, are as follows:

Name of subsidiary	Principal activity
BAT Kenya Tobacco Company Limited	Selling of cigarettes
African Cigarette Company (Overseas) Limited	Dormant
East African Tobacco Company Kenya Limited	Dormant

Notes to the Financial Statements (continued)

18 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
At 1 January 2004				
Cost	1,729,024	2,917,486	598,724	5,245,234
Accumulated depreciation	(131,737)	(1,174,161)	(387,259)	(1,693,157)
Net book amount	**1,597,287**	**1,743,325**	**211,465**	**3,552,077**
Year ended 31 December 2004				
Opening net book amount	1,597,287	1,743,325	211,465	3,552,077
Additions	70,260	44,103	95,948	210,311
Disposals and asset write down	-	*(4,623)*	*(2,589)*	*(7,212)*
Depreciation charge	(47,033)	(131,298)	(56,240)	(234,571)
Closing net book amount	**1,620,514**	**1,651,507**	**248,584**	**3,520,605**
At 31 December 2004				
Cost or valuation	1,799,284	2,926,847	657,243	5,383,374
Accumulated depreciation	(178,770)	(1,275,340)	(408,659)	(1,862,769)
Net book amount	**1,620,514**	**1,651,507**	**248,584**	**3,520,605**
Year ended 31 December 2005				
Opening net book amount	1,620,514	1,651,507	248,584	3,520,605
Additions	40,610	447,497	94,991	583,098
Disposals and asset write down	(7,769)	(52,982)	(32,784)	(93,535)
Depreciation charge	(48,135)	(185,064)	(78,584)	(311,783)
Closing net book amount	**1,605,220**	**1,860,958**	**232,207**	**3,698,385**
At 31 December 2005				
Cost or valuation	1,831,537	3,132,208	567,929	5,531,674
Accumulated depreciation	(226,317)	(1,271,250)	(335,722)	(1,833,289)
Net book amount	***1,605,220***	***1,860,958***	***232,207***	***3,698,385***

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 *income tax, was credited to revaluation surplus in shareholders' equity.*

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

Notes to the Financial Statements (continued)

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

	2005 Shs'000	2004 Shs'000
Cost	648,418	606,893
Accumulated depreciation	(123,932)	(62,199)
Net book amount	524,486	544,694

19	Pre-paid operating lease rentals – Group and Company	2005 Shs'000	2004 Shs'000
	At start of year	215	219
	Amortisation for the year	(4)	(4)
	At end of year	211	215

20	Inventories – Group and Company	2005 Shs'000	2004 Shs'000
	Raw materials and consumables	1,356,921	1,319,520
	Finished goods	108,092	111,200
	Work in progress	9,054	6,402
		1,474,067	1,437,122

21	Receivables and prepayments	Group		Company	
		2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
	Trade receivables	42,516	20,747	-	-
	Pre-payments and other receivables	362,546	507,200	364,747	505,104
	Due from related companies (Note 27)	414,463	363,584	413,905	418,853
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(ii) Sale of goods and services

The Company manufactures cigarettes under contract, sells processed tobacco and processes green leaf for related companies. The revenue arising from these transactions in the year was Shs 1,279,000,000 (2004: Shs 306,608,000).

Notes to the Financial Statements (continued)

(iii) Outstanding balances arising from sale and purchase of goods and services:

	2005 Shs'000	2004 Shs'000
Receivables from other related parties	414,463	363,584
Payables to parent company	65,899	231,963
Payables to other Group companies	213,221	26,062
Payables to related parties	279,120	258,025

(iv) Directors' remuneration	2005 Shs'000	2004 Shs'000
Fees for services as a director	7,319	6,622
Other emoluments	75,766	67,416
Total remuneration of directors of the Company	83,085	74,038

28 Capital commitments

Capital expenditure not recognised in the financial statements is as follows:

	2005 Shs'000	2004 Shs'000
Property, plant and equipment - authorised and contracted for	808,054	377,740

Your Notes

Proxy Form

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 25 April 2006 at 11.00 a.m. in the Ball Room, Hotel Inter-Continental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this

....

....2006

....

(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 24 April 2006

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.