BRITISH AMERICAN TOBACCO
KENYA

100 years

1907 - 2007

Celebrating a century of excellence in Kenya

ANNUAL REVIEW
&
FINANCIAL STATEMENTS 2006

2006 Annual Review and Financial Statements

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100 years 1907 - 2007

Celebrating a century of excellence in Kenya

CELEBRATING A CENTURY OF EXCELLENCE IN KENYA

Proxy *Form*

FORM OF PROXY

To:

The Secretary,
British American Tobacco Kenya Limited,
P.O. Box 30000-00100,
Nairobi

I/We ____

______________________________ of P.O. Box ______________
member/members of British American Tobacco Kenya Limited appoint

____

or failing him, the Chairman of the Meeting as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, 3rd May 2007 in the Ballroom, Hotel Inter-Continental Nairobi, or at any adjournment thereof.

As witness my/our hand/s this ______________________________

day of ______________________________ 2007

____
(Signature)

NOTES:
1. If a member is unable to attend this meeting personally, this Form of Proxy should be completed and returned to reach the Company's Registered Office not later than 2.30 p.m. on Wednesday, 2nd May 2007.

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

3. If the appointer is a corporation, this Form of Proxy must be under its Common Seal or under the hand of the officer or attorney duly authorised in that behalf.

Your *Notes*

Your *Notes*

Your *Notes*

Notes to the Financial Statements

CONTINUED

29 Related party disclosures (continued)

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

	2006 Shs'000	2005 Shs'000
Receivables from other related parties	768,288	414,463
Payables to parent company	347,878	65,899
Payables to other Group companies	325,946	213,221
Payables to related parties	673,824	279,120

(iv) Key management compensation

	2006 Shs'000	2005 Shs'000
Salaries	116,798	87,481
Allowances and other benefits	40,879	38,868
Total remuneration of key management of the Company	157,677	126,349

(v) Directors' remuneration

	2006 Shs'000	2005 Shs'000
Fees for services as a director	9,841	7,319
Other emoluments *(included in key management compensation above)*	78,281	75,766
Total remuneration of directors of the Company	88,122	83,085

30 Investment in subsidiaries

	2006 Shs'000	2005 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

31 Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2006 Shs'000	2005 Shs'000
Property, plant and equipment	189,030	808,054

Notes to the Financial Statements

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28 Cash generated from operations

Reconciliation of profit before taxation to cash generated from operations:

	2006 Shs'000	2005 Shs'000
Profit before tax	1,746,526	2,008,971
Adjustments for;		
Depreciation of property, plant and equipment (Note 18)	312,589	311,783
Amortisation of intangible assets (Note 19)	5,061	-
Amortisation of prepaid operating lease rentals (Note 20)	3	4
Profit on disposal of property, plant and equipment	(4,741)	(15,412)
Asset write down	-	85,765
Interest income (Note 10)	(1,076)	(2,451)
Interest expense (Note 10)	39,379	15,996
Changes in working capital;		
- receivables and prepayments	(376,141)	72,006
- inventories	(319,410)	(36,945)
- payables and accrued expenses	975,108	(41,949)
- other provisions for liabilities and charges	42,809	(124,951)
Change in retirement benefits obligation (Note 16)	(7,211)	7,214
Cash generated from operations	2,412,896	2,280,031

29 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 295,312,000 (2005: Shs 185,485,000).

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 68,723,000 (2005: Shs 64,340,000).

(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 2,141,191,000 (2005: Shs 1,279,000,000).

Notes to the Financial Statements

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18 **Property, plant and equipment (continued)**

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.

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

	2006	**2005**
	Shs'000	**Shs'000**
Cost	679,187	648,418
Accumulated depreciation	(139,851)	(123,932)
Net book amount	539,336	524,486

19 **Intangible assets - Group and Company**

	2006	**2005**
	Shs'000	**Shs'000**
Year ended 31 December 2006		
Opening net book amount	-	-
Additions	242,945	-
Amortisation	(5,061)	-
Closing net book amount	237,884	-
At 31 December 2006		
Cost	242,945	-
Accumulated amortisation	(5,061)	-
Net book amount	237,884	-

This represents the acquisition and implementation of a new enterprise resource planning tool (SAP).

20 **Prepaid operating lease rentals - Group and Company**

	2006	**2005**
	Shs'000	**Shs'000**
At start of year	211	215
Amortisation for the year	(3)	(4)
At end of year	208	211

Notes to the Financial Statements
CONTINUED

18 Property, plant and equipment - Group and Company

	Land & buildings Shs'000	Plant & machinery Shs'000	Vehicles & equipment Shs'000	Total Shs'000
At 1 January 2005				
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
Year ended 31 December 2006				
Opening net book amount	1,605,220	1,860,958	232,207	3,698,385
Reclassification	-	(18,462)	18,462	-
Additions	36,895	502,044	51,417	590,356
Disposals	(1,396)	-	(2,571)	(3,967)
Depreciation charge	(49,219)	(172,927)	(90,443)	(312,589)
Closing net book amount	1,591,500	2,171,613	209,072	3,972,185
At 31 December 2006				
Cost or valuation	1,867,040	3,651,010	501,888	6,019,938
Accumulated depreciation	(275,540)	(1,479,397)	(292,816)	(2,047,753)
Net book amount	1,591,500	2,171,613	209,072	3,972,185

Notes to the Financial Statements
CONTINUED

12 Dividends

At the Annual General Meeting to be held on 3 May 2007, a final dividend in respect of the year ended 31 December 2006 of Shs 7.50 per share amounting to Shs 750,000,000 is to be proposed. During the year, a first interim dividend of Shs 4.50 per share amounting to Shs 450,000,000 was paid on 8 September 2006. The total dividend for the year is therefore Shs 12.00 per share (2005: Shs 12.50) amounting to a total of Shs 1,200,000,000 (2005: Shs 1,250,000,000).

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

13 Earnings per share

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

	2006	2005
Net profit attributable to equity holders (Shs'000)	1,201,422	1,382,038
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000
Basic earnings per share (Shs)	12.01	13.82

There were no potentially dilutive shares outstanding at 31 December 2006 or 2005.
Diluted earnings per share are therefore the same as basic earnings per share.

14 Share capital

	Number of Shares (Thousands)	Ordinary Shares Shs'000
At 1 January 2005, 1 January 2006 and at 31 December 2006	100,000	1,000,000

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

15 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.

Notes to the Financial Statements

CONTINUED

9 Employee benefits expense

The following items are included within employee benefits expense:	2006 Shs'000	2005 Shs'000
Retirement benefit costs:		
- Defined contribution scheme	44,703	34,859
- Unfunded retirement benefits obligation (Note 16)	697	9,007
- National Social Security Fund	2,241	1,288

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

10 Finance (costs)/income

	2006 Shs'000	2005 Shs'000
Interest income	1,076	2,451
Interest expense and similar charges	(39,379)	(15,996)
Net foreign exchange losses	(24,133)	(36,350)
Net finance cost	(62,436)	(49,895)

11 Income tax expense

	2006 Shs'000	2005 Shs'000
Current income tax	438,383	580,186
Deferred income tax (Note 17)	106,721	46,747
Income tax expense	545,104	626,933

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

	2006 Shs'000	2005 Shs'000
Profit before income tax	1,746,526	2,008,971
Tax calculated at the statutory income tax rate of 30% (2005: 30%)	523,958	602,691
Tax effect of;		
Income not subject to tax	(11,753)	(15,364)
Expenses not deductible for tax purposes	31,891	39,606
Under provision of current tax in prior years	6,347	-
Over provision of deferred tax in prior years	(5,339)	-
Income tax expense	545,104	626,933

Accounting Policies
CONTINUED

(j) 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 Group will not be able to collect all the amounts due according to the original terms of sale. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(k) 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 Kenya 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 and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

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

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Employee benefits

(i) Retirement benefits obligation

The Group operates two defined contribution retirement benefit schemes for all its employees. The assets of each scheme are held in separate funds which are administered by an independent fund manager and are funded by contributions from both the Group and employees. 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.

The Group and all its employees also contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme.

(ii) Other entitlements

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

Accounting Policies

CONTINUED

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

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write down their cost or revalued amounts to zero residual values over their estimated useful lives, as follows:

- Buildings: 2.5% - 10% per annum or over the period of the lease if less than 40 years

- Plant, machinery, motor 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 those assets are transferred to retained earnings.

(g) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (four years).
Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (four years).

(h) 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.

(i) 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 (based on normal operating capacity), 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.

Consolidated *Statement of Changes in Equity*

FOR THE YEAR ENDED 31 DECEMBER 2006

	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 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	12	-	-	-	(800,000)	-	(800,000)
- Proposed final for 2005	12	-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	756,515	1,686,525	450,000	3,893,063
Year ended 31 December 2006							
At start of year		1,000,000	23	756,515	1,686,525	450,000	3,893,063
Transfer of excess depreciation		-	-	(33,301)	33,301	-	-
Deferred tax on transfer		-	-	9,990	(9,990)	-	-
Net gains/(losses) recognised directly in equity		-	-	(23,311)	23,311	-	-
Profit for the year		-	-	-	1,201,422	-	1,201,422
Total recognised income for 2006		-	-	(23,311)	1,224,733	-	1,201,422
Dividends:							
- Final for 2005		-	-	-	-	(450,000)	(450,000)
- Interim for 2006	12	-	-	-	(450,000)	-	(450,000)
- Proposed final for 2006	12	-	-	-	(750,000)	750,000	-
At end of year		1,000,000	23	733,204	1,711,258	750,000	4,194,485

Company *Balance Sheet*

AT 31 DECEMBER 2006

	Notes	2006 Shs'000	2005 Shs'000
Equity			
Share capital	14	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	15	733,204	756,515
Retained earnings		1,711,258	1,686,525
Proposed dividends	12	750,000	450,000
Total equity		4,194,485	3,893,063
Non-current liabilities			
Retirement benefits obligation	16	92,911	100,122
Deferred income tax liabilities	17	669,658	561,327
Total non-current liabilities		762,569	661,449
Total equity and non-current liabilities		4,957,054	4,554,512
Non-current assets			
Property, plant and equipment	18	3,972,185	3,698,385
Intangible assets	19	237,884	
Prepaid operating lease rentals	20	208	211
Investment in subsidiaries	30	12,000	12,000
Total non-current assets		4,222,277	3,710,596
Current assets			
Inventories	21	1,758,177	1,474,067
Receivables and prepayments	22	1,247,544	778,652
Current income tax		81,081	-
Cash and bank balances		311,278	66,476
Total current assets		3,398,080	2,319,195
Current liabilities			
Payables and accrued expenses	23	1,769,032	737,842
Other provisions for liabilities and charges	24	492,348	431,579
Current income tax			98,088
Borrowings	25	401,923	207,770
Total current liabilities		2,663,303	1,475,279
Net current assets		734,777	843,916
Total assets		4,957,054	4,554,512

The financial statements on pages 36 to 57 were approved for issue by the Board of Directors on 20 March 2007 and signed on its behalf by:

N. Maistre
Managing Director

L. Senra
Finance Director

Consolidated *Balance Sheet*

AT 31 DECEMBER 2006

	Notes	2006 Shs'000	2005 Shs'000
Capital and reserves attributable to the Company's equity holders			
Share capital	14	1,000,000	1,000,000
Share premium		23	23
Revaluation surplus	15	733,204	756,515
Retained earnings		1,711,258	1,686,525
Proposed dividends	12	750,000	450,000
Total equity		4,194,485	3,893,063
Non-current liabilities			
Retirement benefits obligation	16	92,911	100,122
Deferred income tax liabilities	17	668,048	561,327
Total non-current liabilities		760,959	661,449
Total equity and non-current liabilities		4,955,444	4,554,512
Non-current assets			
Property, plant and equipment	18	3,972,185	3,698,385
Intangible assets	19	237,884	-
Prepaid operating lease rentals	20	208	211
Total non-current assets		4,210,277	3,698,596
Current assets			
Inventories	21	1,793,477	1,474,067
Receivables and prepayments	22	1,195,666	819,525
Current income tax		82,659	-
Cash and bank balances	26	493,962	254,253
Total current assets		3,565,764	2,547,845
Current liabilities			
Payables and accrued expenses	23	1,899,253	924,145
Other provisions for liabilities and charges	24	512,618	469,809
Current income tax		-	90,205
Borrowings	25	408,726	207,770
Total current liabilities		2,820,597	1,691,929
Net current assets		745,167	855,916
Total assets		4,955,444	4,554,512

The financial statements on pages 36 to 57 were approved for issue by the Board of Directors on 20 March 2007 and signed on its behalf by:

N. Maistre
Managing Director

L. Senra
Finance Director

Consolidated *Profit & Loss Account*

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 Shs'000	2005 Shs'000
Gross turnover		12,669,489	11,263,628
Excise duty and value added tax		(5,045,016)	(4,696,644)
Revenue	6	7,624,473	6,566,984
Other operating income		44,383	75,531
Cost of operations	7	(5,859,894)	(4,583,649)
Operating profit	8	1,808,962	2,058,866
Net finance cost	10	(62,436)	(49,895)
Profit before income tax		1,746,526	2,008,971
Income tax expense	11	(545,104)	(626,933)
Profit for the year		1,201,422	1,382,038
Earnings per share			
Basic and diluted earnings per share (Shs)	13	12.01	13.82
Dividends			
Interim dividends – paid in the year	12	450,000	800,000
Proposed final dividend for the year	12	750,000	450,000
Total dividends		1,200,000	1,250,000

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006, which disclose the state of affairs of the Group and of the Company.

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 1,201,422,000 has been added to retained earnings. During the year, an interim dividend of Shs 450,000,000 (2005: Shs 800,000,000) was paid. The Directors recommend the approval of a final dividend of Shs 750,000,000 (2005: 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. P. Lopokoiyit resigned from the Board on 20th July 2006. Mr L. Senra was appointed to the Board on 20th July 2006 in accordance with Article 95 of the Articles of Association.

Mr. S. Welford resigned from the Board on 1st November 2006. Mr N. Maistre was appointed to the Board on 7th December 2006 in accordance with Article 95 of the Articles of Association.

In accordance with Article 95 of the Articles of Association, Mr. L. Senra and Mr. N. Maistre 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, Prof. J. Kimura and Mr. M. M. Wanyoike retire from the Board by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

Messrs E. Mwaniki and A. Ngugi resign in accordance with Article 98(b) of the Articles of Association and, being eligible, offer themselves for re-election.

Messrs H. Mule and K. Kiilu resign in accordance with Article 98(2) of the Articles of Association and do not offer themselves for re-election.

Auditors

The Company's auditors, PricewaterhouseCoopers, have expressed their interest to continue in office in accordance with section 159(2) of the Companies Act.

By Order of the Board

R T. Ngobi(Ms.)
Company Secretary

20 March 2007

Ripoti ya Wakurugenzi

Wakurugenzi wanatoa Ripoti yao na hesabu za fedha zilizokaguliwa kwa mwaka uliomalizika 31 Desemba 2006.

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 wa kiasi cha Shs 1,201,422,000 imeongezewa ili kuendeleza mapato. Katika mwaka tunaozungumzia, jumla ya mgawo wa muda uliolipwa ni kiasi cha Shs 450,000,000 (2005: Shs 800,000,000). Wakurugenzi wanapendekeza kupitishwa kwa mgawo wa mwisho wa kiasi cha Shs 750,000,000 (2005: Shs 450,000,000).

Halmashauri ya Wakurugenzi

Tangu Mkutano Mkuu wa Mwaka jana, mabadiliko yafuatayo yametokea katika Halmashauri ya Wakurugenzi:
Bw. P. Lopokoiyit alijiuzulu tarehe 20 Julai 2006, naye Bw. L. Senra aliteuliwa tarehe 20 Julai 2006, kwa mujibu wa Kifungu 95 cha Katiba ya Kampuni

Kwa mujibu wa Kifungu 95 cha Katiba ya Kampuni, Bw. S. Welford alijiuzulu tarehe 1 Novemba 2006, naye Bw. N. Maistre aliteuliwa tarehe 7 Desemba 2006.

Kwa mujibu wa Kifungu 95 cha Katiba ya Kampuni, Bw. N. Maistre na Bw. L. Senra wastaafu kwa zamu katika Mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kwa mujibu wa Kifungu 89 cha Katiba ya Kampuni, Prof. J. H. Kimura na Bw. M. M. Wanyoike wastaafu kwa zamu katika Mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.
Kwa mujibu wa Kifungu 98(b) cha Katiba ya Kampuni, Mabw. E. Mwaniki na A. Ngugi wastaafu kwa zamu katika Mkutano Mkuu wa Mwaka, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.

Kwa mujibu wa Kifungu 98(2) cha Katiba ya Kampuni, Mabw. H. Mule na K. Kiilu wastaafu kwa zamu katika Mkutano Mkuu wa Mwaka na, hawajitolei kuchaguliwa tena.

Wakaguzi wa Hesabu

PricewaterhouseCoopers wataendelea na ukaguzi wa vitabu kwa mujibu wa Kifungu 159(2) ch : Sheria za Makampuni.

Kwa Amri ya Halmashauri

R T. Ngobi (Ms.)
Katibu wa Kampuni

20 March 2007

BAT SHOULD BE VERY PROUD OF ITS GREAT CONTRIBUTION TO THE ECONOMIC GROWTH OF OUR COUNTRY

Alan N. Ngugi
Non-Executive Director

It's been a great 100 years and we look forward to the next 100!

Crispin Achola
Enterprise Project Office Manager, Sub Saharan Africa

Hongera BAT Kenya Kwa Kutimiza miaka 100 Tuendelee Kung'ara.... Imara Daima!

Eric Kiniti
Trade Policy Manager

A full century of exemplary contribution to the Kenyan economy! Congratulations!!

Evanson Mwaniki
Chairman, BAT Kenya

A successful first 100 years, and surely a second to follow!

Gayling May
Non-Executive Director

Looking forward to another fun-filled and challenging 100 yrs!!

Kezie K-Kihara
H.R. Shared Services Executive

100 years

1907 - 2007

Celebrating a century of excellence in Kenya

One great century of success and the future is even brighter!

Alison Kariuki
Legal Manager

Wow, What a Feat! Rejoicing a Century of adventure, resilience, great achievements & fun! Enjoy!

Keli Kiilu
CORA Director

It's great to be part of a 100 year successful story!

Leonardo Senra
Finance Director

Here begins the next 100!

Maureen Sande
Internal Communications Manager

100 already?!?!
Bring on some more!!

Sidney Wafula
Audit Manager,
East Africa

100 years
1907 - 2007

Celebrating a century of excellence in Kenya

Accounting Policies

CONTINUED

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

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write down their cost or revalued amounts to zero residual values over their estimated useful lives, as follows:

- Buildings: 2.5% - 10% per annum or over the period of the lease if less than 40 years
- Plant, machinery, motor 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 those assets are transferred to retained earnings.

(g) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (four years).
Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (four years).

(h) 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.

(i) 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 (based on normal operating capacity), 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.

Consolidated *Statement of Changes in Equity*

FOR THE YEAR ENDED 31 DECEMBER 2006

	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 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	12	-	-	-	(800,000)	-	(800,000)
- Proposed final for 2005	12	-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	756,515	1,686,525	450,000	3,893,063
Year ended 31 December 2006							
At start of year		1,000,000	23	756,515	1,686,525	450,000	3,893,063
Transfer of excess depreciation		-	-	(33,301)	33,301	-	-
Deferred tax on transfer		-	-	9,990	(9,990)	-	-
Net gains/(losses) recognised directly in equity		-	-	(23,311)	23,311	-	-
Profit for the year		-	-	-	1,201,422	-	1,201,422
Total recognised income for 2006		-	-	(23,311)	1,224,733	-	1,201,422
Dividends:							
- Final for 2005		-	-	-	-	(450,000)	(450,000)
- Interim for 2006	12	-	-	-	(450,000)	-	(450,000)
- Proposed final for 2006	12	-	-	-	(750,000)	750,000	-
At end of year		1,000,000	23	733,204	1,711,258	750,000	4,194,485

Consolidated *Statement of Changes in Equity*

FOR THE YEAR ENDED 31 DECEMBER 2006

	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 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	-	-
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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	12	-	-	-	(800,000)	-	(800,000)
- Proposed final for 2005	12	-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	756,515	1,686,525	450,000	3,893,063
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Deferred tax on transfer		-	-	9,990	(9,990)	-	-
Net gains/(losses) recognised directly in equity		-	-	(23,311)	23,311	-	-
Profit for the year		-	-	-	1,201,422	-	1,201,422
Total recognised income for 2006		-	-	(23,311)	1,224,733	-	1,201,422
Dividends:							
- Final for 2005		-	-	-	-	(450,000)	(450,000)
- Interim for 2006	12	-	-	-	(450,000)	-	(450,000)
- Proposed final for 2006	12	-	-	-	(750,000)	750,000	-
At end of year		1,000,000	23	733,204	1,711,258	750,000	4,194,485

Company *Statement of Changes in Equity*

	Notes	Share capital Shs'000	Share premium Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 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	12	-	-	-	(800,000)	-	(800,000)
- Proposed final for 2005	12	-	-	-	(450,000)	450,000	-
At end of year		1,000,000	23	756,515	1,686,525	450,000	3,893,063
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At start of year		1,000,000	23	756,515	1,686,525	450,000	3,893,063
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Profit for the year		-	-	-	1,201,422	-	1,201,422
Total recognised income for 2006		-	-	(23,311)	1,224,733	-	1,201,422
Dividends:							
- Final for 2005		-	-	-	-	(450,000)	(450,000)
- Interim for 2006	12	-	-	-	(450,000)	-	(450,000)
- Proposed final for 2006	12	-	-	-	(750,000)	750,000	-
At end of year		1,000,000	23	733,204	1,711,258	750,000	4,194,485

Consolidated *Cash Flow Statement*

	Notes	2006 Shs'000	2005 Shs'000
Operating activities			
Cash generated from operations	28	2,412,896	2,280,031
Interest received		1,076	2,451
Interest paid		(39,379)	(15,996)
Income tax paid		(611,247)	(381,709)
Net cash generated from operating activities		1,763,346	1,884,777
Investing activities			
Purchase of property, plant and equipment	18	(590,356)	(583,098)
Purchase of intangible assets	19	(242,945)	-
Proceeds from disposal of property, plant and equipment		8,708	23,182
Net cash used in investing activities		(824,593)	(559,916)
Financing activities			
Dividends paid		(900,000)	(1,250,000)
Net cash used in financing activities		(900,000)	(1,250,000)
Net increase in cash and cash equivalents		38,753	74,861
Movement in cash and cash equivalents			
At start of year		46,483	(28,378)
Increase		38,753	74,861
At end of year	26	85,236	46,483

Accounting Policies &
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 2006, new and revised standards and interpretations became effective for the first time. The adoption of these new and revised standards and interpretations had no material effect on the company's accounting policies or disclosures.

(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. Subsidiaries 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

Summary of significant 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 Group 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, (Shs) which is the Group's functional and presentation currency.

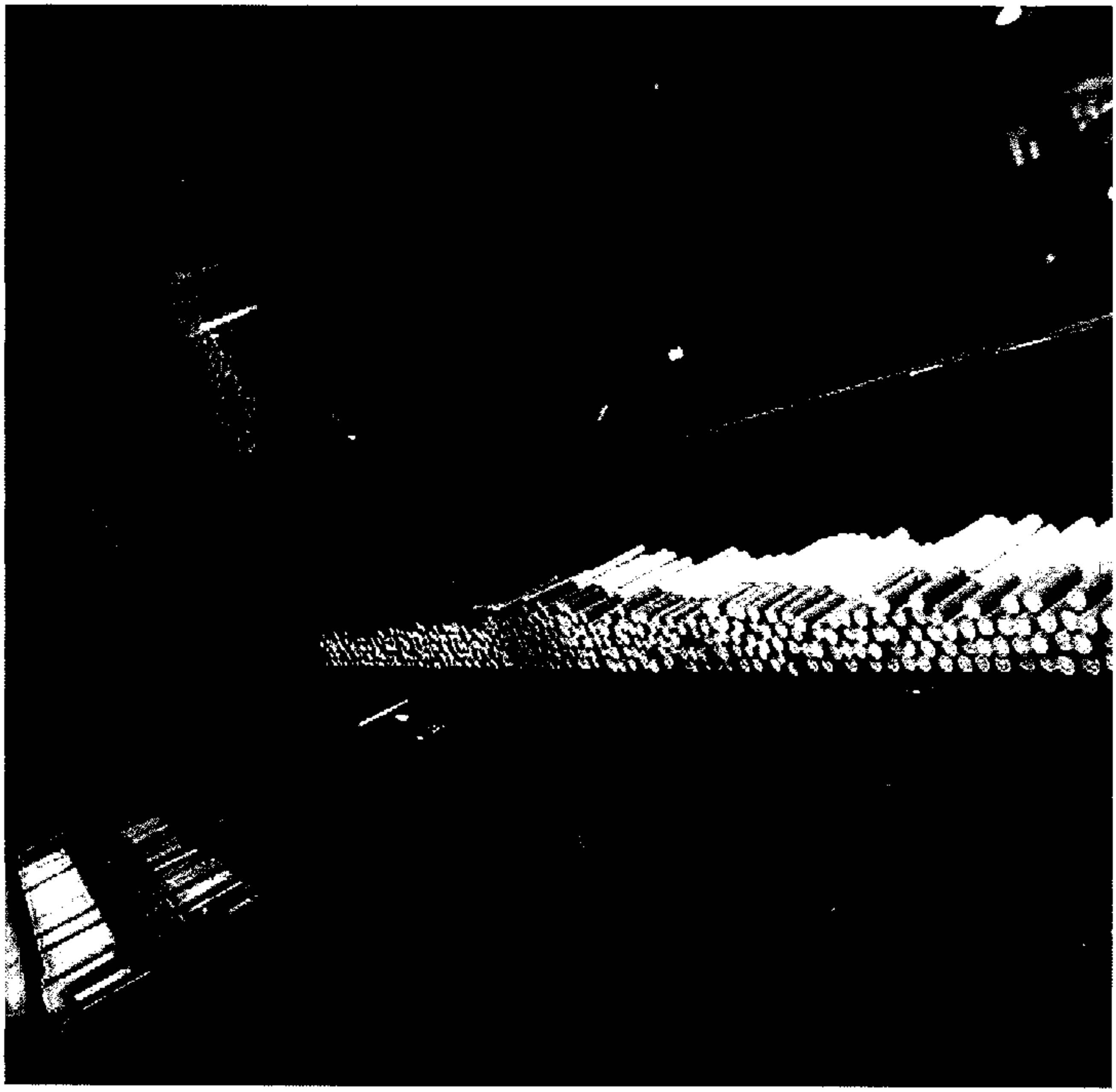
(ii) Transactions and balances in Group entities

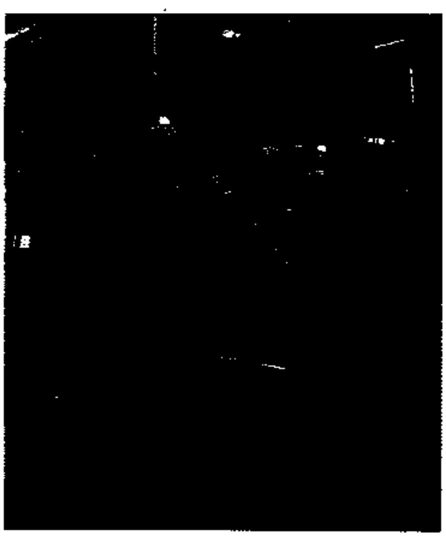
Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates 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 are subject to risks and returns that are different from those of segments operating in other economic environments.





Contract manufacture of cigarettes for export to the regional markets grew by 114% above 2005 as the Nairobi factory moved towards realising its full capacity following the completion of the Shs 1.2 billion investment in the latest start-of-the-art machinery.

Corporate *Information*

Board of Directors

Mr. E Mwaniki*	(Chairman)
Mr. N Maistre	(Managing Director)
Mr. L Senra	(Finance Director)
Mr. D 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*	
Ms. J W Michuki*	
Mr. G R May*	

Audit Committee

Prof. J H Kimura*	(Chairman)
Mr. H M Mule*	
Mr. G R May*	
Mr. L Morales*	permanent invitee
Mr. J D Pike *	permanent invitee
Mr. N Maistre	permanent invitee
Mr. S Mugwe	permanent invitee
Mr. L Senra	permanent invitee
Ms. R T Ngobi	permanent invitee
Mr. E Mwaniki*	by invitation
Mr. S Wafula	(Secretary)

Nominations Committee

Mr. E Mwaniki*	(Chairman)
Mr. A Ngugi*	
Mr. J D Pike*	
Mr. N Maistre	
Ms. R T Ngobi	(Secretary)

Remunerations Committee

Mr. M M Wanyoike*	(Chairman)
Mr. E Mwaniki*	
Mr. J D Pike*	
Mr. L Morales*	
Ms. J W Michuki*	
Mr. N Maistre	permanent invitee
Mr. D Sewgobind	(Secretary)

Corporate Social Responsibility Committee

Ms. J W Michuki*	(Chairman)
Mr. M M Wanyoike*	
Mr. N Maistre	permanent invitee
Mr. C Achola	permanent invitee
Mr. S Mugwe	permanent invitee
Mr. D K Kiilu	(Secretary)

*Non-Executive Directors

Auditors
PricewaterhouseCoopers,
The Rahimtulla Tower, Upper Hill Road
P.O. Box 43693-00100,
NAIROBI

Transfer Agents
Custody & Registrar Services Limited,
Bank House, Moi Avenue
P.O. Box 8484-00100,
NAIROBI

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

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

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

Shareholding *Structure*

Top 10 Shareholders *as at 20th March 2007*

	A/c No.	Name	Shares	%
1	9000361	Molensteegh Invest BV	60,000,000	60.00
2	387200 & 665258	Board of Trustees National Social Security Fund	16,261,558	16.26
3	469696	Old Mutual Insurance Company Limited	1,077,734	1.07
4	701	Barclays (Kenya) Nominees Limited A/c 1256	897,000	0.89
5	1651	Barclays (Kenya) Nominees Limited A/c 1853	800,032	0.80
6	1350811	The Jubilee Insurance Company of Kenya Limited	766,415	0.76
7	212792	Kenya Commercial Bank Nominees Limited A/c 744	699,206	0.69
8	12068	Kenya Commercial Bank Nominees Limited A/c 769G	500,200	0.50
9	149047	Insurance Company of East Africa Limited - Pooled	439,978	0.44
10	2364	Barclays (Kenya) Nominees Limited A/c 9230	427,072	0.42
	Various	Other Shareholders (5,029)	18,130,805	18.17
5,039		**Total**	**100,000,000**	**100.00**

Summary of Shareholders *as at 20th March 2007*

Institutional	***Shareholders***	***Shares***	***% Holding***
Kenyan	502	31,979,326	31.98
Foreign	4	60,387,301	60.39
East African	3	14,714	0.01
Individual			
Kenyan	4,455	7,323,870	7.32
Foreign	56	251,275	0.25
East African	19	43,514	0.05
Total	**5,039**	**100,000,000**	**100.00**

Distribution of Shareholders *as at 20th March 2007*

Shares Range	***Shareholders***	***Shares***	***% Holding***
1 to 500	2,201	616,791	0.62
501 to 5,000	2,358	3,856,446	3.86
5,001 to 10,000	211	1,541,182	1.54
10,001 to 100,000	227	5,758,383	5.77
100,001 to 1,000,000	39	10,887,906	10.89
Above 1,000,001	3	77,339,292	77.33
Total	**5,039**	**100,000,000**	**100.00**

ensuring that the Board has an appropriate balance of expertise and ability. The Nominations Committee also evaluates and makes recommendations with regard to the composition of all Board Committees. In so doing, it monitors and ensures that appropriate, Non-Executive and Executive Directors ratios are maintained. This Committee is also charged with the responsibility of evaluating and reporting to the Board on an annual basis, the effectiveness of the Board and effectiveness of the Directors in the discharge of their responsibilities. The Nominations Committee is chaired by the Board Chairman.

The Audit Committee

The role of the Audit Committee is to monitor the integrity of Company's financial statements and review and if appropriate, make recommendations to the Board on business risks, internal controls and compliance. The Committee meets three times a year with internal and external auditors, as well as with management. The Audit Committee is chaired by Prof. J.H. Kimura.

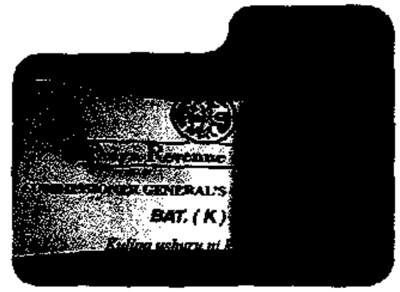
Provident Funds

The two British American Tobacco Provident Funds are under the stewardship of a joint Board of Trustees. Chaired by Non-Executive Director, Mr. Michael M. Wanyoike, the Board of Trustees includes representatives of employees and management as well as Executive and Non-Executive Directors. Both funds are compliant with the requirements of the Retirement Benefits Act.

Corporate Citizenship

British American Tobacco Kenya has adopted a structured approach to environmental, health and safety management in compliance with the Group's best practice from all global operations.

The company supports numerous social responsibility initiatives in Kenya, including providing support to the Jua Kali sector, the Agricultural Society of Kenya and afforestation.



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

The Corporate Social Responsibility Committee

The role of the Corporate Social Responsibility Committee is to keep under review and make appropriate recommendations to the Board as regards the Company's management of Corporate Social Responsibility and the Conduct of Business in accordance with the Statement of Business Principles. This includes 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 Ms. Jane W. Michuki.

Remuneration Committee

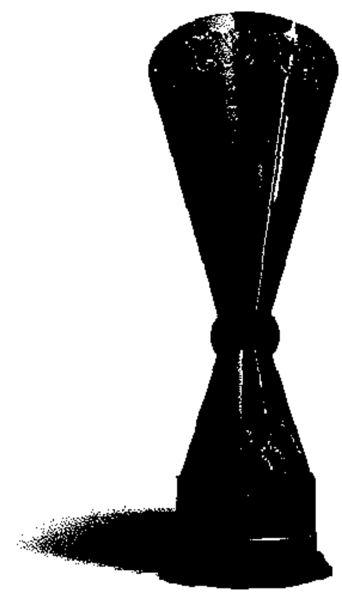
The role of the Remuneration Committee is to determine the Company's remuneration policy for employees, management and Non-Executive Directors. It is chaired by Mr. Michael M. Wanyoike.

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 discrimination.

Communication with Shareholders

British American Tobacco Kenya is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is achieved through the release of its interim, half-year, as well as annual results in the local press, distribution of annual reports, holding of an investor briefing at least once a year and availing of information on the Company's website; **www.batkenya.com**



Kenya Revenue Authority commendation awarded to the Company by the Commisioner General in 2006.

In 1928, Alfred Dunhill retired and handed the business over to his son. The tradition of expertise continued and the business grew from strength to strength with further entry into new global markets. In 1974, the company was recognised for its outstanding achievements and awarded the prestigious Queen's Award for industry.

In 1981,T Dunhill was then sold to Rothmans International which heralded a new beginning for the brand. Tremendous growth soon followed, fuelled by launches into previously untapped markets in the Far East, Africa and Australia.

In 2002, the portfolio was further expanded and enhanced with the launch of Dunhill signed cigars which have been loudly applauded by cigar aficionados the world over.

Since 1907, Dunhill has created over 33,000 unique blends for its consumers around the world, and now, in 2007, the brand celebrates its Centenary – a celebration of 100 years of expertise, quality and heritage.

Dunhill is uniquely represented through a whole range of offers each bearing the Dunhill trademark stamp of quality. Each variant, whether it be King Size, Senses, Fine Cut, Essence, Top Leaf, miniatures or cigars is manufactured with the same care and attention to detail in our pursuit of perfection. It is this attention to detail that makes Dunhill unique and enables us to satisfy sophisticated and discerning smokers around the world.

Dunhill continues to be as relevant today as it was back in the 1920s and is driving the growth of the global premium segment. The brand still has a truly global foot-print with significant volumes coming from Asia (South Korea, Malaysia, and Taiwan), Africa (South Africa), Middle East (Saudi Arabia), Australia and Europe (France, UK). In 2005, Dunhill's global shipment volumes reached 30.9 billion sticks, grew its market share and posted strong qualitative improvements.

Dunhill King Size was launched in Kenya in 2005 through a selective distribution campaign and has experienced tremendous growth ending 2006 with a premium segment share of 22% against a plan of 9%. Through having the right mix for the brand, Dunhill is expected to grow year on year and establish itself as the leading premium brand in the market. As British American Tobacco Kenya celebrates 100 years of excellence, Dunhill is proud to be part of this monumental event.

Happy 100 Years Celebration.

Management *Review*
MANUFACTURING

The production output for the Nairobi factory for the year 2006 was an all-time high, recording a 40% increase over the previous year.

Following the closure of British American Tobacco factories in Uganda, Rwanda and Zambia, there has been a great increase in the production demand over the last two years. Our Nairobi factory is currently supplying products to 14 markets within the region and exports now comprise up to 60 % of output, up from 44% in 2005.

A section of the Nairobi factory.

The production output for the Nairobi factory for the year 2006 was an all-time high, recording a 40% increase over the previous year.

Due to the above trends and a need to manage the product variety, it was necessary to make a substantial investment in new machinery. During the year, we embarked on a major investment program involving the acquisition of four additional production lines. We also made substantial investments in infrastructure to support the new lines and to facilitate handling of higher volumes of finished goods. The entire program which involves expenditure in excess of Shs 1.2 billion is now 80% complete, with the balance scheduled for completion during the first half of 2007.

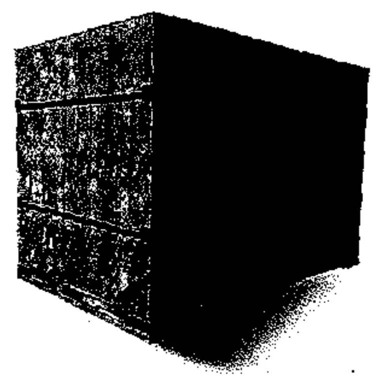
With regard to our members of staff, we began accelerated training programs in late 2005 to cater for a large intake of new employees. These efforts are now bearing fruit and most of the employees who joined in late 2005 and early 2006 have now been integrated within factory operations. Further, as a major departure from previous practice, the factory has recently embarked on a program where certain lines will run 24 hours a day, seven days a week. This program will not only improve production output, but will also enhance asset utilisation and hence contribute to cost containment on machinery investments.

During the year, we embarked on a major investment program involving the acquisition of four additional production lines.

Management *Review*
SUPPLY CHAIN

In Supply Chain, we continued to build our capacity to satisfy the increasing demands of both our export and domestic customers in 2006. The biggest challenge during the year was integrating the increased complexity and volume coming from Uganda, Rwanda, Zambia and Malawi. Through highly efficient supply chain processes, we were able to deliver one of the most successfully managed source migrations within the BAT Group.

Our Nairobi factory is currently supplying products to 14 markets within the region and exports now comprise up to 60 % of output, up from 44% in 2005.



In 2006, significant additional export and contract volume from Uganda, Rwanda, Zambia and Malawi, was successfully incorporated into the British American Tobacco Kenya manufacturing portfolio. This was a highly complex project and has been acknowledged as one of the most successfully managed source migrations within the BAT Group.

With increasing export volumes comes greater complexity in terms of more customers, more brands, more products, more materials and more distribution routes. For the first time in British American Tobacco Kenya history, exports and contract sales were greater than the sales to our domestic customers.

The increase in sales and production volume was delivered without compromising the existing Domestic or Export business. During the year, a Customer Service Centre was established providing communication links and rapid response to both Domestic and Export customers.

In support of the British American Tobacco Kenya growth strategy, high quality products and services were delivered to an ever-growing number of End Markets, at the right time, in the right place, at the right quality and at an optimal cost.

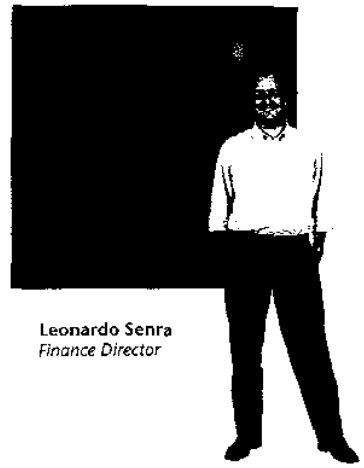
Despite a high workload, the commitment to training and people development remained a key priority throughout the year. Through a combination of teamwork and technical ability, a high level of customer service was maintained whilst successfully implementing SAP, a complex new IT system and delivering the factory rationalisation project.
We continue to build our working relationship with government authorities and partner service providers' making significant progress with the revenue authorities in Kenya, Tanzania and Uganda.

We continued to embed a culture of best in class procurement processes in support of productivity improvements. With just over 50% of our raw materials being imported, the Kenya Revenue Authority's newly introduced automated clearing system presented opportunities to reduce clearance lead times and stock inventory holdings. During the year, raw materials savings in excess of USD 652,000 were realised, most of which were reinvested back in the business to drive further growth.

Leadership *Team*

Nicolas Maistre
Managing Director

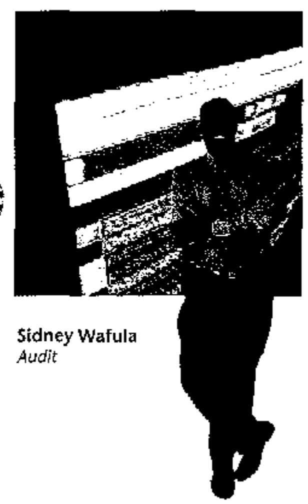
Ruth Ngobi
Company Secretary



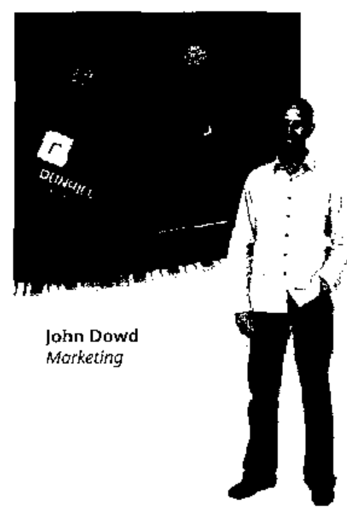
Leonardo Senra
Finance Director

Keli Kiilu
Corporate & Regulatory Affairs Director

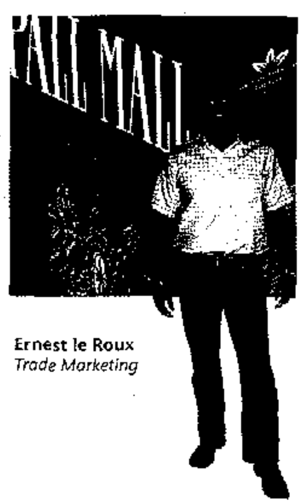
Dirk Eloff
Operations



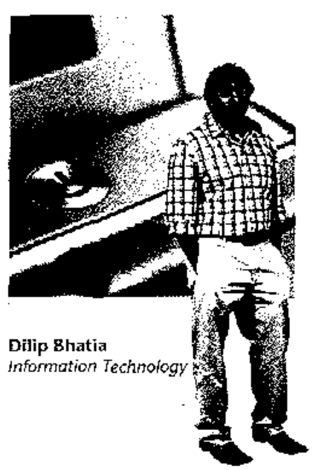
Sidney Wafula
Audit



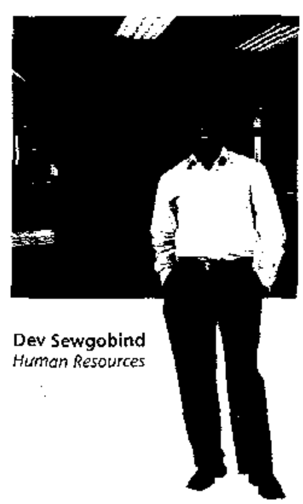
John Dowd
Marketing



Ernest le Roux
Trade Marketing



Dilip Bhatia
Information Technology



Dev Sewgobind
Human Resources

A sustainable underlying business

The Company's profit after tax reduced by Shs 180 million compared to 2005. A spectrum of varying factors contributed to this decline in profit.

- Increased investment in marketing capacity was injected to consolidate the international brands in Kenya, for the purpose of enhancing brand distribution and availability in the market.

- Positioning Kenya as one of the Group's manufacturing centres of excellence required extensive investment in machinery, key manufacturing processes and transfer of technology and expertise.

- Creation of 100 new jobs within the expansion plans pushed up the Company's wage bill, reflecting in the results, while the high cost of energy in Kenya significantly drove the overall cost of manufacturing higher.

In addition, for Kenya to be considered a regional manufacturing hub supplying 14 markets in the region, it is imperative that the business maintains a very cost-competitive model, compared to other potential sources in Africa.

Therefore, the margin adopted in the contract manufacturing business, seeks to realise a return on the investment in expansion, but will not be the same as the one applied to domestic cigarettes.

There is less complexity in contract manufacturing as the company is not involved in marketing the brands, negotiating trade margins and in managing marginal supporting costs versus staff, as it does for the domestic cigarette business.

Looking ahead: A year of consolidation

British American Tobacco Kenya's ultimate vision and destination is to sustain leadership of the tobacco industry in Kenya and is aligned to the Group vision to accomplish the same. Our Group strategy is supported by three pillars that have been identified as the key drivers of a winning organization.

Growth in our business will be derived from new export and contract manufacture business opportunities, as the Company continues to reclaim the domestic market for its Global Drive Brands, while expanding contract manufacture volumes for associated companies in the region.

This will be realised through sustained efforts to curb illicit trade, to reclaim market share that has been eroded by unfair trading practices by competition. However, offering value-for-money within the broad base of low market segments is still an integral part of spawning growth.

The company's approach to **Productivity** in 2007 is to focus its resources and operations on delivering value, quality of service and excellent products to the trade and consumers, as well as deriving value for shareholders.

To achieve this, the Company is adopting the most cost competitive business model, which also means reducing complexities and harnessing the advantage of centralised sourcing of materials in its core business: leaf growing, domestic, export and contract cigarette manufacturing

Responsibility in our Company means being in touch with the issues raised by society regarding the way we conduct our business and our approach to addressing them. This ranges from social responsibility, the way we market our products to regulatory issues affecting the industry. It is our belief that regulation of the tobacco industry will provide a clear and unbiased operating framework for the business to operate.

The Company awaits the re-publishing of proposed tobacco legislation, at which time the prescribed scope and timing of implementation will provide opportunity for further analysis. Considering the precedent set in industry legislation elsewhere, it is likely that upcoming regulation will have immediate adverse impact on the industry.

In line with the pillar of Responsibility, the Group has already adopted self-regulatory measures governing brand communication, sales and distribution of our products.

Human capital management will remain one of the key drivers for British American Tobacco Kenya, through 2007, for delivering business growth targets. Developing a **Winning Organisation**, underpinned by strong talent management strategies, leadership development and a culture of innovation and enterprising spirit, at all levels, will drive and support our migration to the new business model.

As the business strives to achieve higher standards of productivity, and smarter ways of working, the Company will implement initiatives to improve the level of engagement and integration of employees within the business. This carries the promise to translate into a high-performing organisation with stronger financial results.

Thank you.

Nicolas Maistre
Managing Director

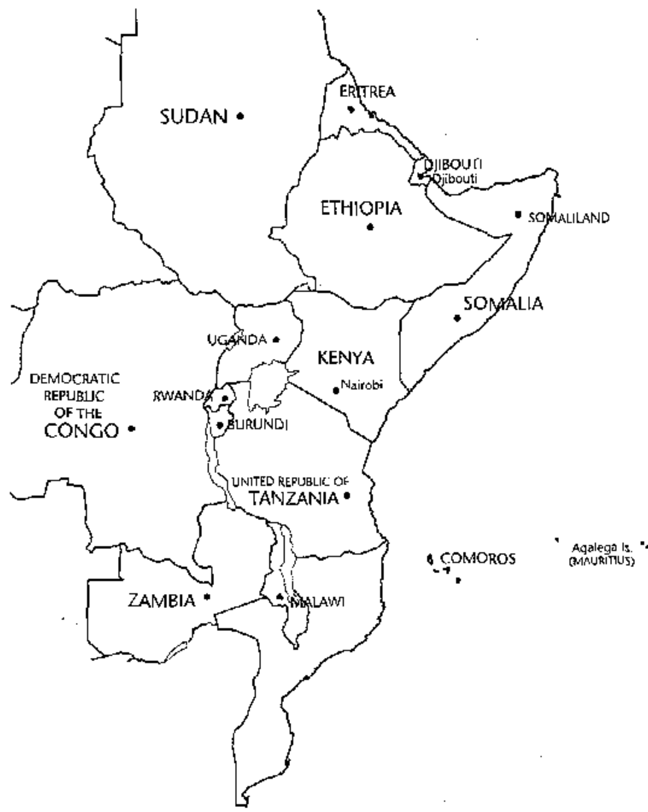
Leonardo Senra
Finance Director

A solid foundation

The Shs 1.2 billion investment in factory expansion towards becoming a regional centre of manufacturing excellence was actualised in 2006.

Its tide of enrichment saw British American Tobacco Kenya embrace state-of-the-art technology and expertise to match, while the expansion created 100 new jobs in the company in 2005 – 2006.

Contract manufacture delivered the projected volume growth of 114% above 2005, solidifying the company's position as a regional centre of manufacturing excellence. British American Tobacco Kenya currently manufactures cigarettes for 14 markets: Kenya, Uganda, Tanzania, Malawi, Zambia, Rwanda, Mauritius, Somalia/Somaliland, Ethiopia, Eritrea, Djibouti, DR Congo, Comoros and Burundi.



The volume growth achieved in 2006 is the result of consistent and well-managed improvement of efficiencies in manufacturing processes, and the growth pattern provides assurance of sustainability.

British American Tobacco Kenya rose to the challenge of establishing new brands in the domestic market, with the introduction of Global Drive Brands Dunhill and Pall Mall, which were launched in 2005 and 2006, respectively.

The business continues to focus the energy of its trade and marketing expertise to support these latest entrants into the market.

Nicolas Maistre
Managing Director

Managing Director's *Review*

"We aspire to lead our industry through consistent and sustainable growth; we propose to channel every aspect of our operations towards optimising productivity; we continue to inspire a winning organisation through people that embody responsibility, open-mindedness and an enterprising spirit"

A year of challenge

2006 goes down in the history of British American Tobacco Kenya as a year in which the tobacco industry's and the Company's resilience was extensively challenged.

In May 2006, Legal Notice 44 was published by the Ministry of Health, prescribing restrictive regulatory measures on sizes of health warnings and punitive clauses aimed at curbing smoking in public places.

This Gazette Notice, published with no prior consultation with industry stakeholders, was to take immediate effect, leaving the industry with no realistic implementation time.
The industry sought the intervention of the Court and obtained a Stay Order, providing an opportunity for tobacco manufacturers to petition the Government on sections of the Notice, which would hinder normal operations. The matter is still in Court awaiting determination on the way forward.

The Ministry of Health tabled the Tobacco Control Bill in Parliament in November 2006, for debate and eventual enactment. The Bill, which contained a raft of clauses that would have adverse impact on the industry, was published with little consultation with industry stakeholders.

Tobacco regulation has been intermittent over the last six years with no conclusive outcome to oversee industry stakehholders' operations. Concerted efforts have been made by the industry during this period, to dialogue with government over fundamental issues affecting the business. The Company supports the establishment of balanced regulation and is keen to provide input to this end. It is our hope that decisions on upcoming regulation will be all-inclusive, enforceable and will give sufficient lead time for all stakeholders to adjust to the new rules.

Similarly, the Finance Bill gazetted in June 2006 and partly reversed in November 2006, affected British American Tobacco Kenya's brands. The Company was forced to increase prices in certain tiers thus exerting pressure on volumes. This placed the competition at a significant advantage over British American Tobacco Kenya. The Company continues to engage government in dialogue on this matter, seeking to level the field for all players involved.

Illicit trade remains a looming threat to economic growth in Kenya and the tobacco industry is no exception. Illegitimate trade costs the Government billions of shillings in lost revenue, when unethical manufacturers divert 'for export' products back into Kenya, dumping them in the domestic market at a lower retail price.

British American Tobacco Kenya has expressed its commitment to collaborate with law enforcement agencies in identifying potential loopholes and areas of improvement in combating illicit trade.

kufikia asilimia 114 kupita mwaka 2005, kwani kiwanda cha Nairobi kiliweza kutengeneza kiwango chake kamili cha bidhaa kufuatia kukamilishwa kwa uwekezaji wa shilingi bilioni 1.2, kuweka mitambo ya kisasa kabisa ya utekelezaji kazi.

Bidhaa ya sigara aina ya Dunhill iliyoanzishwa kwenye robo ya nne ya mwaka 2005, ilifuatiwa na bidhaa ya sigara aina ya Pall Mall kwenye robo ya kwanza ya mwaka 2006, kama sehemu ya mbinu yetu ya kuzingatia utengenezaji bidhaa zinazopendwa duniani. Juhudi zilifanywa kuunga mkono aina za bidhaa hizi na vile vile bidha zetu nyingine za kawaida ili kuwasilisha viwango vikubwa vya bidhaa na kuwa mchanganyiko ufaao wa bidhaa zetu.

Matokeo

Pato la jumla liliongezeka kwa asilimia 12 hadi kufikia shilingi bilioni 12.7, ikilinganishwa na shilingi bilioni 11.2 mwaka wa 2005. Hata hivyo, faida kabla ya kutozwa ushuru ilikuwa shilingi bilioni 1.75, sawa na asilimia 12.5 chini ya mwaka 2005, na kudhihirisha gharama ya uwekezaji kwenye mashine za viwandani, kusaidia miradi ya kijamii na kuwekeza huduma na bidhaa yetu. Faida baada ya kutozwa ushuru ilifikia shilingi bilioni 1.2 ikilinganishwa na shilingi bilioni 1.4 mwaka wa 2005, ilhali mchango wetu kwa mapato ya Serikali katika ushuru wa forodha, kodi ya Kampuni na kodi ziada ya thamani ya VAT iliongezeka hadi kufikia asilimia 5 sawa na shilingi bilioni 5.6.

Jukumu la Kampuni kwa Jamii

Kampuni iliendelea kuisaidia jamii kupitia miradi mbali mbali katika maendeleo ya kijamii na kiuchumi kote nchini.

Katika kujibu wito wa Taifa wa kuwasaidia wananchi wa jamii mbali mbali walioathiriwa na njaa, Kampuni ilitoa shilingi milioni 15 zilizotolewa kupitia Chama cha Msalaba Mwekundu cha Kenya kwa ununuzi wa chakula cha msaada na maji kwa jamii zilizoathiriwa. Katika kuchangia maendeleo ya kiuchumi na kuwapa watu uwezo, Kampuni iliendelea kudhamini sekta ya Jua Kali chini ya usimamizi wa Jumuiya ya Afrika Mashariki.

Maonyesho ya 8 ya Jua kali ya Afrika Mashariki yalifanywa mjini Dar es salaam, Tanzania mwezi Desemba mwaka 2006, yaliyovutia waonyeshaji bidhaa mia tano kutoka Kenya, Uganda, Rwanda na Tanzania. Kufaulu kwa maonyesha hayo ni dhihirisho la umuhimu mkubwa wa msaada tunaotoa kwa sekta hiyo ya Jua Kali na maendeleo ya kiuchumi ya Afrika Mashariki.

Jukumu la kutoa Habari

Mpango wa kuhusisha washika dau ulikamilishwa kwa vikao vya mashauriano vilivyohusu shughuli zetu hapa Kenya, Uganda na Rwanda. Kati kati ya mwaka huu, tutachapisha taarifa moja inayojumuisha maoni ya washika dau na majibu yetu kutoka nchi hizi tatu, na kufanya historia kama muungano wa kwanza katika kundi hili kuchapisha ripoti ya pamoja ya kijamii. Mashauriano ya washika dau yalihusisha maswala mbali mbali ukiwemo msimamo wetu katika ukuzaji tumbaku, kubuni utajiri, uvutaji sigara hadharani, jukumu la Kampuni kwa jamii na jukumu la kiuchumi linalotekelezwa na Kampuni.

Mgao wa Faida

Licha ya kupungua kwa faida baada ya kutozwa ushuru, Wakurugenzi walipendekeza mgao wa mwisho wa faida wa shilingi 7.50 kwa kila hisa Shilingi 10 za kawaida. Mgao huu ukiongezewa mgao wa muda wa faida uliolipwa tayari, mgao wa mwisho wa faida utafikisha jumla ya shilingi 12 kwa kila hisa. Malipo ya mgao wa faida ni baada ya kulipa kodi ya Kampuni hapo tarehe 3 Mei 2007, kwa wenye hisa kwa kiwango cha hisa kilichoko wakati wa kufunga biashara hii tarehe 21 Machi 2007.

Mtazamo

Kufuatia ongezeko la imani ya wawekezaji kwenye mpango unaoendelea wa ufufuzi, ukuaji katika sekta ya utalii, kilimo, uchukuzi, mawasiliano, utengenezaji bidhaa na viwanda vya ujenzi na usimamizi mwafaka unaoendelea wa kiuchumi, kiwango cha ukuaji wa kiuchumi kinatarajiwa kupiga hatua za kufikisha maradufu kiwango cha ukuaji katika muda wa miaka michache ijayo. Huku mwaka 2007 ukiwa mwaka wa Uchaguzi Mkuu, ukiwa ~~na~~ shughuli nyingi za kisiasa, inatarajiwa kuwa uwaniaji Kiti cha Urais na Viti vya Ubunge utapamba moto. Hata hivyo hali haitarajiwi kuathiri uchumi. Dalili zote zaonyesha kwamba shughuli zitaendelea kama kawaida kabla na baada ya Uchaguzi Mkuu.

Huku ukuaji mkubwa wa kiuchumi ukiendelea katika mwaka 2007, matarajio ya Kampuni yetu yanaendelea kuwa mema. Katika soko la humu nchini, tutaendelea kuihusisha Serikali na washika dau wengine kuimarisha sheria za uwiano za tumbaku zinazozingatia maslahi mbali mbali ya jamii, huku pia ikihimiza kuweko kwa uvumilivu na kukubali maoni mbali mbali kwa wavutaji sigara na wasiovuta sigara.

Tutaisaidia Serikali kukabiliana na biashara haramu ilhali tukitafuta kuratibu ushuru wa forodha kwa lengo la kuweka kiwango sawa cha utekelezaji kazi kwa washiriki wa sekta hii. Baada ya kukamilisha uwekezaji wa shilingi bilioni 1.2 katika upanuzi na uimarishaji wa kiwanda cha Nairobi, sasa tutaweza kutumia kikamilifu nafasi za ukuaji katika uuzaji wa bidhaa zetu katika nchi za nje na kutoa kandarasi kwa masoko ya utengenezaji bidhaa ili kuongeza mchango wa kiwango cha masoko haya kwa zaidi ya asilimia 60 iliyofikiwa mwaka 2006. Hizi na juhudi nyingine zilizojadiliwa kwa kirefu katika taarifa ya Mkurugenzi Mkuu zinatoa ahadi ya mafanikio mema kwa Kampuni yetu siku zijazo.

Wakurugenzi Wapya

Ningependa kumkaribisha Mkurugenzi Mkuu mpya, Bwana Nicolas Maistre aliyejiunga na Kampuni mwezi Desemba mwaka 2006. Nicolas anachukua mahala pa Bwana Simon Welford aliyehamishwa hadi Afrika Magharibi kuchukua wadhifa wa Meneja Mkuu wa Kampuni ya British American Tobacco, Nigeria.

Nicolas amehudumu katika ngazi mbali mbali katika kundi la kampuni hii kwa muda wa miaka 15 iliyopita hasa kama Meneja Mkuu katika Levant na Yemen. Alifanya kazi na kampuni ya Rothmans kabla ya kujiunga na kampuni ya British American Tobacco kufuatia kuungana kwa kampuni hizi mbili mwaka 1999.

Bwana Leonardo Senra pia alijiunga na Halmashauri mwaka Julai 2006 kutoka Souza Cruz huko Brazil kama Mkurugenzi wa Fedha na kuchukua mahala pa Bwana Philip Lopokoiyit aliyehamishwa hadi nchini Nigeria mnamo kati kati ya mwaka uliopita kama Mkurugenzi wa Fedha.

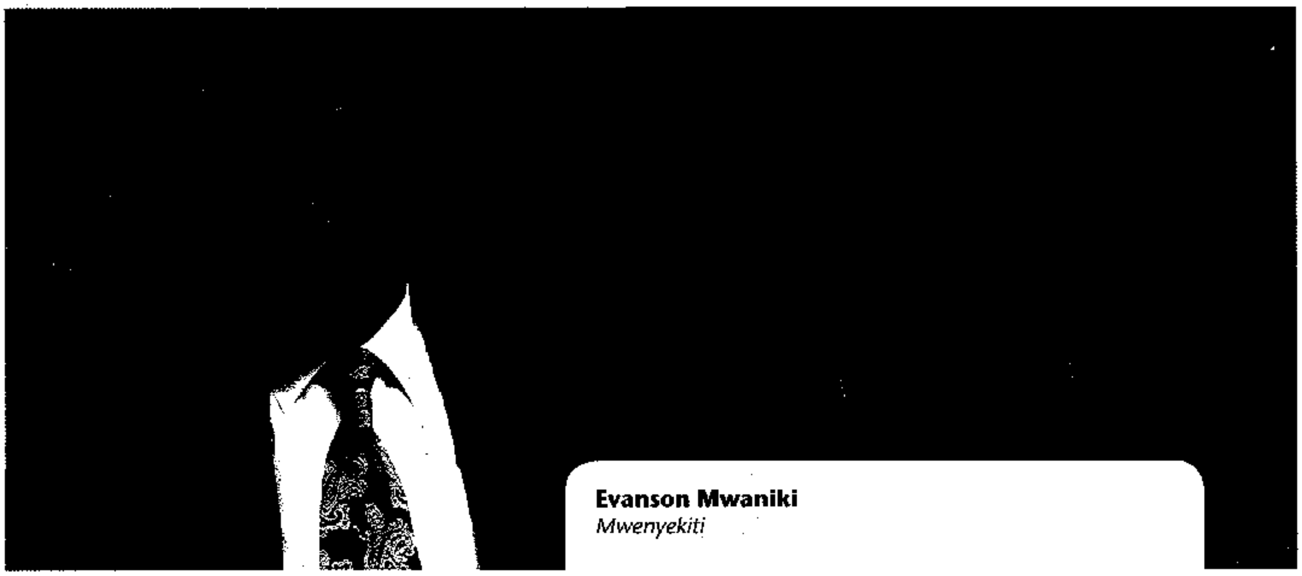
Nina mshukuru Bwana Harris Mule aliyestaafu kutoka kwa Halmashauri kwa mchango wake wenye thamani kwa biashara yetu kutokana na taaluma yake kama mtaalamu wa kiuchumi na mshauri wa maongozi ya umma.

Pia ningependa kumshukuru Bwana David Keli Kiilu anayestaafu kutoka kwa Halmashauri na pia kama Mkurugenzi Mkuu anayesimamia Maswala ya Kampuni na Uhusiano Mwema, baada ya kuhudumu kwa miaka 24.

Mwisho, ninawashukuru Wakurugenzi wa Halmashauri, wasimamizi wakuu, wafanyikazi na washirika wa kibiashara kwa matokeo bora yaliyopatikana mwaka wa 2006, licha ya changamoto nyingi na majukumu yaliyokumba biashara hii. Tunawashukuru nyote kwa mchango wenu na msaada na tunatazamia ufanisi mkubwa mwaka wa 2007.

Asante.

Evanson Mwaniki
Mwenyekiti



Evanson Mwaniki
Mwenyekiti

Taarifa *ya Mwenyekiti*

Mazingira ya utekelezaji kazi

Uchumi wa Kenya ulinusurika kipindi kirefu cha ukame katika nusu ya kwanza ya mwaka 2006, kufuatia mvua za vuli katika nusu ya pili ya mwaka. Katika sekta ya kilimo, uzalishaji majani chai ulipungua kwa asilimia 7 ikilinganishwa na mwaka 2005, ilhali uzalishaji wa kahawa na bidhaa za mboga na matunda uliongezeka kiasi. Sekta nyingine kama vile utalii, utengenezaji bidhaa, uchukuzi, mawasiliano, ujenzi na ukarabati zilifurahia ukuaji mkubwa.

Licha ya matatizo mbali mbali yanayoikabili sekta ya utalii, watalii wa kigeni waliwasili nchini na jumla ya mapato iliongezeka maradufu kwa viwango vya asilimia 15 na asilimia 20 mtawalia. Sekta ya utengenezaji bidhaa ilinufaika kutokana na kuimarika kwa vishawishi vya ushuru na bei za chini za mafuta ambayo hayajasafishwa katika nusu ya pili ya mwaka. Shughuli za ujenzi na ukarabati ziliendelea kuwa thabiti kama ilivyoshuhudiwa kwa ongezeko la asilimia 10 katika matumizi ya saruji.

Katika sekta ya uchukuzi na mawasiliano, usajili wa magari mapya uliongezeka kwa zaidi ya asilimia 12, ilhali sekta ya mawasiliano ilipata ongezeko kubwa huku kampuni za utoaji huduma za simu za rununu zikipunguza ushuru wao.

Katika mwaka huo, Shilingi ya Kenya iliongeza thamani kwa asilimia 3.9 dhidi ya Dola ya Marekani, lakini ikapungua thamani kwa asilimia 9.3 na asilimia 7 dhidi ya Pauni ya Uingereza na Euro mtawalia. Kiwango wastani kwa ujumla cha kila mwaka cha gharama ya maisha kilipanda kutoka asilimia 7.6 mwanzo wa mwaka huo hadi kufikia kiwango cha juu cha asilimia 19.1, kabla ya mwaka kumalizika kwa kiwango cha asilimia 15.6. Hata hivyo, kiwango hicho cha gharama ya maisha kiliendelea kuwa chini ya lengo lililokusudiwa na Benki Kuu nchini la kiwango cha asilimia 5.

Viwango vya riba viliendelea kupungua huku kiwango cha siku 91 cha uuzaji wa hati za dhamana kikipungua kutoka asilimia 8.1 mwanzo wa mwaka huo hadi kufikia asilimia 5.8 kufikia mwisho wa mwaka. Mazingira, na kupungua kwa viwango vya riba yalisaidia kuimarisha shughuli za biashara katika soko la hisa. Kwa ujumla, kiwango cha ukuaji wa kiuchumi katika mwaka 2006 kinatarajiwa kufunga mwaka kwa asilimia 6.

Sekta ya Tumbaku

Mnamo mwaka 2006, sekta ya tumbaku ilikabiliwa na majukumu magumu mno.

Majukumu haya ni katika sehemu za utekelezaji sheria. Mnamo mwezi Mei, Wizara ya Afya ilichapisha bila kushauriana na washika dau wa sekta hii, ilani ya Sheria nambari 44, ikielezea hatua kali za kisheria kuhusu kiwango cha onyo la afya na hatua za kinidhamu zinazokataza uvutaji sigara katika sehemu za umma.

Hatua hizi zilisababisha kutatizwa kwa biashara huku washika dau wakielezea wasi wasi kuhusu njia za utekelezaji wa sheria hiyo. Sekta hiyo iliweza kupata Agizo la Mahakama la Kuzuia kutekelezwa kwa sheria hiyo, huku pia ikitafuta kufanya mashauriano na Wizara kuhusu aina ya sheria itakayoafikia malengo yaliyonuiwa.
Mnamo mwezi Juni mwaka 2006, Serikali ilichapisha kwenye Gazeti Rasmi la Serikali marekebisho ya Mswada wa Ushuru, hatua iliyosaidia kuongezwa kwa bei za bidhaa zetu za aina mbali mbali. Kwa bahati mbaya, mswada huo ulifanyiwa marekebisho sehemu fulani mwezi Novemba. Marekebisho hayo yalitoa mashindano muhimu ya bei, hali iliyosababisha shinikizo la viwango vya bidhaa. Kampuni iliendelea kushauriana na Serikali katika kutafuta njia za kubuni masharti sawa ya utekelezaji shughuli za kazi kwa washiriki wa sekta hiyo.

Miswada miwili tofauti ya Uthibiti wa Tumbaku iliwasilishwa Bungeni mwezi Novemba na Wizara ya Afya, na mwingine ukidhaminiwa na Mbunge kama Mswada wa Kibinafsi wa Wabunge. Hata hivyo, Mswada wa Serikali ulitangulia Miswada mingine, huku Bunge nalo likaahirishwa mwezi Desemba kabla ya mjadala huo kukamilika. Wizara inatarajiwa kuwasilisha Mswada tena mwaka 2007.

Biashara Haramu
Biashara haramu iliendelea huku sigara zisizolipiwa ushuru zikiingizwa kwenye soko la humu nchini. Kuelekeza bidhaa zilizonuiwa kuuzwa ng'ambo zisizolipiwa ushuru na kuingizwa katika soko la humu nchini kwa bei ya chini ya reja reja hakukuhujumu tu biashara, bali pia kuliinyima Serikali kiwango kikubwa cha mapato. Kampuni ya British American Tobacco Kenya itaendelea kushirikiana na mashirika yote ya kudumisha sheria kukabiliana na biashara hii haramu.

Uuzaji

Kiwango cha uuzaji wa bidhaa humu nchini cha Kampuni yetu katika mwaka 2006 kiliendelea kuwa hicho hicho sawa na mwaka 2005, kikiathiriwa hasa na mazingira magumu ya utekelezaji kazi yaliyotajwa hapo juu. Hata hivyo, kandarasi ya utengenezaji sigara kwa uuzaji katika nchi za ng'ambo kwenye masoko ya kimataifa ziliongezeka hadi

In June 2006, the Government gazetted amendments to the Finance Bill, thereby necessitating an increase in prices of some of our brands. Unfortunately, the Bill was reversed in-part in November. This reversal gave competition significant price advantage which exerted pressure on our volumes. The Company continues to engage the Government in seeking ways of levelling the playing field for all players.

Two versions of the Tobacco Control Bill were tabled in Parliament in November, one by the Ministry of Health and the other, sponsored by a Member of Parliament as a private members Bill. However, the Government Bill which took precedence over the Private Member's Bill, lapsed with the adjournment of Parliament in December 2006, before the debate was concluded. The Ministry of Health is expected to table the Bill again in 2007.

Illicit Trade

Illicit trade continued, with duty-not-paid cigarettes finding their way into the domestic market. Diverting untaxed "for-export" products back to the domestic market at lower retail prices not only undermines legitimate trade but also denies Government huge amounts of revenue. British American Tobacco Kenya will continue working with law enforcement agencies to combat this trade.

Performance

Our Company's domestic volume sales in 2006 remained at the same level as in 2005, affected largely by the adverse operating environment explained above. However, contract manufacture of cigarettes for export to the regional markets grew by 114% above 2005, as the Nairobi factory moved towards realising its full capacity following the completion of the Shs 1.2 billion investment in the latest state-of-the-art machinery.

Dunhill, launched in the fourth quarter of 2005, was followed by Pall Mall, in the first quarter of 2006, as part of our strategy to focus on Global Drive Brands. Initiatives were undertaken to support these brands as well as our traditional range to deliver volumes and the right brand mix.

Results

Gross turnover increased by 12% to Shs 12.7 billion, compared to Shs 11.2 billion in 2005. However, pre-tax profit at Shs 1.75 billion was 12.5% below 2005, mainly driven by the additional cost related to factory expansion, social spend in support of community projects and the investment behind our brands. Profit after tax stood at Shs 1.2 billion, compared to Shs 1.4 billion in 2005, whilst contribution to Government revenue in excise, corporation tax and value added tax increased by 5% to Shs 5.6 billion.

Social Responsibility

The Company continued to support the community through various social and economic development programmes across the country. In response to the nationwide appeal to help famine stricken members of the community, the Company donated Shs 15 million which was channelled through the Kenya Red Cross for the provision of relief food and water to affected communities.

In contributing to economic development and empowerment, the Company continued to support the Jua Kali sector under the auspices of the East African Community. The 8th East African Jua Kali Exhibition was held in Dar es Salaam, Tanzania in December 2006, attracting nearly five hundred exhibitors from Kenya, Uganda, Rwanda and Tanzania. The success of the exhibitions, year on year, is an indicator of the great impact that support to this informal sector, has on the economic development of East Africa.

Social Reporting

The stakeholder engagement process was concluded with consultative dialogue sessions which covered our operations in Kenya, Uganda and Rwanda. Mid this year, we will publish one report that combines stakeholders' views and our responses from the three countries, making history as the first cluster in the Group to publish one Social Report. The stakeholder discussions covered a wide range of topics, including our positions on tobacco growing, wealth creation, public smoking, Corporate Social Responsibility and economic role played by the Company.

Dividend

Despite the comparatively lower profit after tax, the Directors recommend a final dividend of Shs 7.50 per Shs 10 ordinary share. When added to the interim dividend already paid out, this final dividend brings the total dividend to Shs 12 per share. The dividend payment is subject to Withholding Tax and will be paid on 3 May 2007, to the shareholders on the share register at the close of business on 21 March 2007.

Outlook

Buoyed by increased investor confidence in the ongoing recovery, growth in the tourism sector, agriculture, transport, communications, manufacturing and the construction industries, as well as the ongoing prudent management of the economy, the rate of economic growth is expected to pick momentum towards a double-digit figure in the next few years. With 2007 being an election year, heightened political activity is anticipated as the race for Presidential and Parliamentary seats hots up. However, this is not expected to have an adverse impact on the economy. All indications are that it will be business as usual before and after the General Elections.
With the robust growth of the economy continuing in 2007, the prospects for our company remain promising. In the domestic market, we will continue to proactively engage the Government and other stakeholders, to promote balanced tobacco regulation that takes cognisance of diverse interests of society, whilst advocating for tolerance and accommodation of divergent views of both smokers and non-smokers.

We will also assist government in combating illicit trade, while seeking to streamline the excise regime with a view to further levelling the playing field. Having completed the Shs 1.2 billion investment in expansion and modernization of the Nairobi factory, we will now be in a position to fully exploit the great growth opportunities in the export and contract manufacture markets, to increase the volume contribution of these markets to well over 60% already achieved in 2006. These and other initiatives discussed in further detail in the Managing Directors' report, promise a great future for our company.

New Directors

I would like to welcome to the Board of British American Tobacco Kenya Limited, the new Managing Director, Mr. Nicolas Maistre, who joined in December 2006. Nicolas replaces Mr. Simon Welford who moved on to West Africa to take up the role of General Manager, British American Tobacco, Nigeria Area.
Nicolas has served in various capacities in the Group for the last fifteen years, most recently as General Manager of Levant and Yemen. He worked with Rothmans International before joining British American Tobacco, following the merger in 1999.

Mr. Leonardo Senra also joined the Board in July 2006 from Souza Cruz in Brazil, as Finance Director, replacing Mr. Philip Lopokoiyit who was posted to Nigeria mid- last year as the Finance Director.

I wish to thank Mr. Harris Mule, who retires from the Board, for his exemplary contribution to the business, drawn from his illustrious career as an economist and public policy consultant.

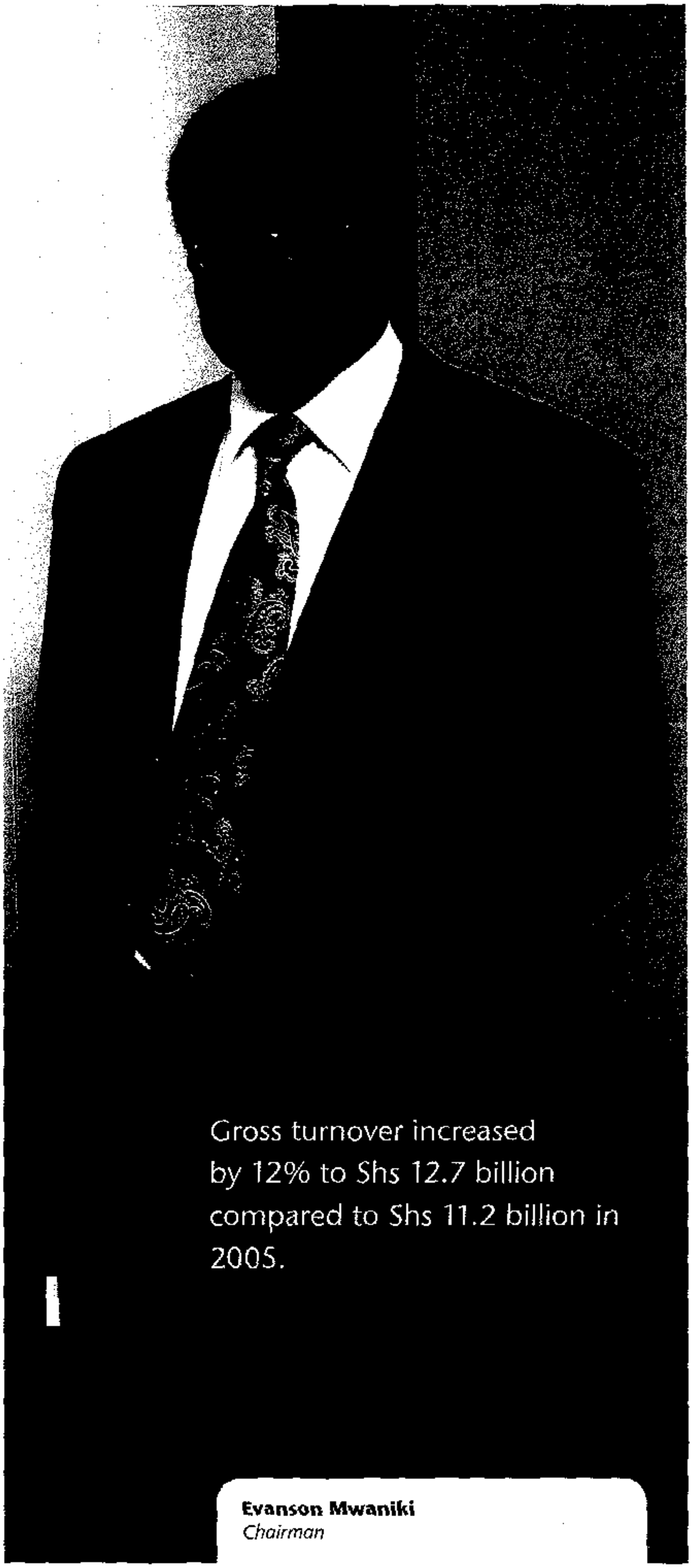
I would also like to thank Mr. David Keli Kiilu, who retires from the Board and the Company as Executive Director, Corporate and Regulatory Affairs, after 24 years of dedicated service.

Finally, I wish to thank the Board of Directors, top management team, employees and business partners for the good performance recorded in 2006, amidst all the challenges we faced in the business.

We are grateful to you all for your contribution and support and we look forward to greater prosperity in 2007.

Thank you.

Evanson Mwaniki
Chairman



Evanson Mwaniki
Chairman

Chairman's Review/ Taarifa ya Mwenyekiti

Operating environment

The Kenyan economy survived the severe drought in the first half of 2006 owing to the above average short rains in the second half of 2006. In agriculture, tea output declined by 7% compared to 2005, while coffee and horticulture registered modest growth. Other key sectors like tourism, manufacturing, transport, communications, building and construction enjoyed robust growth.

Despite capacity constraints facing the tourism sector, international tourist arrivals and the total revenue registered double digit growth rates of around 15% and 20% respectively. The manufacturing sector benefited from improved tax incentives and low crude oil prices in the second half of the year. Building and construction remained strong as evidenced by the increase of 10% in cement consumption. In transport and communications, new vehicle registrations grew by over 12%, while the telecommunications sector registered robust growth as mobile telephony providers lowered tariffs.

During the year, the Kenya Shilling appreciated by 3.9% against the US Dollar, but weakened by 9.3% and 7.0% against the Sterling Pound and the Euro respectively. Average overall annual inflation rose from 7.6% at the beginning of the year to a high of 19.1% before closing at 15.6%. However, underlying inflation remained below the Central Bank of Kenya's target of 5%

Interest rates exhibited a downward trend with the 91 days Treasury Bill rate falling from 8.1% at the beginning of the year to 5.8% at the end of the year. The low interest rate environment helped to boost activity in the stock market.
Overall, the rate of economic growth in 2006 is estimated to have been close to 6.0%.

Tobacco Industry

In 2006, the tobacco industry was faced with the most daunting challenges yet; these were in areas of regulation. In May, the Ministry of Health published, without consultations with industry stakeholders, Legal Notice No. 44, prescribing severely restrictive regulatory measures on the size of health warnings and punitive measures to prohibit smoking in public places.

These measures caused interruptions to the business as anxious stakeholders raised concerns about modalities of implementation. Industry players sought and obtained from the Court a Stay Order on the implementation of Legal Notice No. 44, whilst also seeking dialogue with the Ministry of Health on the kind of regulation that would achieve the desired objectives.

Notice of the 2007 Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Fifth Annual General Meeting of British American Tobacco Kenya Limited will be held in the Ballroom, Hotel Inter-Continental, Nairobi, on Thursday 3rd May 2007, at 11.00 a.m. for the following purposes:-

Ordinary Business

1. To receive, consider and if approved, adopt the Company's audited financial statements for the year ended 31st December 2006, together with the reports of the Chairman, Directors' and Auditors' thereon.

2. To declare a dividend.

3. To elect Directors:

   (i) Mr. Leonardo Senra who was appointed by the Board on 20th July 2006, retires in accordance with Article 95 of the Articles of Association, and being eligible, offers himself for re-election.

   (ii) Mr. Nicolas Maistre who was appointed by the Board on 7th December 2006, retires in accordance with Article 95 of the Articles of Association, and being eligible, offers himself for re-election.

   (iii) Mr. Michael Wanyoike and Prof. Joseph Kimura retire by rotation' and being eligible, offer themselves for re-election in accordance with Article 89 of the Articles of Association.

   (iv) Messrs Evanson Mwaniki and Allan Ngugi retire in accordance with Article 98 (b), and being eligible, offer themselves for re-election.

   (v) Messrs Harris Mule and Keli Kiilu retire from the Board in accordance with Article 98(2), and do not offer themselves for re-election.

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

Special Business

5. In order to align the Articles of Association with the Companies Act, Cap 486: to consider and if thought fit, to pass the following resolutions which shall be proposed as Special Resolutions:-

   (i) THAT Article 98 (1) (a) of the Company's Articles of Association be amended by deleting reference to age of 65 years and inserting 70 years of age so that Articles 98 (1) (a) shall read as follows:
   "Subject to the provisions of paragraph (1) of this Article, no person shall be capable of being appointed a Director if, at the time of his appointment, he has attained 70 years of age"

   (ii) THAT Article 98 (1) (b) of the Company's Articles of Association be amended by deleting any reference to age 65 years and inserting 70 years of age so that Articles 98 (1) (b) shall read as follows:
   "A Director shall vacate his office at the conclusion of the Annual General Meeting commencing next after his attainment of 70 years of age"

   (iii) THAT Article 98 (1) (d) of the Company's Articles of Association be amended by deleting any reference to age of 65 and inserting 70 years of age so that the Articles 98 (1) (d) shall read as follows:
   " A Director appointed or re-elected after attaining 70 years of age under the provisions of sub-paragraph (c) of this paragraph shall retire from office at the conclusion of the next following Annual General Meeting but nothing in this paragraph shall prevent his re-appointment with the approval of the Company in Annual General Meeting."

   (iv) That any reference to 65 years of age in the Company's Memorandum and Articles of Association be amended accordingly to reflect 70 years of age.

By Order of the Board

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

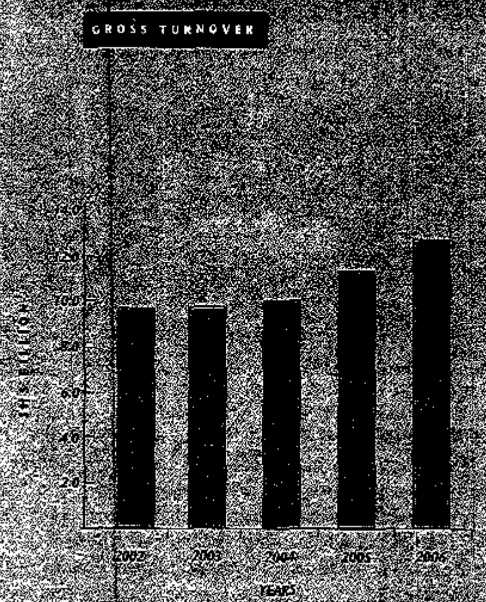
20 March 2007

NOTES:

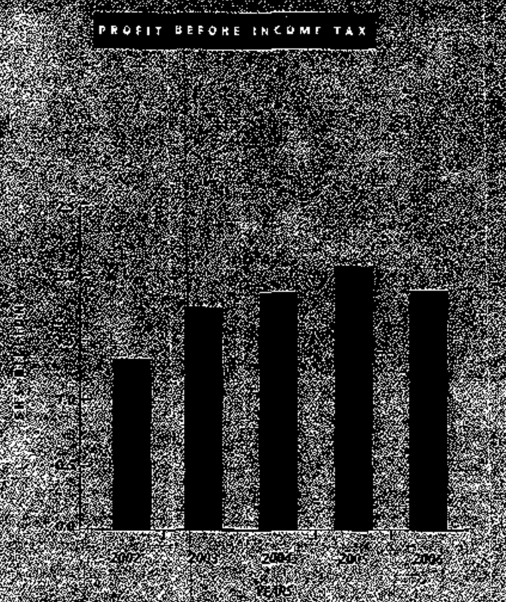
1. Any Member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his stead. Such proxy need not be a member of the Company.

2. A proxy form is provided with this report. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the form to the Registered Office of the Company so as to arrive not later than 2:30 p.m. on Wednesday 2nd May 2007.

Financial *Highlights*



→ Gross turnover increased by 12% to Shs 12.7 billion



→ Profit before income tax decreased by 13% to Shs 1.7 billion